DECTRON INTERNATIONALE INC
Form 10KSB
May 01, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the year ended January 31, 2003

Commission File Number 001-14503

DECTRON INTERNATIONALE INC.
(Exact name of registrant as specified in its charter)

Quebec, Canada	N/A
(State of Incorporation or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
4300 Poirier Blvd., Montreal, Quebec, Canada	H4R 2C5
(Address of principal executive offices)	(Zip Code)

(514) 334-9609
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(g) of the Exchange Act:

Common Stock, No Par Value
Redeemable Common Stock Purchase Warrants

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X | No | |

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. Yes X No __

The issuer's revenues for the most recent fiscal year were $ 36,883,064

The aggregate market value of the voting stock held by non-affiliates of the registrant based upon the closing price on April 28, 2003 of $4.01 was approximately $ 4,128,524

As of April 28, 2003, there were 2,919,500 shares of Common Stock, no par value per share, outstanding.

Documents incorporated by reference: None.

DECTRON INTERNATIONALE INC.
2003 ANNUAL REPORT ON FORM 10-KSB

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained herein including, without limitation, those concerning (i) the strategy of Dectron Internationale Inc. ("Dectron"), (ii) Dectron's expansion plans and (iii) Dectron's capital expenditures, contain forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") concerning Dectron's operations, economic performance and financial condition. Because such statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause such differences include, but are not limited to, those discussed under "Business." Dectron undertakes no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances.

EXCHANGE RATE DATA

Dectron maintains its books of account in Canadian dollars, but has provided the financial data in this Form 10-KSB in United States dollars and on the basis of generally accepted accounting principles as applied in the United States, and Dectron's audit has been conducted in accordance with generally accepted auditing standards in the United States. All references to dollar amounts in this Form 10-KSB, unless otherwise indicated, are to United States dollars.

The following table sets forth, for the periods indicated, certain exchange rates based on the noon buying rate in New York City for cable transfers in Canadian dollars. Such rates are the number of United States dollars per one Canadian dollar and are the inverse of rates quoted by the Federal Reserve Bank of New York for Canadian dollars per US$1.00. The average exchange rate is based on the average of the exchange rates on the last day of each month during such periods. On April 28, 2003, the exchange rate was Cdn$ 0.6904 per US$ 1.00.

Year Ended December 31,	1998	1999	2000	2001	2002
Rate at end of period	$0.6532	$0.6929	$0.6669	$0.6267	$0.65
Average rate during period	0.6745	0.6730	0.6733	0.6444	0.63
High	0.7061	0.6929	0.6984	0.6697	0.65
Low	0.6376	0.6582	0.6410	0.6241	0.62

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

Unless otherwise indicated, all reference to "Dectron," "us," "our" and "we" refer to Dectron Internationale Inc. and its wholly-owned subsidiaries: Dectron Inc. ("Dectron Inc."), Dectron USA, Inc. ("Dectron USA"), Refplus Inc. ("Refplus"), Thermoplus Air Inc. ("Thermoplus"), Circul-Aire Inc. ("Circul-Aire"), IPAC 2000, Inc., ("IPAC") and International Water Maker's Inc ("IWM").

Overview

Dectron is located primarily in and around Montreal, Quebec, Canada. Through our operating subsidiaries, Dectron Inc., Refplus, Thermoplus, Circul-Aire, IPAC and IWM, we manufacture and supply an array of products for the dehumidification, refrigeration, air conditioning and indoor air quality ("IAQ") markets. The products manufactured and supplied include mechanical dehumidifiers and energy recovery systems through Dectron Inc., and refrigeration and air conditioning systems through Refplus and Thermoplus. Thermoplus also has a line of air filtration products. Circul-aire specializes in air, gas, dust and fume filtration, IAQ and heat recovery. IPAC specializes in precision cooling products, air conditioning products and compressed air products. IWM owns a patented process to extract significant amounts of moisture from the Air. IWM's products provide filtered, de-mineralized water to a variety of applications.

We believe that we have structured Dectron in such a way that, other than with respect to the raw materials required to make the components for our products and certain specialty products, we are not dependent on outside suppliers for fabricated parts for our products. We have invested significant resources in our manufacturing equipment and as a result we can manufacture the most important components for any of our fabricated products, regardless of whether the product is standard or a custom design.

Dectron Inc.

Dectron Inc., the largest of the subsidiaries, was incorporated in 1977 to develop, manufacture and market standard and custom design dehumidification equipment. After extensive research and development, Dectron Inc. introduced a line of indoor pool and commercial dehumidifiers under its DRY-O-TRON TM trademark. This product line has experienced tremendous success in North America and as a result has allowed us to become, in our opinion, the leader in North America's indoor pool dehumidification business. We believe that Dectron is now one of North America's leading manufacturers of dehumidification and closed looped energy recyclers.

Dectron Inc.'s standard products are now primarily manufactured by Thermoplus. As a result, Dectron Inc. focuses its own manufacturing operations on the manufacture of its customized dehumidification systems. We believe that the customized product market is where our competitive advantage is most evident. Ordinarily, with a customized product, it is often very difficult to commit to an aggressive delivery date for the finished product. However, since we manufacture many of the component parts in-house, we are able to commit to an aggressive delivery schedule. We have taken the necessary steps to align ourselves with several suppliers of our raw materials so that we are not dependent on any one supplier. In addition, we store a sufficient inventory of raw material to supply our immediate needs. Some of our customized product customers include Celebration City, Walt Disney World in Florida and the Goodwill Games.

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Dectron Inc., through its subsidiary Dectron USA, operates a sales office in the United States located in Roswell, Georgia. This office supports the efforts of Dectron Inc.'s network of trained manufacturer's representatives who sell Dectron Inc.'s products throughout the United States. Dectron Inc. also has sales representatives throughout Canada and overseas. We invite our independent sales representatives and their technicians to be trained and certified by Dectron Inc.'s own technical staff at no cost to the attendees at a training school run by Dectron. We also use the training school to both market our products and demonstrate to potential buyers, first hand, the technical excellence our employees have to offer as a service to our customers. We believe that customer service and technical expertise are a large part of what sets us apart from our competitors. We also market our products in trade magazines, through industry associations and by attending trade shows where we display and demonstrate many of our products.

Refplus

Refplus was incorporated in 1993 to manufacture high quality modular commercial and industrial refrigeration and air conditioning equipment for commercial and special applications. Its products include refrigeration systems, condensers, coils, walk-in storage coolers and freezers. In addition, Refplus manufactures all of the heat transfer coils used by Dectron Inc. Refplus' primary customers are supermarkets and convenience or grocery stores. Refplus' product line, is designed around hydrofluorocarbon refrigerants ("HFC"), and features high quality products intended to meet the needs of a broad range of customers. See "Industry Background."

Since inception, Refplus has manufactured some complex products for application in fruit storage facilities, industrial baking facilities and blast chillers for meat processing plants. We believe that our Refplus product lines offer an excellent opportunity for future expansion. See "Expansion Plans."

Refplus has a network of sales representatives in Canada, however, the majority of its sales are conducted through a network of independent wholesalers. See "Sales and Marketing."

Thermoplus

In 1987, Keepkool Transfer de Chaleur Inc. ("Keepkool"), the former parent company of Thermoplus, purchased the manufacturing facilities of York International in St-Jerome, Quebec. Keepkool was owned by a group of investors active in the heating, ventilation and air-conditioning ("HVAC") industry, which group included Ness Lakdawala, our President and CEO, to manufacture air conditioning systems. Since inception, Thermoplus has introduced and sold a variety of HVAC product lines through a network of Canadian wholesalers. In 1995, Thermoplus introduced specialized product lines in the field of dehumidification and specialized air conditioning.

Thermoplus' present product lines include dehumidification equipment, water source air conditioners and heat pumps, portable or mobile air conditioning equipment, industrial air handlers, air to fluid heat exchangers and IAQ filtration products. These product lines are sold through a network of Canadian wholesalers and HVAC representatives. Although Thermoplus' products are sold throughout North America, with some exports outside of North America, the majority of its revenues are derived from sales to Dectron Inc. We believe that Thermoplus' product lines have growth potential, estimating that the present potential for growth in both sales and manufacturing output is roughly 3 times its present output. See "Expansion Plans."

Circul-Aire

In 1998, Dectron acquired the Circul-aire Group, consisting of Cascade Technologies Inc. 9048-3140 Quebec, Inc. and its subsidiaries, and P.M. Wright Ltd. (collectively referred to as "Circul-aire"). Circul-aire is considered one of the pioneers of the air treatment industry and is a worldwide recognized leader in the advanced technologies of gas-phase filtration and energy recovery. Circul-aire's reputation has been built on years of research and development and growing numbers of worldwide satisfied customers. Circul-aire's in house laboratory and team of experienced engineers offer a systematic integrated approach in solving ever changing and difficult environmental control problems. Unique systems are designed and manufactured in Circul-aire's facilities to suit specific applications. Equipment efficiency and filter media life is optimized with Circul-aire's preventive maintenance program.

Circul-aire's Multi-Mix TM media and integrated systems are used to reduce the odor and corrosion potential of commercial, institutional, sewage treatment and industrial environments. Combined with air-to-air heat exchanger options, Circul-aire's systems recuperate valuable energy from various airstreams. All Circul-aire systems are engineered and manufactured to withstand the most severe industrial environments, including those containing corrosive gases.

IPAC

IPAC was acquired by Dectron in September 1999. IPAC specializes in the business of precision cooling products, air conditioning products and compressed air products, and manufactures industrial products, heat transfer products, compressed air products, engineered systems sheet metal fabrication and painting products. We believe that IPAC's products, such as steam traps for steam coils in HVAC systems, complement and complete our existing product lines. IPAC also provides us with a manufacturing facility in the United States and opens a new market to Dectron, the compressed air market, in which we believe IPAC to be well established.

INTERNATIONAL WATER MAKER'S INC.

In July 2002, Dectron acquired International Water Maker's Inc. IWM owns a patented process to extract significant amounts of moisture from the air. Dectron believes this unique technology surpasses any other water-generation technology currently on the market, given that using minimal energy, it provides filtered, de-mineralized water to a variety of applications.

IWM has products designed specifically for residential, commercial, institutional, agricultural, military and specialized industrial applications. For instance, its MRU product line - which has been deemed "Best Practice" by one of the top three oil production companies - provides a unique system of on-line cleaning for gas turbine blades that results in sustained high operating-efficiency and cost-savings for offshore and onshore oil platforms.

IWM complements Dectron's line of products by adding a water filtration process to our extensive line of air filtration products thereby placing Dectron in a unique position of filtering both air and water contaminates.

Industry Background; Product Application

Dectron is aware of an increased public movement to encourage healthy environments in all public places and the resulting market potential for its products. For example, the hazards of second hand smoke have led to the ban of cigarette smoking in most public areas. The public's demands have also been focused on finding engineered solutions to ensure a healthy and comfortable environment in schools and in the workplace. The theme has become much wider in scope and has gained recognition as IAQ.

The American Society of Heating, Refrigeration and Air Conditioning Engineers ("ASHRAE") is the organization that sets ventilation standards in the heating, refrigeration and air-conditioning industries for the United States and Canada. ASHRAE has revised and re-drafted virtually all of the previous ventilation standards with the objective to meet the public demand for healthier indoor environments and to eliminate potential health hazards such as the much-publicized "Sick Building Syndrome." These standards are found in Article 62-1989R "Standard for Acceptable Ventilation Rates" ("62-1989R") and have gained the acceptance and support of many important and related institutions such as the International Society for Indoor Air Quality ("ISIAQ") and other worldwide environmental associations.

We believe that the standards in 62-1989R will have a far-reaching effect on the fresh air requirements for all new and existing public buildings in Canada and the United States. These standards specify, among other things, that 5 to 20 cubic feet per minute (CFM) per person of fresh air should be introduced into all public places. The exact amount depends on the level of activity and the capacity of the space in question.

As a result, a market has been created by these new fresh air requirements. HVAC experts agree that the biggest challenge and key to avoid "Sick Building Syndrome" is to introduce fresh air and to remove humidity from the air. Moisture and humidity has been identified as one of the main causes of health hazards such as Legionnaire's Disease.

Heightened IAQ awareness has created a niche market for new product development. Dectron has developed a product line of "Make-Up Air Dehumidifiers" that we believe can solve what we perceive as the two main problems in IAQ: moisture and humidity. Dectron's products are capable of bringing the required amounts of outdoor air into public areas while at the same time dehumidifying the air, thus addressing the problems of moisture and humidity.

Our engineers have designed our products for the IAQ market with a reversible Water Source Heat Pump, a commonly used heating system that can be easily connected to the popular water loop systems found today in almost every building in every major North American city. We believe that Dectron's Make-Up Air Dehumidifiers represent the most economical solution to meet the new standards for healthy buildings, and have the potential to become one of our most important and fastest growing products lines, along with our swimming pool dehumidifiers.

In addition, we intend to aggressively market Thermoplus' Air Filtration & Purification product line that we believe offers a comprehensive solution to IAQ in industrial and non-industrial applications.

Our goal is to aggressively expand into the IAQ market, while continuing to maintain and expand the individual markets we currently serve.

Business Strategy

Our objective is to become North America's leading supplier of dehumidification, refrigeration and other IAQ products, and to develop a strong international sales network. As we intensify our marketing efforts, we will continue to attempt to increase our market share for our various products. We intend to place special emphasis in the short term on our Refplus products in the United States to address the need for HFC refrigeration, and on Thermoplus' Make-Up Air and Air Filtration & Purification products for the IAQ market.

Sales and Marketing

Our current sales and marketing efforts take place at the subsidiary level, with each subsidiary taking its own approach with respect to its products.

Dectron Inc. markets its products on several levels. Dectron Inc.

markets its products directly through trade magazines and industry associations, as well as by attending and demonstrating its products at numerous trade shows throughout North America. Regionally, Dectron Inc. markets its products through non-employee sales representatives who enjoy exclusive rights to their respective sales regions. At present, Dectron Inc. has approximately 120 regional representatives throughout North America, and expects to add more in 2004. Internationally, Dectron Inc. has sales coverage in England, Portugal, Israel, Kuwait and Taiwan. We believe that while the international markets provide tremendous growth opportunities for us, it is important to first develop a strong support network.

Thermoplus' advertising and marketing is limited because the majority of its revenues are derived from sales made to Dectron Inc. and Refplus. Thermoplus primarily sells its products through wholesalers in Canada, and through manufacturing representatives, one based in Canada and the other based in the United States. However, we also market Thermoplus' products, including its Air Filtration & Purification product line for the IAQ market, through Dectron Inc.'s sales representatives.

Refplus' marketing and advertising is currently done almost exclusively through trade magazines. Most of its sales are through wholesalers and original equipment manufacturers. Generally, Refplus does not sell directly to the end user. Its sales force currently consists of service personnel who are based at Dectron's headquarters, outside sales people based in Canada and in the United States, and two sales agencies covering Canada and the United States with approximately 22 representatives. We believe that with the phasing out of hydrochlorofluorocarbons ("HCFC") refrigeration products and the legislative push towards HFC refrigeration products (such as Refplus products), Refplus' product line is well suited for an aggressive growth commitment.

Circul-aire markets its products on several levels. In Canada, its products are sold through a network of sales agents that cover every province and major market area. In the United States, Circul-aire's products (air filtration and energy recuperation) are sold through a network of core representation organizations. We are presently looking for additional representatives to more fully cover the United States market.

In Asia and Europe, Circul-aire's market is extended through agents located in each major market. Circul-aire has also opened branch offices staffed with sales, engineering and service personnel in Jakarta, Indonesia, Bangalore, India and Vancouver, Canada.

Circul-aire advertises in industry journals, magazines, and its website where prospective customers can obtain information on its products and also actively participates in trade associations and tradeshows.

IPAC markets its products through regional representatives in the United States and Canada.

IMW markets its products through its internal sales force.

Expansion

We have grown from a single product and single-market company into a group of companies that cover a full range of humidity control, IAQ control, energy recycling and refrigeration products and air purification, and have the production potential for both custom engineered and mass-produced products. We believe that the introduction of a complete line of products to penetrate all segments of the IAQ market will put us in the unique position of being one of the only fully integrated companies of our kind. We expect that with a strong sales and marketing strategy to promote these and other subsequent products, we will experience a period of substantial growth, although there can be no assurance thereof. We plan to continuously inform our current and new targeted customers about our products through technical seminars, product exhibitions and publication of major events in industry journals.

We intend to strengthen our position in the United States by establishing multiple regional sales and distribution offices. We believe that our active presence in the United States with Dectron products will allow us to closely track the performance of our products in the market and will help solidify alternate distribution networks for our Refplus product. We also intend to aggressively pursue other international markets, starting with South America, followed by the Caribbean and Mexico.

The present need for specialized IAQ equipment in North America represents a market, estimated by our management to be in the multi-million dollar range, in which only a limited number of companies have presently taken the lead. We believe that with our team of engineering and design specialists, Dectron can be on the leading edge as a manufacturer and supplier of specialized IAQ equipment into the next century.

Competition

The industries in which we compete are highly competitive. We compete against a number of local, regional and national manufacturers in each of our business segments, many of these competitors have been in existence longer than us and some of which have substantially greater financial resources than us. We believe that competition from new entrants, especially in the IAQ markets will come, if at all, from large corporations which may be able to compete with us on the basis of price, and as a result may have a material adverse affect on our results of operations. In addition, there can be no assurance that other companies will not develop new or enhanced products that are either more effective than our products, or would render our products non-competitive or obsolete.

Employees

As of April 28, 2003, Dectron (including our subsidiaries) employed a total of approximately 486 full-time employees, 5 of which are in executive positions, 58 of whom are engaged in engineering and research and development, 63 of whom are engaged in sales and related services, 24 of whom are in administration, and the remainder of which are in production. An in-house union represents 41 of our employees, all of which work at Thermoplus. Certain terms of their employment are part of a collective bargaining agreement that expires in 2005. Management considers its relations with its employees to be satisfactory.

Patents and Trademarks

We have three United States and two Canadian patents. The patents expire between 2007 and 2015. Three of the patents relate to swimming pool dehumidifiers. One relates to the Method and Apparatus for Controlling Heat

Rejection in a Refrigeration System, and the other to the Extraction of Moisture from Air.

We have trademarked the names "Dectron" and "Dry-O-Tron" in both the United States and Canada. The trademarks come up for renewal between 2007 and 2015. We also hold the trademark in "MultiMix" and "MM Multi-Mix" in the United States and Canada. The MultiMix and MMMulti-Mix trademarks will be due for renewal in the year 2014. In addition, we hold the trademark in "CIRCUL-AIRE" in the United States and Canada, which was renewed in 1999.

ITEM 2. PROPERTIES

We maintain our executive office at leased premises located at 4300 Poirier Blvd., Montreal, Quebec H4R 2C5. This lease expires January 31, 2005. We also have eight manufacturing facilities, of which five are leased and three are owned. Seven of our manufacturing facilities are located in or near Montreal, Quebec, and one is located in Niagara Falls, New York. The manufacturing facilities, which we own, are located in St. Jerome, Quebec, Boucherville, Quebec, and Niagara Falls, New York. The facilities are in good condition and do not require any significant capital expenditure. We maintain property insurance on the three owned manufacturing facilities in an amount that we believe to be sufficient. Of the five leased facilities, two of the leases expire on January 31, 2005, one June 30, 2010, one October 31, 2016 and one December 31, 2006. We also lease, for a monthly rent of $946, a 1,000 square foot sales facility in Roswell, Georgia. In addition, we lease, for a monthly rent of approximately $1,418 a 3,700 square foot sales and warehousing facility in Toronto, Ontario. And also, we lease a 1,000 square foot facility in Pompano Beach Florida, for approximately $ 1,400. Our facilities have an aggregate of approximately 471,000 square feet. We pay an aggregate of approximately $42,044 rent per month. We believe that suitable additional space will be available in the future on commercially reasonable terms.

We are seeking International Quality Standard ISO-9001 certification for our Dectron Inc. facility and International Quality Standard ISO-9002 certification for our Thermoplus facility. ISO 9001 and ISO 9002 require the facility to meet certain stringent requirements established in Europe but adopted throughout the world, which ensure that facilities' manufacturing processes, equipment and associated quality control systems will satisfy specific customer requirements. We believe that ISO certification will benefit us in the markets in which we compete. There is no assurance that ISO certification will be obtained in the near future, if at all.

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ITEM 3. LEGAL PROCEEDINGS

There are no material legal proceedings now pending or threatened against the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to the vote of the security holders.

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PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Our common stock and warrants are traded on the Nasdaq SmallCap Market and the Boston Stock Exchange and have been so traded since the completion of our initial public offering on October 5, 1998. Our common stock is listed on the Nasdaq SmallCap Market under the symbol "DECT" and on the Boston Stock Exchange under the Symbol "DRN." Our warrants are listed on the Nasdaq SmallCap Market under the symbol "DECT W" and on the Boston Stock Exchange under the Symbol "DRN&W." As of April 28, 2003, we had 2,919,500 shares of common stock and 1,210,000 warrants outstanding. The following table sets forth the high and low sales prices for our common stock and warrants as reported on the Nasdaq SmallCap Market.

	COMMON STOCK		WARRANTS	
	High	Low	High	
Fiscal year ended January 31, 2003:	$7.400	$3.200	$1.150	$
First quarter (2/1/02 thru 4/30/02)	$7.400	$5.500	$1.150	$
Second quarter (5/1/02 thru 7/31/02)	$5.600	$4.100	$0.990	$
Third quarter (8/1/02 thru 10/31/02)	$5.120	$3.200	$0.820	$
Fourth quarter (11/1/02 thru 1/31/03)	$5.550	$4.700	$0.540	$
Fiscal year ended January 31, 2002:	$7.450	$2.770	$1.120	$
First quarter (2/1/01 thru 4/30/01)	$4.125	$3.250	$0.500	$
Second quarter (5/1/01 thru 7/31/01)	$3.950	$2.770	$0.500	$
Third quarter (8/1/01 thru 10/31/01)	$7.450	$3.050	$1.120	$
Fourth quarter (11/1/01 thru 1/31/02)	$6.400	$4.280	$0.850	$

As of April 28, 2003 there were 32 shareholders of record and approximately 500 beneficial owners.

On April 28, 2003, the last sale price of our common stock and warrants as reported on the Nasdaq SmallCap Market was $4.01 and $0.13 respectively.

Dividend Policy

We have never paid or declared dividends on our common stock. The payment of cash dividends, if any, in the future, is within the discretion of our Board of Directors and will depend on our earnings, capital requirements, financial condition and other relevant factors. We intend to retain future earning for use in our business.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the selected historical financial data, financial statements and notes thereto and the other historical financial information of Dectron contained elsewhere in this Annual Report on Form 10-KSB. The statements contained in this Annual Report on Form 10-KSB that are not historical are forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, including statements regarding Dectron's expectations, intentions, beliefs or strategies regarding the future. Forward-looking statements include Dectron's statements regarding liquidity, anticipated cash needs and availability and anticipated expense levels. All forward-looking statements included in this prospectus are based on information available to Dectron on the date hereof, and Dectron assumes no obligation to update any such forward-looking statement. It is important to note that Dectron's actual results could differ materially from those in such forward-looking statements.

Overview

Dectron has been in operation since June 1977 and has grown from a single product and single market company into a group of manufacturers in order to address the three most important factors affecting indoor air conditions: temperature, humidity and contaminant control. We secure our contracts through a network of representatives. We are not dependent upon any major customer for a significant portion of its revenues.

Dectron's objective is to become a leading force in the IAQ market by addressing combined technology niche applications and by providing superior engineering services and product quality. Dectron intends to devote significant efforts to the development of equipment for the IAQ market. Management anticipates that the IAQ market will have enormous growth in the next 25 years. We believe that there is a need in the North American market for specialized IAQ equipment and this represents a tremendous opportunity. Notwithstanding the present economic slowdown, Management foresees a stable market demand, particularly in the humidity and temperature control side of the business.

Dectron has two subsidiaries that each specialize on a particular market segment of the IAQ market, Circul-aire, a manufacturer of contaminant control solutions, and IPAC, a manufacturer of precision air conditioning equipment.

Results of Operations

Fiscal year ended January 31, 2003 ("Fiscal 2003") compared to fiscal year ended January 31, 2002 ("Fiscal 2002")

Revenues for the year ended January 31, 2003 were $36,883,064, a 15.5% increase over prior year revenues of $31,939,002.

Gross profit increased by $630,147 to $11,723,537 over the same period. In comparison to the 15.5% increase in revenue gross profit increased by 5.7%.

Operating expenses decreased by $414,975 during Fiscal 2003.

Selling and marketing expenses decreased $475,394 in Fiscal 2003. As a percentage of revenues, selling and marketing expenses decreased to 12.3% from 16.8%.

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General and administrative expenses increased by $562,808 to

$3,655,127. As a percentage of revenues, general and administrative increased to 9.9% from 9.7% of sales.

Depreciation decreased by $211,701 to $1,356,364. As a percentage of sales, depreciation decreased to 3.7% from 4.9%.

Financing expenses decreased by $290,688 from $1,341,308 to $1,050,620. As a percentage of revenues, financing expenses decreased from 4.2% to 2.8%.

Earnings from operations increased by $1,045,122 from a loss of $278,144 to earnings of $766,978.

Earnings before income taxes and discontinued operations increased to $634,636 compared to a loss of $278,144 for fiscal 2002.

Tax expenses increased by $424,265 because mainly of an increase in taxable income.

Earnings before discontinued operations in Fiscal 2003 was $440,250, an increase of $488,515 from Fiscal 2002 loss of $48,265

Earnings from discontinued operations net of taxes in Fiscal 2003 was $105,276, an increase of $9,946 from Fiscal 2002.

Gain on discontinued operations, net of taxes in Fiscal 2003 was $590,686, compared to none in Fiscal 2002

As a result, Dectron reported net income of $1,136,212

Fiscal year ended January 31, 2002 ("Fiscal 2002") compared to fiscal year ended January 31, 2001 ("Fiscal 2001")

Revenues for the year ended January 31, 2002 were $31,939,002, a 5.9% decrease over prior year revenues of $33,958,558.

Gross profit decreased by $927,882 to $11,093,390 over the same period. In comparison to the 5.9% decrease in revenue gross profit decreased by 7.7%.

Operating expenses increase by $62,004 in 2002.

Selling and marketing expenses increased $51,378 in Fiscal 2002. As a percentage of revenues, selling and marketing expenses increased to 16.8% from 15.6%.

General and administrative expenses increased by $56,999 to $3,092,319. As a percentage of revenues, general and administrative increased to 9.7% from 8.9% of sales.

Depreciation increased by $46,907 to $1,568,065 due to the addition of capital assets. As a percentage of sales, depreciation increased to 4.9% from 4.5%.

Financing expenses decreased by $93,280 from $1,434,588 to $1,341,308. As a percentage of revenues, financing expenses remained stable at 4.2%.

Loss before income taxes and discontinued operations was $278,144 for 2003 compared to earnings of $711,722 in fiscal 2001.

Tax expenses decreased by $312,382 mainly because of the decrease in taxable income and loss carry forwards.

Loss before discontinued operations in fiscal 2002 was $48,265, a decrease of $677,504 from earnings of $629,239 in fiscal 2001.

Earnings from discontinued operations net of taxes in fiscal 2002 was $95,330, a decrease of $132,957 from fiscal 2001.

As a result, Dectron reported net income of $47,065.

Liquidity and Capital Resources

In Fiscal 2003, the Company generated a positive cash flow from operating activities of $208,028 due mainly to depreciation and amortization. In Fiscal 2002, the Company generated a positive cash flow from operating activities of $2,056,741 due mainly to lower accounts receivable and inventory level

The principal sources of cash were depreciation and amortization in the amount of $1,356,364 and income tax payable in the amount of $684,578. The principal uses of cash were an increase in account receivable of $1,860,796.

Cash flow from investing activities increased by $329,585 mainly as a result of the proceeds from the sale of a division in the amount of $961,640. The principal use of cash was for the acquisition of equipment for a total of $565,828.

Financing activities provided net cash flow in the amount of $190,366. The principal source of cash was from bank loans in the amount of $861,368 and issuance of shares in the amount of $502,300. The principal uses of cash flow from financing were repayments of long-term debt in the amount of $884,960.

Net cash flow provided after all activities was $751,746

In Fiscal 2003, the Company's secured credit arrangement with National Bank of Canada remained in place as follows. This facility included an aggregated credit line of Cdn $16,500,000 of which Cdn $8,250,000 can be financed through Bankers Acceptance. The amount available to the Company is equal to 75% of "eligible accounts receivable" as defined in the Line of Credit Agreement, plus 50% of the inventory values, net of work in process, up to a maximum advance against inventory of approximately Cdn $7,500,000. Dectron's borrowings under the Line of credit bears interest at Canadian prime plus .25%, which at January 31, 2003 amounted to 4.5%. Interest on any borrowings is payable monthly. The Company is in full compliance with all of the banking covenants (including financial covenants and ratios) and is required to report to its bankers on a monthly basis. The Company finances its operations mainly through the use of Bankers Acceptance bearing an average lending rate of prime. All borrowings are collateralized by the assets of the Company.

In April 2002, the company renegotiated a mortgage note and an equipment note and replaced them with a new loan of $1,983,330 with National Bank of Canada bearing interest at 7.18%.

In June 2002, the Company entered into a financial lease for an amount of $ 400,000 bearing interest at 6.989%.

In August 2002, the Company entered into a financial lease for an amount of $ 97,925 bearing interest at 6.025%.

In October 2002, the Company entered into a financial lease for an amount of $ 267,896 bearing interest at 6.275%.

Fiscal 2002

In Fiscal 2002, the Company renewed a secured credit arrangement with National Bank of Canada. This new facility included an aggregated credit line of Cdn $ 16,500,000 of which Cdn $8,250,000 can be financed through Bankers Acceptance. The amount available to the Company is equal to 75% of "eligible accounts receivable" as defined in the Line of Credit Agreement, plus 50% of the inventory values, net of work in process, up to a maximum advance against inventory of approximately Cdn $ 7,500,000. Dectron's borrowings under the Line of credit bears interest at Canadian prime plus .25%, which at January 31, 2003 amounted to 3.25%. Interest on any borrowings is payable monthly. The Company is in full compliance with all of the banking covenants (including financial covenants and ratios) and is required to report to its bankers on a monthly basis. The Company finances its operations mainly through the use of Bankers Acceptance bearing an average lending rate of prime. All borrowings are collateralized by the assets of the Company.

Fiscal 2001

In Fiscal 2001, the Company renewed a secured credit arrangement with National Bank of Canada. This new facility included an aggregated credit line of Cdn $ 13,000,000 of which Cdn $6,000,000 can be financed through bankers acceptance. The amount available to the Company is equal to 75% of "eligible accounts receivable" as defined in the Line of Credit Agreement, plus 50% of the inventory values, net of work in process, up to a maximum advance against inventory of approximately $ 5,000,000. Dectron's borrowings under the Line of credit bears interest at Canadian prime plus .25%, which at January 31, 2001 amounted to 7.25%. Interest on any borrowings is payable monthly. The Company is in full compliance with all of the banking covenants (including financial covenants and ratios) and is required to report to its bankers on a monthly basis. The Company finances its operations mainly through the use of Bankers Acceptance bearing an average lending rate of prime. All borrowings are collateralized by the assets of the Company.

In Fiscal 2001, the Company also secured credit arrangement with National Bank of Canada in New York. This new facility included an aggregated credit line of US $ 1,250,000. The amount available to the Company is equal to 80% of "eligible accounts receivable" as defined in the Line of Credit Agreement, plus 60% of the inventory values, net of work in process, up to a maximum advance against inventory of approximately $ 625,000. Dectron's borrowings under the Line of credit bears interest at American prime plus .5%. Interest on any borrowings is payable monthly.

In February 2000, Dectron renegotiated a bank loan and replaced it with a term loan in the amount of $2,527,000 USD bearing interest at the Bank's American Prime Rate plus 1% for a term of 5 years and a mezzanine loan in the amount of $ 1,000,000 USD bearing interest at the Bank's American Prime Rate plus 3% for a term of three years.

In February 2000, the Company entered into a mortgage note in the amount US$1,652,000 and equipment note in the amount of US$406,000 with the National Bank of Canada both bearing interest a American prime plus .75%.

In August 2000, the Company entered into a note agreement with National Bank of Canada for the purchase of new equipment bearing interest at the American prime rate plus .75%

In August 2000, the Company entered into two financial leases for a total amount of Cdn $951,420 to finance equipment, both bearing interest at 8.48%

In November 2000, the Company entered into two term loans for a total of $ 700,000 to finance capital acquisitions bearing interest at prime plus .75%

Foreign Exchange

The Company is a Canadian company with U.S. sales amounting to approximately 55% of it's total sales while the majority of Dectron's expenses are incurred in Cdn $. Due to the relatively high proportion of sales in U.S.$, Dectron's results could be adversely affected by upward variations in the value of the Canadian dollar. As of January 31, 2003, the Company did not have a formal foreign exchange policy in effect.

ITEM 7. FINANCIAL STATEMENTS

The financial statements are included at the end of this Annual Report on Form 10-KSB at the pages included below.

Financial Statements:

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Company has had no changes in or disagreements with its Accountants.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16 (a) OF THE EXCHANGE ACT

The officers and directors of Dectron, and further information concerning them, are as follows:

Name	Age	Position
Ness Lakdawala	69	Chairman of the Board of Directors, President and Chief Executive Officer
Roshan Katrak	59	Vice President of Human Relations and Director
Mauro Parissi	37	Chief Financial Officer, Secretary and Director
Michel Lecompte	53	Vice President of Operations of Refplus
Leena Lakdawala	35	Executive Vice President and Director
Liam Cheung	33	Director
Gilles Richard	64	Director

Each director is elected for a period of one year at our annual meeting of stockholders and serves until the next such meeting and until his or her successor is duly elected and qualified. Directors may be re-elected annually without limitation. Officers are appointed by, and serve at the discretion of, our Board of Directors (the "Board"). The board of directors met 3 times during the year ended January 31, 2003.

Set forth below is a biographical description of each of our directors and executive officers based on information supplied by each of them.

Ness Lakdawala has served as the President, Chief Executive Officer and Chairman of Dectron since our inception, and has also served as the President and Chief Executive Officer of Dectron Inc. since 1994. Prior to joining Dectron Inc., Mr. Lakdawala was President of Blanchard Ness Limited, a company which he founded in 1976. From 1987 to present, Mr. Lakdawala has served as the President of Thermoplus. In January 1996, Thermoplus filed a proposal under the provisions of the Bankruptcy Act which gave full payment to secured creditors who filed a proof of claim. From 1987-1988, Mr. Lakdawala was Chairman of the Heating Refrigeration Air Conditioning Institute of Canada. Mr. Lakdawala has also served as the Governor of the American Society of Heating, Refrigeration and Air Conditioning Engineers, Inc. ("ASHRAE"), the organization that sets ventilation standards in Canada and the United States. Mr. Lakdawala is currently a member of ASHRAE and the Refrigeration Service Engineers Society. Ness Lakdawala is the husband of Roshan Katrak and the father of Leena Lakdawala.

Roshan Katrak has served as Vice President of Human Relations of Dectron since our inception, and has served in the same capacity with Dectron Inc. since 1994. She has also served as a Director of Dectron since 1998. From 1976 to 1994, she was a Director of Blanchard Ness Limited, and from 1987 to present has been Vice President of Human Relations for Thermoplus. In January 1996, Thermoplus filed a proposal under the provisions of the Bankruptcy Act which gave full payment to secured creditors who filed a proof of claim. Mrs. Katrak received her Honors Degree in Psychology in 1964. Roshan Katrak is the wife of Ness Lakdawala and the mother of Leena Lakdawala.

Mauro Parissi, C.A. has served as the Chief Financial Officer, Secretary and a Director of Dectron since our inception, and has also served as the Controller of Dectron Inc. since 1996. From 1995-1996, Mr. Parissi was an auditor with the firm of Mizgala & Cie. From 1990-1995, Mr. Parissi was an auditor with the firm of Hart, David Lloyd, F.C.A., C.I.P. Mr. Parissi is currently a member of The Canadian Institute of Chartered Accountants and The Order of Chartered Accountants of Quebec. Mr. Parissi received his graduate diploma in Public Accountancy from McGill University in 1995.

Michel Lecompte has served as the Vice President of Operations since our inception and President of Refplus since 1994. From 1977 to 1994, Mr. Lecompte was with Blanchard Ness as both Chief Engineer and Estimator. Mr. Lecompte was involved in estimating commercial and industrial HVAC systems as well as updating operating and maintenance procedures to improve existing equipment efficiency. Mr. Lecompte also provided technical guidance to construction departments and identified evaluated and resolved problems. Mr. Lecompte is a member of ASHRAE and is a voting member of ASHRAE's Technical Committee which establishes worldwide acceptance of HVAC standards. In addition, Mr. Lecompte conducts many HVAC seminars focusing on refrigeration and heat recovery. Mr. Lecompte is also a member of the Refrigeration Service Engineers Society.

Leena Lakdawala has served as Executive Vice President and a Director of Dectron since our inception, and has also served as Vice President of Production and Administration for Dectron Inc. since 1994. She is currently a member of the Heating Refrigeration and Air Conditioning Institute. Mrs. Lakdawala received her B.A from Concordia University in 1993. Leena Lakdawala is the daughter of Ness Lakdawala and Roshan Katrak.

Liam Cheung has served as a Director of Dectron since 2001. Since 2002, Mr. Cheung is the Executive Vice-President and Chief Operating Officer for Penson Financial Services Canada Inc., a firm offering technical and operational services to investment dealers in Canada. From 1997 to 2002, Mr. Cheung was the President and Founder of IC Education, a new economy e-learning company delivering leading edge technology through a unique combination of business, education and technology. From 1992 to 1997, he served as Executive Vice-President, Fixed Income of Marleau, Lemire Securities Inc. From 1990 to 1992, Mr. Cheung was an actuarial specialist for Towers Perrin. Mr. Cheung received a Bachelor of Mathematics with Distinction from the University of Waterloo in 1990, is an Associate of the Society of Actuaries and also holds Certified Financial Analyst Designation.

Gilles Richard has served as a Director of Dectron since 2001. Mr. Richard is a semi-retired businessman who was previously the President of Le

Circuit Lincoln Mercury, the sixth largest dealership in Canada. Mr. Richard was also involved with partner in a distributorship of lift-truck (Mitsubishi's M-Lift), two computer companies which created software applications car dealership, and most recently the construction of commercial and residential buildings. Over the years, Mr. Richard was a director or officer of various organizations such as the Nada (National Automobile Association) and CADA (Canadian Automobile Association).

AUDIT COMMITTEE

The Company's board of directors has an audit committee comprised of Mauro Parissi, Liam Cheung and Gilles Richard. The audit committee makes recommendations to the board of directors regarding the independent auditors for the Company, approves the scope of the annual audit activities of the Company's independent auditors, review audit results and will have general responsibility for all of the Company's auditing related matters.

Indemnification of Officers and Directors

Our Bylaws provide that we shall indemnify to the fullest extent permitted by Canadian law our directors and officers (and former officers and directors). Such indemnification includes all costs and expenses and charges reasonably incurred in connection with the defense of any civil, criminal or administrative action or proceeding to which such person is made a party by reason of being or having been our officer or director if such person was substantially successful on the merits in his or her defense of the action and he or she acted honestly and in good faith with a view to our best interests, and if a criminal or administrative action that is enforced by a monetary penalty, such person had reasonable grounds to believe his or her conduct was lawful.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted our directors, officers and controlling persons and our underwriters pursuant to the foregoing provisions, or otherwise, we have been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act of 1933, as amended, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by us of expenses, incurred or paid by one of our directors, officers or controlling persons in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person or by our underwriters in connection with the securities being registered, we will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act of 1933, as amended, and will be governed by the final adjudication of such issue.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT

Section 16(a) of the Exchange Act requires Dectron's officers and directors, and persons who own more than 10 percent of the registered class of Dectron's equity securities to file reports of ownership on Forms 3, 4 and 5 with the SEC. Officers, directors and greater than 10 percent shareholders are required by SEC regulation to furnish Dectron with copies of all Forms 3, 4 and 5 they file. Based solely upon its review of any such reports furnished to Dectron, Dectron believes that during the fiscal year ended January 31, 2003, such persons made all required filings.

Item 10. EXECUTIVE COMPENSATION

The following table sets forth certain information regarding compensation paid by Dectron during each of the last three fiscal years to our Chief Executive Officer and to each of our executive officers who earned in excess of $100,000 during the year ended January 31, 2003.

Summary Compensation Table

Name and Principal Position	Year	Annual Salary (1)	Bonus	Restricted Stock Awards	Options/SARs
Ness Lakdawala	2003	$142,380	-0-	-0-	-0-
Chairman of the Board of	2002	$142,380	-0-	-0-	-0-
Directors, President, and	2001	$140,647	-0-	-0-	-0-
Chief Executive Officer					

(1) This reflects the aggregate salaries paid to Mr. Lakdawala during the fiscal years presented by Dectron, Refplus and Thermoplus.

Employment Agreements

We entered into an employment agreement with Mr. Ness Lakdawala, our Chief Executive Officer on October 5, 1998, the effective date of our initial public offering. The employment agreement is for a term of two years, renewable for additional one-year periods. The employment agreement entitled Mr. Lakdawala to an annual salary of $200,000, adjusted annually for increases in the Consumer Price Index. In the event that we are subject to a takeover or a change of control event, Mr. Lakdawala is entitled to a bonus equal, on an after tax basis, to five times his then current annual base salary. Mr. Lakdawala's employment agreement contains a non-competition provision, which forbids him from engaging in a competitive business during his employment and for a period of one year thereafter. Mr. Lakdawala's employment agreement was extended for an additional two years on the same conditions as above in October 2000 and for an additional two years on the same conditions in October 2002.

We do not currently have employment agreements with any of our other officers or directors.

Board Compensation Report

Executive Compensation Policy

Dectron's executive compensation policy is designed to attract, motivate, reward and retain the key executive talent necessary to achieve our business objectives and contribute to our long-term success. In order to meet these goals, Dectron's compensation policy for our executive officers focuses primarily on determining appropriate salary levels and providing long-term stock-based incentives. To a lesser extent, the Dectron's compensation policy also contemplates performance-based cash bonuses. Dectron's compensation principles for the Chief Executive Officer are identical to those of Dectron's other executive officers.

Cash Compensation. In determining its recommendations for adjustments to officers' base salaries for Fiscal 2003, we focused primarily on the scope of each officer's responsibilities, each officer's contributions to Dectron's success in moving toward its long-term goals during the fiscal year, the accomplishment of goals set by the officer and approved by the Board for that year, our assessment of the quality of services rendered by the officer, comparison with compensation for officers of comparable companies and an appraisal of our financial position. In certain situations, relating primarily to the completion of important transactions or developments, we may also pay cash bonuses, the amount of which will be determined based on the contribution of the officer and the benefit to Dectron of the transaction or development.

Equity Compensation. The grant of stock options to executive officers constitutes an important element of long-term compensation for the executive officers. The grant of stock options increases management's equity ownership in us with the goal of ensuring that the interests of management remain closely aligned with those of our stockholders. The Board believes that stock options in Dectron provide a direct link between executive compensation and stockholder value. By attaching vesting requirements, stock options also create an incentive for executive officers to remain with us for the long term.

Chief Executive Officer Compensation

As indicated above, the factors and criteria upon which the compensation of Ness Lakdawala, our Chief Executive Officer, is based are identical to the criteria used in evaluating the compensation packages of the other executive officers of Dectron. The Chief Executive Officer's individual contributions to Dectron include his leadership role in establishing and retaining a strong management team, developing and implementing our business plans and attracting investment capital to Dectron. In addition, we have reviewed compensation levels of chief executive officers at comparable companies within our industry.

Other Compensation

Outside directors may be paid an honorarium for attending meetings of the Board of Directors of Dectron, in an amount that management anticipates will not exceed $500 per meeting.

Stock Option Plans

1999 Stock Option Plan

We have adopted a Stock Option Plan (the "1999 Plan") pursuant to which 650,000 shares of Common Stock are reserved for issuance, 241,500 options are currently issued and outstanding.

On September 2, 1999, the Board granted options under our 1999 Stock Option Plan to certain members of our Board and certain employees. Leena Lakdawala, Roshan Katrak, Mauro Parissi, and Richard Ness were granted 60,000, 60,000, 18,000 and 8,000 options, respectively. Subject to certain limitations, the options granted are exercisable one year after issuance. Subsequent to the one-year anniversary date of the grant, the option holders may exercise the option up to 25% per year of the total options granted for the following four years. Each of the options will be fully exercisable on November 4, 2003, and expire on November 4, 2004. The exercise price of the options is $3.00

The 1999 Plan is administered by the Board of Directors, who will determine, among other things, those individuals who shall receive options, the time period during which the options may be partially or fully exercised, the number of shares of Common Stock issuable upon the exercise of the options and the option exercise price.

The 1999 Plan is effective for a period of five years, expiring in 2003. Options may be granted to officers, directors, consultants, key employees, advisors and similar parties who provide us with their skills and expertise. The 1999 Plan is designed to enable management to attract and retain qualified and competent directors, employees, consultants and independent contractors. Options granted under the 1999 Plan may be exercisable for up to five years, and shall be at an exercise price all as determined by the Board. Options are non-transferable except by the laws of descent and distribution or a change in control of Dectron, as defined in the 1999 Plan, and are exercisable only by the participant during his or her lifetime. Change in control includes (i) the sale of substantially all of the assets of Dectron and merger or consolidation with another company, or (ii) a majority of the Board changes other than by election by the stockholders pursuant to Board solicitation or by vacancies filled by the Board caused by death or resignation of such person.

If a participant ceases affiliation with Dectron by reason of death, permanent disability or retirement at or after age 70, the option remains exercisable for one year from such occurrence but not beyond the option's expiration date. Other types of termination allow the participant three months to exercise, except for termination for cause, which results in immediate termination of the option.

The exercise price of an option may not be less than the fair market value per share of Common Stock on the date that the option is granted in order to receive certain tax benefits under the Income Tax Act of Canada (the "ITA"). The ITA requires that the exercise price of all future options will be at least 85% of the fair market value of the Common Stock on the date of grant of the options. A benefit equal to the amount by which the fair market value of the shares at the time the employee acquires them exceeds the total of the amount paid for the shares or the amount paid for the right to acquire the shares shall be deemed to be received by the employee in the year the shares are acquired pursuant to paragraph 7(1) of the ITA. Where the exercise price of the option is equal to the fair market value of the shares at the time the option is granted, paragraph 110(1)(d) of the ITA allows a deduction from income equal to one quarter of the benefit as calculated above. If the exercise price of the option is less than the fair market value at the time it is granted, no deduction under paragraph 110(1)(d) is permitted. Options granted to any non-employees, whether directors or consultants or otherwise will confer a tax benefit in contemplation of the person becoming a stockholder pursuant to subsection 15(1) of the ITA.

Options under the 1999 Plan must be issued within five years from the effective date of the 1999 Plan.

Any unexercised options that expire or that terminate upon an employee's ceasing to be employed by Dectron become available again for issuance under the 1999 Plan.

The 1999 Plan may be terminated or amended at any time by the Board of Directors, except that the number of shares of Common Stock reserved for issuance upon the exercise of options granted under the 1999 Plan may not be increased without the consent of our stockholders.

2001 Stock Option Plan

We also adopted the 2001 Stock Option Plan (the "2001 Plan") pursuant to which 500,000 shares of Common Stock are reserved for issuance, 115,500 options are currently issued and outstanding.

On January 4, 2002, the Board granted options under our 2001 Stock Option Plan to certain members of our Board and certain employees. Leena Lakdawala, Roshan Katrak, Mauro Parissi, Liam Cheung, and Gilles Richard were granted 15,000, 15,000, 5,000, 3,000 and 3,000 options, respectively. Subject to certain limitations, the options granted are exercisable one year after issuance. Subsequent to the one-year anniversary date of the grant, the option holders may exercise the option up to 25% per year of the total options granted for the following four years. Each of the options will be fully exercisable on January 4, 2006, and expire on January 4, 2007. The exercise price of the options is $4.20

The 2001 Plan is administered by the Board of Directors, who will determine, among other things, those individuals who shall receive options, the time period during which the options may be partially or fully exercised, the number of shares of Common Stock issuable upon the exercise of the options and the option exercise price.

The 2001 Plan is effective for a period of ten years, expiring in 2011. Options may be granted to officers, directors, consultants, key employees, advisors and similar parties who provide us with their skills and expertise. The 2001 Plan is designed to enable management to attract and retain qualified and competent directors, employees, consultants and independent contractors. Options granted under the 2001 Plan may be exercisable for up to ten years, and shall be at an exercise price all as determined by the Board. Options are non-transferable except by the laws of descent and distribution or a change in control of Dectron, as defined in the 2001 Plan, and are exercisable only by the participant during his or her lifetime. Change in control includes (i) the sale of substantially all of the assets of Dectron and merger or consolidation with another company, or (ii) a majority of the Board changes other than by election by the stockholders pursuant to Board solicitation or by vacancies filled by the Board caused by death or resignation of such person.

If a participant ceases affiliation with Dectron by reason of death, permanent disability or retirement at or after age 70, the option remains exercisable for one year from such occurrence but not beyond the option's expiration date. Other types of termination allow the participant three months to exercise, except for termination for cause, which results in immediate termination of the option.

The exercise price of an option may not be less than the fair market value per share of Common Stock on the date that the option is granted in order to receive certain tax benefits under the Income Tax Act of Canada (the "ITA"). The ITA requires that the exercise price of all future options will be at least 85% of the fair market value of the Common Stock on the date of grant of the options. A benefit equal to the amount by which the fair market value of the shares at the time the employee acquires them exceeds the total of the amount paid for the shares or the amount paid for the right to acquire the shares shall be deemed to be received by the employee in the year the shares are acquired pursuant to paragraph 7(1) of the ITA. Where the exercise price of the option is equal to the fair market value of the shares at the time the option is granted, paragraph 110(1)(d) of the ITA allows a deduction from income equal to one quarter of the benefit as calculated above. If the exercise price of the option is less than the fair market value at the time it is granted, no deduction under paragraph 110(1)(d) is permitted. Options granted to any non-employees, whether directors or consultants or otherwise will confer a tax benefit in contemplation of the person becoming a stockholder pursuant to subsection 15(1) of the ITA.

Options under the 2001 Plan must be issued within ten years from the effective date of the 2001 Plan.

Any unexercised options that expire or that terminate upon an employee's ceasing to be employed by Dectron become available again for issuance under the 2001 Plan.

The 2001 Plan may be terminated or amended at any time by the Board of Directors, except that the number of shares of Common Stock reserved for issuance upon the exercise of options granted under the 2001 Plan may not be increased without the consent of our stockholders.

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ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of April 28, 2003 with respect to each beneficial owner of 5% or more of the outstanding shares of our common stock, each of our officers and directors, and all of our officers and directors as a group:

Names and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership(2)	Percentage of Sha Outstanding
Ness Lakdawala	1,722,269 (3)	58%
Roshan Katrak	1,722,269 (4)	58%
Mauro Parissi	44,850 (5)	1.5%
Leena Lakdawala	100,050 (6)	3.4%
Michel Lecompte	18,974 (7)	*
Liam Cheung	2,750 (8)	*
Gilles Richard	1,050 (9)	*
All directors and officers As a group (7 persons) (3)-(9)	1,889,943	65.3%

* Less than one %.

(1) The address of each individual is c/o Dectron Internationale Inc., 4300 Poirier Blvd., Montreal, Quebec, Canada H4R 2C5.

(2) Based upon information furnished to us by the directors and executive officers or obtained from our stock transfer books. We are informed that these persons hold the sole voting and dispositive power with respect to the common stock except as noted herein. For purposes of computing "beneficial ownership" and the percentage of outstanding common stock held by each person or group of persons named above as of the date of this annual report, any security which such person or group of persons has the right to acquire within sixty (60) days after such date is deemed to be outstanding for the purpose of computing beneficial ownership and the percentage ownership of such person or persons, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

(3) Represents (i) 43,561 shares of Common Stock directly owned, (ii) 67,395 shares of Common Stock and 48,750 options to purchase Common Stock owned by Roshan Katrak, Mr. Lakdawala's wife, (iii) 69,684 shares of Common Stock owned by Roshaness Inc., a company owned by Mr. Lakdawala, and (iv) 1,492,879 owned by 3103-7195 Quebec Inc., a company owned by Mr. Lakdawala's spouse and children.

(4) Represents (i) 67,395 shares of Common Stock and 48,750 options to purchase Common Stock directly owned, (ii) 43,561 shares of Common Stock owned by Ness Lakdawala, Ms. Katrak's husband, (iii) 69,684 shares of Common Stock owned by Roshaness Inc., a Company owned by Ness Lakdawala, and (iv) 1,492,879 shares owned by 3103-7195 Quebec Inc., a company owned by Ms. Katrak and her children.

(5) Includes 5,750 options to purchase Common Stock.

(6) Includes 40,250 options to purchase Common Stock.

(7) Includes 2,500 options to purchase Common Stock

(8) Includes 750 options to purchase Common Stock.

(9) Includes 750 options to purchase Common Stock

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

We lease our St. Hubert, Quebec manufacturing facility from Roshan Katrak, our Vice President of Human Relations and the wife of Ness Lakdawala, our President, Chairman and CEO, for a monthly rent of $3,069 per month. We believe that the lease was made on terms no less favorable than could be obtained from unaffiliated third parties.

We lease our Grande Allee manufacturing facilities from Investiness Inc., a company owned by Ness Lakdawala's spouse and children, for an aggregate monthly lease payment of $14,788. We believe that the lease was made on terms no less favorable than could be obtained from unaffiliated third parties.

Immediately prior to the effective date of the Registration Statement for our initial public offering (the "Offering"), we restructured our corporate structure ("Restructuring"). In order to complete the Restructuring, (i) Dectron

Inc., which prior to the Restructuring owned a majority interest in Refplus, acquired the minority interests in Refplus, which included both common stock and preferred stock (and assumed Refplus' loan payables of approximately Cdn$125,000) which is included in the Cdn$1,149,050 number mentioned below) in exchange for 62,500 shares of Dectron's Common Stock and Cdn$102,503; (ii) Dectron Inc. acquired all of the outstanding securities of Thermoplus, which included both Common Stock and preferred stock, and assumed Thermoplus' parent company's loan payables (approximately Cdn$497,000, which amount is included in the Cdn$1,149,050 number mentioned below) in exchange for 194,621 shares of Dectron's Common Stock and Cdn$423,738, and (iii) Dectron acquired all of the issued and outstanding securities of Dectron Inc. in exchange for 1,492,879 shares of the Dectron's Common Stock. The shares of Dectron Inc. were owned by 159653 Canada, Inc. which was a holding company beneficially owned by Mr. Lakdawala. The Refplus and Thermoplus' parent company loans payable represent the repayment of loans made to such companies. In connection with the Restructuring, we issued 1,750,000 shares of Common Stock and promissory notes in the aggregate amount of Cdn$1,149,050. Of this amount, Cdn$557,050 (or approximately U.S.$400,000) were repaid out of the proceeds of the Offering. Of these amounts, an aggregate amount of 1,674,059 shares of Common Stock and promissory notes in the aggregate amount of Cdn$592,000 were issued to Ness Lakdawala, and his affiliates. The Cdn$592,000 was repaid out of Dectron's cash flow, without interest, in 12 equal monthly installments which repayment commenced three months after the Offering.

Mr. Lakdawala and his affiliates received their 1,674,059 shares of Dectron for contributing their interest in Dectron's subsidiaries. Specifically, Mr. Lakdawala's affiliate received 1,492,879 shares in exchange for 100% of 159653 Canada Inc., which owned 100% of Dectron Inc. prior to the Restructuring; 156,808 shares for a portion of their shares of KeepKool which represented 86% of KeepKool (KeepKool owned 94% of Thermoplus prior to the Restructuring); and 24,372 share for his shares of 3294242 Canada Inc. which represented 61% of 3294242 (3294242 owned 49.99% of Refplus, Inc. prior to the Restructuring). Dectron Inc. owned 50.01% of Refplus Inc. prior to the Restructuring. The two promissory notes totaling Cdn$592,000 were issued to Mr. Lakdawala and his affiliates in exchange for Cdn$222,000 of debt owed to Mr. Lakdalawa by KeepKool and Cdn$370,000 for a portion of his shares of KeepKool.

The terms of the Restructuring were negotiated between Mr. Lakdawala and the other owners of the minority interest in Refplus and Thermoplus. Mr. Lakdawala and his affiliates held a majority interest in Thermoplus prior to the Restructuring. Dectron owned a majority interest in Refplus prior to the Restructuring and Mr. Lakdawala owned a majority of the 49.99% interest in Refplus purchased by Dectron in the Restructuring. The value was arrived at based on negotiations between Dectron and the sellers (other than Mr. Lakdawala and his affiliates). Dectron did not have two independent disinterested directors to ratify the transactions. There can be no assurance that such transaction was on terms no less favorable than Dectron could have obtained from other third parties, although management believes that they were as favorable.

Between March and June 2000, we made loans of $152,441 to Mauro Parissi, our Chief Financial Officer, and $162,109 to Leena Lakdawala, our Executive Vice-President. The loans were used to finance purchase of the Dectron's stock and bore interest at the Canadian prescribed interest rate of five percent (5%). As of Jan. 31, 2003, the loan balances of Mr. Parissi and Ms Lakdadawala are $128,701 and, $195,932 respectively.

All future material transactions, including any loans, between Dectron and its officers, directors, principal stockholders or affiliates of any of them have been and will be on terms no less favorable to Dectron than those that can be obtained from unaffiliated third parties, and will be approved in advance by a majority of the independent and disinterested directors who had access, at Dectron's expense, to Dectron's or independent legal counsel.

ITEM 13. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Financial Statements.

(b) Reports on Form 8-K.

None.

(c) Exhibits.

99.1 - Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Ness Lakdawala, Chairman, President and CEO.

99.2 - Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Mauro Parissi, Chief Financial Officer

Item 14. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation within 90 days of the filing date of this report, that our disclosure controls and procedures are effective for gathering, analyzing and disclosing the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the previously mentioned evaluation.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DECTRON INTERNATIONALE INC

By: /s/ Ness Lakdawala
Ness Lakdawala
Chairman and Chief Executive Officer

Dated: May 1, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Ness Lakdawala Ness Lakdawala	Chairman, President, Chief Executive Officer	May 1, 2003
/s/ Roshan Katrak Roshan Katrak	Vice President of Human Relations and Director	May 1, 2003
/s/ Mauro Parissi Mauro Parissi	Chief Financial Officer, Secretary and Director	May 1, 2003
/s/ Michel Lecompte Michel Lecompte	Vice President of Operations of Refplus	May 1, 2003
/s/ Leena Lakdawala Leena Lakdawala	Executive Vice President and Director	May 1, 2003
/s/ Liam Cheung Liam Cheung	Director	May 1, 2003
/s/ Gilles Richard Gilles Richard	Director	May 1, 2003

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CERTIFICATIONS

I, Ness Lakdawala, certify that:

1. I have reviewed this annual report on Form 10-KSB of Dectron Internationale Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors and material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 1, 2003

/s/ Ness Lakdawala

Ness Lakdawala
Chairman, President and Chief Executive Officer

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CERTIFICATIONS

I, Mauro Parissi, certify that:

1. I have reviewed this annual report on Form 10-KSB of Dectron Internationale Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors and material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 1, 2003

/s/ Mauro Parissi

Mauro Parissi
Chief Financial Officer

DECTRON INTERNATIONALE INC.

CONSOLIDATED FINANCIAL STATEMENTS

JANUARY 31, 2003

DECTRON INTERNATIONALE INC.

CONSOLIDATED FINANCIAL STATEMENTS

JANUARY 31, 2003

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[Letterhead of Schwartz Levitsky Feldman SRL]

REPORT OF INDEPENDENT AUDITORS

To the Stockholders of
Dectron Internationale Inc.

We have audited the consolidated balance sheets of Dectron Internationale Inc. as at January 31, 2003 and 2002 and the related consolidated statements of earnings, cash flows and changes in stockholders' equity for each of the years ended January 31, 2003, 2002 and 2001. 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 audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dectron Internationale Inc. as at January 31, 2003 and 2002 and the results of its operations and its cash flows for each of the years ended January 31, 2003, 2002 and 2001, in conformity with generally accepted accounting principles in the United States of America.

Since the accompanying financial statements have not been prepared and audited in accordance with generally accepted accounting principles and generally accepted auditing standards in Canada, they may not satisfy the reporting requirements of Canadian statutes and regulations.

Montreal, Quebec
April 17, 2003 Chartered Accountants

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DECTRON INTERNATIONALE INC.

Consolidated Balance Sheets

As at January 31, 2003 and January 31, 2002

(Amounts Expressed in United States Dollars) Page 2

	2003	2002
Assets		
Current		
Cash	$ 838,473	$ 86,727
Accounts receivable (note 4)	9,917,100	8,056,304
Inventory (note 5)	9,525,297	9,186,114
Income taxes receivable	--	58,313
Prepaid expenses and sundry assets	538,145	555,327
Loans receivable (note 6)	21,164	--
Deferred income taxes	36,539	46,546
	20,876,718	17,989,331
Loans receivable (note 6)	472,977	517,164
Property, plant and equipment (note 7)	10,229,880	9,804,587
Intangibles (note 8)	169,000	139,048

Goodwill (note 9)	1,355,117	1,298,942
Deferred income taxes	1,297,745	811,566
	$34,401,437	$30,560,638

Approved on behalf of the board:

____ Director

____ Director

The accompanying notes are an integral part of these consolidated financial statements.

DECTRON INTERNATIONALE INC.

Consolidated Balance Sheets

As at January 31, 2003 and January 31, 2002

(Amounts Expressed in United States Dollars)

	2003	2002
Liabilities		
Current		
Bank loans (note 10)	$ 9,187,534	$ 8,326,166
Accounts payable and accrued expenses (note 11)	4,835,993	4,341,533
Income taxes payable	684,578	--
Current portion of long-term debt (note 12)	1,090,576	1,336,058
Deferred revenue	4,732	--
	15,803,413	14,003,757
Long-term debt (note 12)	5,322,309	5,170,364
Loan payable	--	192,355
Deferred revenue	1,442,809	1,343,816
	22,568,531	20,710,292
Stockholders' equity		

Capital stock (note 13)	7,136,223	6,752,933
Treasury stock	(88,780)	(88,780)
Accumulated other comprehensive loss	(128,764)	(591,822)
Retained earnings	4,914,227	3,778,015
	11,832,906	9,850,346
	$ 34,401,437	$ 30,560,638

The accompanying notes are an integral part of these consolidated financial statements.

DECTRON INTERNATIONALE INC.

Consolidated Statements of Earnings

For the Years Ending January 31

(Amounts Expressed in United States Dollars)

	2003	2002	2001
Sales	$ 36,883,064	$ 31,939,002	$ 33,958,558
Cost of sales	25,159,527	20,845,612	21,937,386
Gross profit	11,723,537	11,093,390	12,021,172
Operating expenses			
Selling	4,894,448	5,369,842	5,318,464
General and administrative	3,655,127	3,092,319	3,035,320
Depreciation and amortization	1,356,364	1,568,065	1,521,158
Interest expense	1,050,620	1,341,308	1,434,588
	10,956,559	11,371,534	11,309,530
Earnings (loss) from operations	766,978	(278,144)	711,642
Write-off of loans receivable	132,342	--	--

Earnings (loss) before income taxes and discontinued operations	634,636	(278,144)	711,642
Income taxes (recovery) (note 14)	194,386	(229,879)	82,503
Earnings (loss) before discontinued operations	440,250	(48,265)	629,139
Earnings from discontinued operations, net of tax	105,276	95,330	228,287
Gain on disposal of discontinued operations, net of tax	590,686	--	--
Net earnings	$ 1,136,212	$ 47,065	$ 857,426

The accompanying notes are an integral part of these consolidated financial statements.

DECTRON INTERNATIONALE INC.

Consolidated Statements of Earnings (Continued)

For the Years Ending January 31

(Amounts Expressed in United States Dollars) Page 5

	2003	2002	200
Net earnings per common share, basic and diluted			
Continuing operations	0.15	(0.02)	
Discontinued operations	0.04	0.04	
Disposal of discontinued operations	0.21	--	-
	0.40	0.02	
Adjusted net earnings, assuming the adoption of SFAS 142 for 2002 and 2001	$ 1,136,212	$ 248,710	$ 1,068
Adjusted net earnings per common share, assuming the adoption of SFAS 142 for 2002 and 2001			
Basic and diluted	0.40	0.09	

Weighted average number of common shares outstanding

Basic	2,816,181	2,795,000	2,795
Diluted	2,848,729	2,795,000	2,795

The accompanying notes are an integral part of these consolidated financial statements.

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DECTRON INTERNATIONALE INC.

Consolidated Statements of Cash Flows

For the Years Ending January 31

(Amounts Expressed in United States Dollars) Page 6

	2003	2002	
Operating activities:			
Net earnings	$ 1,136,212	$ 47,065	$
Adjustments to reconcile net earnings to net cash used in operating activities:			
Depreciation and amortization	1,356,364	1,568,065	1,
Decrease (increase) in accounts receivable	(1,860,796)	1,489,912	(1,
Decrease (increase) in income taxes receivable	58,313	294,010	(
Decrease (increase) in inventory	(516,484)	1,513,212	(2,
Decrease in prepaid expenses and sundry assets	17,182	210,991	
Increase in deferred income taxes	(476,172)	(370,642)	(
Increase (decrease) in accounts payable and accrued expenses	494,460	(2,830,779)	2,
Increase (decrease) in income taxes payable	684,578	--	(
Increase in deferred revenue	103,725	134,907	
Gain from discontinued operations, before taxes	(789,354)	--	
Net cash provided by (used in) operating activities	208,028	2,056,741	(

The accompanying notes are an integral part of these consolidated financial statements.

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DECTRON INTERNATIONALE INC.

Consolidated Statements of Cash Flows

For the Years Ending January 31

(Amounts Expressed in United States Dollars) Page 7

	2003	2002	200
Investing activities:			
Acquisition of property, plant and equipment	(565,828)	(670,224)	(4,844
Government grant received	--	--	200
Deposit on building	--	--	1,000
Acquisition of intangibles	(66,227)	(47,250)	(27
Acquisition of goodwill	--	--	(91
Proceeds from sale of division	961,640	--	
Net cash provided by (used in) investing activities	329,585	(717,474)	(3,763
Financing activities			
Repayments from (advances to) loans receivable	23,023	(128,903)	(208
Advances from (repayments of) bank loans	861,368	(7,503)	2,717
Note payable	--	(83,394)	83
Advances from (repayments of) long-term debt	(884,960)	(1,296,591)	1,882
Advances from (repayments of) due to directors	--	(14,020)	(37
Repayments of loans payable	(192,355)	(6,368)	(76
Issuance of shares	502,300	--	
Repayments of (advances for) share purchase plan receivable	(119,010)	34,423	(131
Net cash provided by (used in) financing activities	190,366	(1,502,356)	4,229
Effect of foreign currency exchange rate on cash and cash equivalents	23,767	104,368	(303

The accompanying notes are an integral part of these consolidated financial statements.

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DECTRON INTERNATIONALE INC.

Consolidated Statements of Cash Flows

For the Years Ending January 31

(Amounts Expressed in United States Dollars) Page 8

	2003	2002	200
Net increase (decrease) in cash and cash equivalents	751,746	(58,721)	(75
Cash and cash equivalents, beginning of year	86,727	145,448	220
Cash and cash equivalents, end of year	$ 838,473	$ 86,727	$ 145
Supplemental disclosure of cash flow information			
Interest paid	$ 928,851	$ 1,166,984	$ 1,299
Income taxes paid	$ 309,386	$ 705,811	$ 959

The accompanying notes are an integral part of these consolidated financial statements.

DECTRON INTERNATIONALE INC.

Consolidated Statements of Stockholders' Equity

For the Years Ending January 31

(Amounts Expressed in United States Dollars)

	Number	Amount	Cumulative Retained Earnings	Other Comprehensive Income
Balance January 31, 2000	2,795,000	$ 6,849,609	$ 2,873,524	$ 289,121
Share purchase plan receivable	--	$ (131,099)	$ --	$ --
Foreign currency translation	--	--	--	(303,856)
Net earnings for the year	--	--	857,426	--
Balance January 31, 2001	2,795,000	$ 6,718,510	$ 3,730,950	$ (14,735)
Share purchase plan receivable	--	$ 34,423	$ --	$ --
Foreign currency translation	--	--	--	(577,087)
Net earnings for the year	--	--	47,065	--

Balance January 31, 2002	2,795,000	$ 6,752,933	$ 3,778,015	$ (591,822)
Share purchase plan receivable	--	$ (119,010)	$ --	$ --
Issuance of shares	124,500	502,300	--	--
Foreign currency translation	--	--	--	463,058
Net earnings for the year	--	--	1,136,212	--
Balance January 31, 2003	2,919,500	$ 7,136,223	$ 4,914,227	$ (128,764)

The accompanying notes are an integral part of these consolidated financial statements.

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DECTRON INTERNATIONALE INC.

Notes to Consolidated Financial Statements

January 31, 2003 and January 31, 2002

(Amounts Expressed in United States Dollars) Page 10

1. Summary of significant accounting policies

Basis of consolidated financial statements presentation

These consolidated financial statements include the accounts of Dectron Internationale Inc., International Water Maker's Inc., Dectron Inc. Consolidated and Circul-Aire Group.

Dectron Inc. Consolidated is comprised of Dectron Inc. and of its wholly-owned subsidiaries, Refplus Inc., Thermoplus Air Inc., Fiber Mobile Ltd., Dectron U.S.A. Inc., IPAC 2000 Inc. and Le Groupe Prodapec (2000) Inc.

Circul-Aire Group is comprised of 9048-3140 Quebec Inc. and Cascade Technologies Inc., and of its wholly-owned subsidiaries, Circul-Aire Inc., Purafil Canada Inc. and 122248 Canada Inc.

On February 1, 2002 Fiber Mobile Ltd. and Le Groupe Prodapec (2000) Inc. were wound-up into Dectron Inc., 9048-3140 Quebec Inc. into Dectron Internationale Inc. and 122248 Canada Inc. into Circul-Aire Inc.

All inter-company profits, transactions and account balances have been eliminated.

Principal activities

The company Dectron Internationale Inc., was incorporated on March 30, 1998. These companies are principally engaged in the production of dehumidification, refrigeration, indoor air quality (IAQ), ventilation, air conditioning and air purification systems in Canada and its distribution world-wide. The activities of Dectron Internationale Inc. and Cascade Technologies Inc., are immaterial in the aggregate, as their only activity is to hold the investments in the operating companies.

(Amounts Expressed in United States Dollars) Page 11

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, amounts due to banks and any other highly liquid investments purchased with a maturity of three months or less. The carrying amounts approximate fair value because of the short maturity of these instruments.

Inventory

Inventory of raw materials is valued at the lower of cost and replacement cost and inventory of work-in-process and finished goods at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis.

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1. Summary of significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are recorded at cost and are depreciated or amortized on the basis of their estimated useful lives at the undernoted rates and methods:

Building	4 or 5%	Straight line
Machinery and equipment	10%	Straight line or 20% declining balance
Furniture and fixtures	15 or 20%	Straight line or 20% declining balance
Computer equipment	15 or 30%	Straight line or 20% declining balance
Rolling stock	30%	Straight line or 20% declining balance
Leasehold improvements		Straight line over term of the lease

Depreciation and amortization for assets acquired during the year are recorded at one-half of the indicated rates.

Intangible assets and goodwill

The company accounts for intangible assets and goodwill in accordance with Statement of Financial Accounting Standards (SFAS) 142, "Goodwill and Other

Intangible Assets", which was adopted by the Company on February 1, 2003 in accordance with that statement, goodwill and intangible assets with indefinite lives are no longer amortized, but rather tested for impairment at least annually. Intangible assets with estimable useful lives, consisting of patents, trademarks, and rights, are amortized on a straight-line basis over the estimated useful lives of 5 to 15 years, and are reviewed for impairment in accordance with SFAS 144, "Accounting for the Impairment of Long-Lived Assets".

Goodwill represents the excess of purchase price over the fair value of identifiable assets acquired in a purchase business combination. For the years 2002 and 2001, goodwill was amortized using the straight-line method, over a period of 10 years.

Impairment of goodwill and long-lived assets

Goodwill and intangible assets with definite lives are tested annually for impairment in accordance with the provisions of SFAS 142.

Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using a combination of the income or discounted cash flows approach and the market approach, which utilizes comparable companies' data. If the carrying amount of the reporting unit exceeds its fair value, then a second step is performed to measure the amount of impairment loss, if any. Any impairment loss would be expensed in the consolidated statements of earnings. The impairment test for intangibles with indefinite useful lives consists of a comparison of the fair value of the intangible assets with its carrying amount. When the carrying amount of the intangible assets exceeds its fair value, an impairment loss would be recognized for the difference.

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1. Summary of significant accounting policies (continued)

Impairment of goodwill and long-lived assets (continued)

Intangible assets with estimable lives and other long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset or assets group may not be recoverable in accordance with SFAS 144. Recoverability of intangible assets with estimable lives and other long- lived assets is measured by a comparison of the carrying amount of an assets or asset group to future net undiscounted pretax cash flows expected to be generated by the assets or asset group. If these comparisons indicated that an asset is not recoverable, the impairment loss recognized is the amount by which the carrying amount of the asset or the asset group exceeds the related estimated fair value.

Deferred revenue

The company has sold extended warranty contracts covering a period of four to nine years beyond the one year basic guarantee. The deferred revenue is recognized as income over the four to nine year period on a straight-line basis commencing one year from the sale of the contracts.

Research and development costs

Research and development costs are charged to earnings in the year in which they are incurred, net of investment tax credits.

Deferred income taxes

The company maintains its books and records in Canadian dollars. Foreign currency transactions are translated using the temporal method. Under this method, all monetary items are translated into Canadian funds at the rate of exchange prevailing at balance sheet date. Non-monetary items are translated at historical rates. Income and expenses are translated at the rate in effect on the transaction dates. Transaction gains and losses are included in the determination of earnings for the year.

The translation of the financial statements from Canadian dollars into United States dollars is performed for the convenience of the reader. Balance sheet accounts are translated using closing exchange rates in effect at the balance sheet date and income and expense accounts are translated using an average exchange rate prevailing during each reporting period. No representation is made that the Canadian dollar amounts could have been, or could be, converted into United States dollars at the rates on the respective dates and or at any other certain rates. Adjustments resulting from the translation are included in the accumulated other comprehensive income in stockholder's equity.

Foreign currency transactions

The company uses the temporal method to translate its foreign currency transactions. Monetary assets and liabilities are translated at the rate of exchange in effect at year-end. Other assets and liabilities are translated at their historic rates. Items appearing in the statement of earnings, except for cost of inventory and depreciation and amortization are translated at average year rates. Exchange gains and losses are included in the statement of earnings.

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1. Summary of significant accounting policies (continued)

Earnings per share

The company has adopted FAS No. 128, "Earnings per Share" which requires disclosure on the financial statements of "basic" and "diluted" earnings per share. Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding for the year. Diluted earnings per share are computed by dividing net income by the weighted average number of common shares outstanding plus common stock equivalents (if dilutive) related to warrants for each year.

(Amounts Expressed in United States Dollars) Page 14

2. Changes in accounting policies

In July 2001, SFAS No. 142, "Goodwill and Other Intangible Asset" was issued. The company adopted the provisions of SFAS 142 on February 1, 2002. SFAS 142 requires that goodwill and other intangible assets with indefinite lives no longer be amortized, but instead be tested for impairment, at least annually, in accordance with the new impairment testing provisions of SFAS 142. Statement also requires that intangible assets with estimated useful lives be amortized over their respective useful lives to their estimated residual values, and be reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The net impact of the adoption of SFAS 142 was a reduction of annual amortization expense of $200,154 in 2003. No impairment losses were recognized due to the change in accounting principle.

The following table presents a reconciliation of net earnings, earnings per share and comprehensive income, as reported, to adjusted amounts that include the impact of the adoption of SFAS 142 for all periods presented.

	2003	2002	2001
Net earnings			
Net earnings, as reported	$1,136,212	$ 47,065	$ 857,426
Add: Goodwill amortization, net of tax	--	201,645	210,713
Adjusted net earnings	$1,136,212	$ 248,710	$1,068,139
Net earnings per common share			
Basic and diluted as reported	0.40	0.02	0.31
Add: Goodwill amortization, net of tax	--	0.07	0.07
Basic and diluted, adjusted	0.40	0.09	0.38
Comprehensive income (loss)			
Comprehensive income (loss), as reported	$1,599,270	$(530,022)	$ 553,570
Add: Goodwill amortization, net of tax	--	201,645	210,713
Adjusted comprehensive income (loss)	$1,599,270	$(328,377)	$ 764,283

3. Comprehensive income

The company has adopted FAS No. 130 "Reporting Comprehensive Income" which requires new standards for reporting and display of comprehensive income and its components in the financial statements. However, it does not affect net income or total stockholders' equity. The components of comprehensive income are as follows:

	2003	2002	2001
Net income	$1,136,212	$ 47,065	$ 857,426
Other comprehensive income (loss)			
Foreign currency translation	463,058	(577,087)	(303,856)
Comprehensive income (loss)	$1,599,270	$ (530,022)	$ 553,570

4. Accounts receivable

	2003	2002
Trade	$10,645,155	$ 8,455,426
Allowance for doubtful accounts	(728,055)	(399,122)
	$ 9,917,100	$ 8,056,304

5. Inventory

	2003	2002
Raw materials	$ 6,125,967	$ 5,688,706
Work-in-process	1,427,982	1,269,579
Finished goods	1,971,348	2,227,829
	$ 9,525,297	$ 9,186,114

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6. Loans receivable

	2003	2002
Private companies	$ 464,141	$ 487,290
Corporate shareholder	30,000	29,874
	494,141	517,164
Current portion	21,164	--
	$ 472,977	$ 517,164

Loan receivable from a private company in the amount of $73,336 is secured by equipment, repayable in monthly instalments of $21,164 plus interest at 6% per annum, maturing in April 2002.

The other loans receivable from private companies and the loan to a corporate shareholder are non-interest bearing and are not expected to be repaid prior to February 1, 2004.

7. Property, plant and equipment

	2003	2002
Cost		
Land	$ 472,772	$ 453,173
Building	4,940,392	4,735,592
Machinery and equipment	10,263,530	8,879,849
Furniture and fixtures	793,274	715,182
Computer equipment	1,784,836	1,656,999
Rolling stock	151,448	140,319
Leasehold improvements	1,032,666	775,256
	19,438,918	17,356,370
Accumulated depreciation and amortization		
Building	835,780	640,652
Machinery and equipment	5,858,206	4,643,758
Furniture and fixtures	574,702	536,998
Computer equipment	1,336,276	1,219,883
Rolling stock	117,905	89,332
Leasehold improvements	486,169	421,160
	9,209,038	7,551,783
Net	$ 10,229,880	$ 9,804,587
Capital leases included above	$ 1,224,593	$ 548,540

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7. Property, plant and equipment (continued)

Depreciation and amortization of property, plant and equipment for fiscal year 2003 amounted to $1,336,819 ($1,348,707 in 2002).

8. Intangibles

	2003	2002
Patents, trademarks and rights costs	$ 239,511	$ 166,101
Accumulated amortization	(70,511)	(27,053)
	$ 169,000	$ 139,048

Amortization of intangibles for fiscal year 2003 amounted to $19,545 ($17,713 in 2002).

9. Goodwill

	2003	2002
Cost	$ 2,045,408	$ 1,977,830
Accumulated amortization	(690,291)	(678,888)
	$ 1,355,117	$ 1,298,942

Amortization of goodwill for fiscal year 2003 amounted to $ Nil ($201,645 in 2002)

10. Bank loans

The company has an available line of credit of $10,800,000 bearing interest at the Canadian prime lending rate plus 0.25% per annum of which $1,600,000 remained unused as at January 31, 2003 and it is renegotiated annually.

Bank loans are secured by a first ranking moveable hypothec on accounts receivable, inventory and a first ranking universal hypothec in the amount of $39,400,000 on the universality of the borrower's property, movable and immovable, present and future, corporeal and incorporeal. The company also provided a rider designating the Bank as loss payee of the proceeds of all-risk insurance on the property charged as security.

The average cost of financing for fiscal year 2003 is 6.90% (8.84% in 2002).

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11. Accounts payable and accrued expenses

	2003	2002
Trade payables	$ 2,830,173	$ 2,760,644
Accrued expenses	2,005,820	1,580,889
	$ 4,835,993	$ 4,341,533

12. Long-term debt

	2003	
a) Government loans, without guarantee nor interest, repayable 15 years after their date of receipt, the first portion of $30,233 is repayable in August 2002 and the second portion of $30,233 is repayable in July 2004	$ 30,233	$
b) Immigration loans secured by a first ranking universal hypothec, bearing interest at variable rates from 5.21% to 5.59% per annum, due on various dates between November 2002 and May 2004. The loans are net of sinking funds since all amounts paid into them must be used to repay the loans. As at January 31, 2003, from the total immigration loans, $291,611 was in process of being refinanced	667,770	
c) Bank term loans secured by a first ranking universal hypothec, bearing interest at variable rates from prime plus 0.75% and from 6.51% to 7.99% per annum, due on various dates from May 2005 to June 2014	4,088,595	
d) Mezzanine loan bearing interest at the bank's American prime rate plus 3% per annum, repayable in monthly capital repayments of $17,213, due on May 2003	472,000	
e) Obligations under capital leases for machinery and equipment and rolling stock subject to various monthly repayments including imputed interest at variable rates between 6.03% to 8.48% per annum, up to various dates between April 2005 and October 2007	1,128,176	
Balance carried forward	6,386,774	

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DECTRON INTERNATIONALE INC.

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12. Long-term debt (Continued)

	2003	2002
Balance brought forward	$ 6,386,774	6,495,274
f) Others	26,111	11,148
	6,412,885	6,506,422
Current portion	1,090,576	1,336,058
	$ 5,322,309	$ 5,170,364

Future payment obligations are as follows:

	Future principal payment obligations	Future minimal lease payments under capital leases	Interest included in future minimal lease payments	Tota princi repayme
2004	$ 815,916	$ 345,797	$ 71,137	$ 1,090
2005	1,165,009	342,875	50,170	1,457
2006	1,791,937	272,559	28,672	2,035
2007	280,684	180,240	16,043	444
2008	1,129,073	159,943	4,301	1,284
thereafter	99,175	--	--	99
	$ 5,281,794	$ 1,301,414	$ 170,323	$ 6,412

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13. Capital stock

Authorized

An unlimited number of preferred shares, non-cumulative, voting, no par value

An unlimited number of common shares, voting, no par value

Issued

	2003	2002
2,795,000 Common shares	$7,136,223	$6,752,933

During the fiscal year ended January 31, 2003, certain employees have exercised their options under the 1999 Stock Option Plan. Consequently, 74,500 common shares were issued for a total consideration of $223,500 of which $133,500 was receivable as at January 31, 2003.

On July 15, 2002 the company has issued 50,000 common shares with a value of $235,000 and 60,000 warrants with a value of $43,800 in consideration for the purchase of the assets of International Water Maker's Inc., see note 17. The rights represented by the Warrants are exercisable until July 15, 2003 at a purchase price of $3.61 per share. As at January 31, 2003, none of them have been exercised.

Purchase warrants

During the fiscal year 1999, Purchase Warrants ("Warrants") were issued pursuant to a Warrant Agreement between the company and J.P. Turner & Company, L.L.C. and Klein Maus and Shire Incorporated. Each Warrant entitles its holders to purchase, during the four year period commencing on October 5, 1999, one share of common stock at an exercise price of $9.00 per share, subject to adjustment in accordance with the anti-dilution and other provision referred to below.

The Warrants may be redeemed by the company at any time commencing one year from October 5, 1999 (or earlier with the consent of the representatives) and prior to their expiration, at a redemption price of $0.125 per Warrant, on not less than 30 days prior written notice to the holders of such Warrants, provided that the closing bid price of the common stock, if traded on the Nasdaq SmallCap Market, or the last sale price of the common stock, if listed on the Nasdaq National Market or on a national exchange, is at least 133% ($12.00 per share, subject to adjustment) of the exercise price of the Warrants for a period of 30 consecutive trading days ending on the third day prior to the date the notice of redemption is given. Holders of Warrants shall have exercise rights until the close of the business day preceding the date fixed for redemption.

The exercise price and the number of shares of common stock purchasable upon the exercise of the Warrants are subject to adjustment upon the occurrence of certain events, including stock dividends, stock splits, combinations or classification of the common stock. The Warrants do not confer upon holders any voting or any other rights of shareholders of the company.

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13. Capital stock (continued)

Purchase warrants (continued)

No Warrant will be exercisable unless at the time of exercise the company has filed with the Commission a current prospectus covering the issuance of common stock issuable upon the exercise of the Warrant and the issuance of shares has been registered or qualified or is deemed to be exempt from registration or qualification under the securities laws of the state of residence of the holder of the Warrant. The company has undertaken to use its best efforts to maintain a current prospectus relating to the issuance of shares of common stock upon the exercise of the Warrants until the expiration of the Warrants, subject to the terms of the Warrant Agreement. While it is the company's intention to maintain a current prospectus, there is no assurance that it will be able to do so.

Employee stock option plan

In 1999, the Company adopted a Stock Option Plan (the "1999 Plan") pursuant to which 650,000 shares of Common Stock are reserved for issuance, 241,500 options are currently issued and outstanding.

On September 2, 1999, the Board granted options under the Stock Option Plan to certain members of the Board and certain employees. Subject to certain limitations, the options granted are exercisable one year after issuance. Subsequent to the one-year anniversary date of the grant, the option holders may exercise the option up to 25% of the total options per year for the following four years. Each of the options will be fully exercisable on November 4, 2003, and expire on November 4, 2004. The exercise price of the option is $3.00.

In 2001, the Company also adopted the 2001 Stock Option Plan (the "2001 Plan") pursuant to which 500,000 shares of Common stock are reserved for issuance, 115,500 options are currently issued and outstanding.

On January 4, 2002, the Board granted options under the 2001 Plan to certain members of the Board and certain employees. Subject to certain limitations, the options granted are exercisable one year after issuance. Subsequent to the one-year anniversary date of the grant, the option holders may exercise the option up to 25% per year of the total options granted for the following four years. Each of the options will be fully exercisable on January 4, 2006 and expire on January 4, 2007. The exercise price of the option is $4.20.

The Plans are administered by the Board of Directors, who will determine, among other things, those individuals who shall receive options, the time period during which the options may be partially or fully exercised, the number of shares of Common Stock issuable upon the exercise of the options and the option exercise price.

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13. Capital stock (continued)

Employee stock option plan (continued)

The 1999 Plan is effective for a period of five years expiring in 2004 and the 2001 Plan is effective for a period of ten years expiring in 2011. Options may be granted to officers, directors, consultants, key employees, advisors and similar parties who provide the company with their skills and expertise. Options granted under the 1999 Plan may be exercisable for up to five years, and ten years for the 2001 Plan, and shall be at an exercise price as determined by the Board. Options are non-transferable except by the laws of descent and distribution or a change in control of Dectron, as defined in the Plans, and are exercisable only by the participant during his or her lifetime. Change in control include (i) the sale of substantially all of the assets of Dectron and merger or consolidation with another company, or (ii) a majority of the Board changes other than by election by the stockholders pursuant to Board solicitation or by vacancies filled by the Board caused by death or resignation of such person.

If a participant ceases affiliation with Dectron by reason of death, permanent disability or retirement at or after age 70, the option remains exercisable for one year from such occurrence but not beyond the option's expiration date. Other types of termination allow the participant three months to exercise, except for termination for cause, which results in immediate termination of the option.

Option under the Plans must be issued within five years from the effective date of the 1999 Plan and ten years from the effective date of the 2001 Plan.

Any unexercised options that expire or that terminate upon an employee's ceasing to be employed by the company become available again for issuance under the Plans.

The Plans may be terminated or amended at any time by the Board of Directors, except that the number of shares of Common Stock reserved for issuance upon the exercise of options granted under the Plans may not be increased without consent of the stockholders.

Share purchase plan receivable

The SEC staff Accounting Bulletins require that accounts or notes receivable arising from transactions involving capital stock should be presented as deductions from shareholders' equity and not as assets. Accordingly, in order to comply with U.S. GAAP shareholders' equity has been reduced by $119,010 at January 31, 2003 (increased by $34,423 - 2002), to reflect the loans due from certain employees and officers, which relate to the purchase of common shares of the company.

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14. Income taxes

	2003	2002	
a) Current	$ 564,555	$ 188,340	$
Deferred	(370,169)	(418,219)	
	$ 194,386	$ (229,879)	$
b) Income taxes at Canadian statutory rates:	$ 197,753	$ (96,007)	$
Increase (decrease) resulting from:			
Large corporation tax	13,635	12,838	
Manufacturing and processing deduction	(164,161)	(70,459)	
Non-deductible expenses	61,183	44,102	
Temporary differences	108,587	(642,097)	
Application of losses carried forward	--	(64,921)	
Difference between Canadian statutory rates and those applicable to foreign subsidiaries	100,950	437,329	
Adjustment for prior year's taxes	(51,334)	126,124	
Other	(72,227)	23,212	
Effective income taxes	$ 194,386	$ (229,879)	$

c) Deferred income taxes represent the tax charges derived from temporary differences between amortization of property, plant and equipment and recognition of deferred revenue, and the actual amounts deducted from or added to the taxable income.

d) The company has operating losses of $720,000, which can be used to reduce future taxable income. The potential tax benefits of $220,000 relating to the losses have been recognized in the company's accounts. The deductibility of these losses expires in 2007.

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e) The company has unused investment tax credits of $336,500 which are deductible from the income taxes payable in future years. No deferred income tax asset regarding these investment tax credits has been accounted for.

15. Statement of cash flows

During the year, the company acquired capital assets for a total amount of $1,357,251, including capital assets acquired for an amount of $791,423 by means of capital leases. Cash payments of $565,828 were made to purchase the capital assets.

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16. Discontinued operations

On November 29, 2002, the company completed the sale of the Electric Heat Products Division for a total cash consideration of $961,640 plus a balance of sale of $440,979. Consequently, one of the subsidiaries's name changed from P.M. Wright Ltd. to Circul-Aire Inc. The sale resulted in a net gain of $590,686 (net of tax of $198,668).

The balance of sale bears interest at the bank's prime rate plus 1%, repayable in 11 monthly instalments of $5,313 followed by 24 monthly instalments of $15,939. Due to the uncertainty of the collectibility, a reserve for the full balance of sale has been accounted for.

The results from discontinued operations for the period ended January 31 were as follows:

	2003	2002	2001
Net sales	$ 1,139,072	$ 1,346,956	$ 1,103,345
Earnings before income taxes	140,668	152,042	258,244
Income taxes	35,392	56,712	29,955
Net earnings	105,276	95,330	228,287

17. Acquisition

On July 15, 2002, the company acquired the assets of International Water Maker's Inc. The net assets acquired and the purchase price are as follows:

Current assets	$ 310,109
Property and equipment	11,200
Patents and trademards	63,658
Current liabilities assumed	14,694
Long-term debt assumed	24,938

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Net assets acquired	$ 345,335
Purchase price	
Cash	$ 66,535
50,000 common shares	235,000
60,000 warrants	43,800
	$ 345,335

The acquisition was accounted for by the purchase method. The accompanying consolidated financial statements include the operations of the International Water Maker business from the date of acquisition.

18. Commitments

a) The company is committed to payments under operating leases for its premises totaling $2,896,829. Annual payments for the next five years are as follows:

2004	$ 632,105
2005	632,105
2006	524,099
2007	541,075
2008	567,445
	$ 2,896,829

b) The company is committed to make monthly payments of $7,379 into sinking funds, which are given as security against the immigration loans. The annual payments for the next two years are as follows:

2004	$ 88,552
2005	10,253
	$ 98,805

c) As at January 31, 2003 the company had outstanding letters of credit totaling $15,600.

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These letters of credit were incurred in the normal course of business.

19. Segmented information

	2003	2002	2
a) The breakdown of sales by geographic area is as follows:			
Canada	$ 14,235,583	$ 6,223,981	$ 8,
United States of America	20,623,100	23,456,911	23,
International	2,024,381	2,259,010	2,
	$ 36,883,064	$ 31,939,902	$ 33,
b) The breakdown of identifiable assets by geographic area is as follows:			
Canada	$ 26,391,369	$ 1,435,449	$ 26,
United States	8,010,068	9,125,189	8,
	$ 34,401,437	$ 30,560,638	$ 35,

20. Financial instruments and credit risk

Fair value of financial instruments

The fair value of cash, accounts receivable, bank loans and accounts payable approximately correspond to their book value given their short-term maturity. The carrying amount of long-term debt approximates fair value because interest rates are close to market value.

Credit risk

The company is exposed to credit risk on the accounts receivable from its customers. In order to reduce its credit risk, the company has adopted credit policies, which include the analysis of the financial position of its customers and the regular review of their credit limits. In some cases, the company may require bank letters of credit.

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21. Selected quarterly financial data (unaudited)

2003	First Quarter	Second Quarter	Third Quarter	Fourt Quart
Sales	$ 9,049,105	$ 10,496,214	$ 10,193,297	$ 7,144,4
Gross Profit	2,811,149	2,644,532	3,022,773	3,245,0
Operating earnings	600,291	486,281	547,342	183,6
Earnings from continuing operations before taxes	499,466	221,667	281,641	(368,1
Discontinued operations, net of tax	--	--	--	105,2
Gain on disposal of discontinued operations, net of tax	--	--	--	590,6
Net earnings (loss)	226,447	159,601	202,781	547,3
Net earnings (loss) per common share, basic and diluted:				
Continuing operations	0.08	0.06	0.07	(0.
Discontinued operations	--	--	--	0.
Disposal of discontinued operations	--	--	--	0.
Net earnings	0.08	0.06	0.07	0.
Average number of common shares outstanding	2,795,000	2,799,167	2,814,444	2,816,1

21. Selected quarterly financial data (unaudited) (continued)

2003	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Sales	$ 9,639,831	$ 8,693,307	$ 9,965,921	$ 3,639,943
Gross Profit	3,361,825	3,178,350	3,599,576	953,639
Operating earnings	886,766	846,399	953,196	(1,623,197)
Net earnings (loss)	408,761	389,216	528,123	(1,279,035)
Earnings (loss) per common shares, bais and diluted	0.15	0.14	0.19	(0.46)
Average number of common shares outstanding	2,795,000	2,795,000	2,795,000	2,795,000

22. Subsequent event

On February 1, 2003, the company acquired 100% interest in Tranzmetal Inc. for a total cash consideration of $295,800. As at January 31, 2003, the company had the following balance with Tranzmetal Inc., which have arisen from the normal course of business:

Accounts receivable	$ 155,000
Loan receivable	22,000
Accounts payable	14,000

23. Comparative figures

Certain figures in the 2002 and 2001 financial statements have been reclassified to conform with the basis of presentation used in 2003.