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## INSTRUCTIONS

This report must be filed by Exchange Issuers within 60 days of the end of their first, second and third fiscal quarters and within 140 days of their year end. "Exchange issuer" means an issuer whose securities are listed and posted for trading on the Canadian Venture Exchange and are not listed and posted on any other exchange or quoted on a trading or quotation system in Canada. Three schedules must be attached to this report as follows:

### SCHEDULE A: FINANCIAL STATEMENTS

Financial statements prepared in accordance with generally accepted accounting principles are required as follows:

#### *For the first, second and third financial quarters:*

Interim financial statements prepared in accordance with section 1751 of the CICA Handbook, including the following: balance sheet, income statement, statement of retained earnings, cash flow statement, and notes to the financial statements.

The periods required to be presented, consistent with CICA Handbook section 1751, are as follows:

- a balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding fiscal year;
- a statement of retained earnings cumulatively for the current fiscal year-to-date, with a comparative statement for the comparable year-to-date period of the immediately preceding fiscal year; and
- income statements and cash flow statements for the current interim period and cumulatively for the current fiscal year-to-date, with comparative statements for the comparable interim periods (current and year-to-date) of the immediately preceding fiscal year.

#### *For the financial year end:*

Annual audited financial statements prepared on a comparative basis.

Exchange Issuers with a fiscal year of less than or greater than 12 months should refer to National Policy No. 51 *Changes in the Ending Date of a Financial Year and in Reporting Status* for guidance.

Issuers in the development stage are directed to the guidance provided in CICA Accounting Guideline AcG-11 *Enterprises in the Development Stage* that states "enterprises in the development stage are encouraged to disclose in the income statement and in the cash flow statement cumulative balances from the inception of the development stage."

Issuers that have been involved in a reverse take-over should refer to the guidance found in BCIN #52-701 (previously NIN #91/21) with respect to such transactions including the requirement for disclosure of supplementary information regarding the legal parent's prior financial operations.

### SCHEDULE B: SUPPLEMENTARY INFORMATION

The supplementary information set out below must be provided when not included in Schedule A.

#### 1. *Analysis of expenses and deferred costs*

Provide a breakdown of amounts presented in the financial statements for the following: deferred or expensed exploration, expensed research, deferred or expensed development, cost of sales, marketing expenses, general and administrative expenses, and any other material expenses reported in the income statement and any other material deferred costs presented in the balance sheet.

The breakdown should separately present, at a minimum, each component that comprises 20% or more of the total amount for a material classification presented on the face of the financial statements. All other components of a material classification may be grouped together under the heading "miscellaneous" or "other" in the cost breakdown; the total for "miscellaneous" should not exceed 30% of the total for a material classification.

Breakdowns are required for the year-to-date period only. Breakdowns are not required for comparative periods.

Issuers in the development stage are reminded that Section 3(9)(b) of the BC Securities Commission's Rules requires a schedule or note to the financial statements containing an analysis of each of exploration, research, development and administration costs, whether expensed or deferred and if the issuer is a natural resource issuer, that analysis for each material property. Because the analysis required by Rule 3(9)(b) must be included in the financial statements, the information does not have to be repeated in Schedule B. Consistent with CICA Accounting Guidelines AcG-11, staff considers an issuer to be in the development stage when it is devoting substantially all of its efforts to establishing a new business and planned principal operations have not commenced. Further, in staff's view, the lack of significant revenues for the past two years normally indicates that an issuer is in the development stage.

#### 2. *Related party transactions*

Provide disclosure of all related party transactions as specified in Section 3840 of the CICA Handbook.

#### 3. *Summary of securities issued and options granted during the period*

Provide the following information for the year-to-date period:

- (a) summary of securities issued during the period, including date of issue, type of security (common shares, convertible debentures, etc.), type of issue (private placement, public offering, exercise of warrants, etc.) number, price, total proceeds, type of consideration (cash, property, etc.) and commission paid, and
- (b) summary of options granted during the period, including date, number, name of optionee for those options granted to insiders, generic description of other optionees (e.g. "employees",) exercise price and expiry date.

#### 4. *Summary of securities as at the end of the reporting period*

Provide the following information as at the end of the reporting period:

- (a) description of authorized share capital including number of shares for each class, dividend rates on preferred shares and whether or not cumulative, redemption and conversion provisions,
- (b) number and recorded value for shares issued and outstanding,
- (c) description of options, warrants and convertible securities outstanding, including number or amount, exercise or conversion price and expiry date, and any recorded value, and
- (d) number of shares in each class of shares subject to escrow or pooling agreements.

#### 5. *List the names of the directors and officers as at the date this report is signed and filed.*

**SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS**

**1. General Instructions**

- (a) Management discussion and analysis provides management with the opportunity to discuss an issuer's business, current financial results, position and future prospects.
- (b) Focus the discussion on material information, including liquidity, capital resources, known trends, commitments, events, risks or uncertainties, that is reasonably expected to have a material effect on the issuer.
- (c) For an issuer with active ongoing operations the discussion should be substantive (e.g. generally two to four pages in length); for an issuer with limited operations the discussion may not be as extensive (e.g. one page).
- (d) The discussion must be factual, balanced and non-promotional.
- (e) Where the discussion relates to a mineral project, as defined in National Instrument 43-101 "Standards of Disclosure for Mineral Projects," the disclosure must comply with NI 43-101.

**2. Description of Business**

Provide a brief description of the issuer's business. Where an issuer is inactive and has no business, disclose these facts together with a description of any plans to reactivate and the business the issuer intends to pursue.

**3. Discussion of Operations and Financial Condition**

Provide a meaningful discussion and analysis of the issuer's operations for the current year-to-date period presented in the financial statements. Discuss the issuer's financial condition as at the date of the most recent balance sheet presented in the financial statements.

The following is a list of items that should be addressed in management's discussion and analysis of the issuer's operations and financial condition. This is not intended to be an exhaustive list of the relevant items.

- (a) expenditures included in the analysis of expenses and deferred costs required under Securities Rule 3(9)(b) and Schedule B;
- (b) acquisition or abandonment of resource properties material to the issuer including material terms of any acquisition or disposition;
- (c) acquisition or disposition of other material capital assets including material terms of the acquisition, or disposition;
- (d) material write-off or write-down of assets;
- (e) transactions with related parties, disclosed in Schedule B or the notes to the financial statements;
- (f) material contracts or commitments;
- (g) material variances between the issuer's financial results and information previously disclosed by the issuer, (for example if the issuer does not achieve revenue and profit estimates previously released, discuss this fact and the reasons for the variance);
- (h) material terms of any existing third party investor relations arrangements or contracts including:

- i. the name of the person;
- ii. the amount paid during the reporting period; and
- iii. the services provided during the reporting period;
- (i) legal proceedings;
- (j) contingent liabilities;
- (k) default under debt or other contractual obligations;
- (l) a breach of corporate, securities or other laws, or of an issuer's listing agreement with the Canadian Venture Exchange including the nature of the breach, potential ramifications and what is being done to remedy it;
- (m) regulatory approval requirements for a significant transaction including whether the issuer has obtained the required approval or has applied for the approval;
- (n) management changes; or
- (o) special resolutions passed by shareholders,

**4. Subsequent Events**

Discuss any significant events and transactions that occurred during the time from the date of the financial statements up to the date that this report is certified by the issuer.

**5. Financings, Principal Purposes and Milestones**

- (a) In a tabular format, compare any previously disclosed principal purposes from a financing to actual expenditures made during the reporting period,
- (b) Explain any material variances and the impact, if any, on the issuer's ability to achieve previously disclosed objectives and milestones.

**6. Liquidity and Solvency**

Discuss the issuer's working capital position and its ability to meet its ongoing obligations as they become due.

**How to File Under National Instrument 13-101 – System for Electronic Document Analysis and Retrieval (SEDAR)**

BC Form 51-901F Quarterly and Year End Reports are filed under Category of Filing: Continuous Disclosure and Filing Type: Interim Financial Statements or Annual Financial Statements. Schedule A (Financial Statements) is filed under Document Type: Interim Financial Statements or Annual Financial Statements. Schedule B (Supplementary Information) and Schedule C (Management Discussion) are filed under Document Type: BC Form 51-901F (previously Document Type Form 61 (BC)).

**Meeting the Form Requirements**



BC Form 51-901F consists of three parts: Instructions to schedules A, B and C, issuer details and a certificate. To comply with National Instrument 13-101 it is not necessary to reproduce the instructions that are set out in BC Form 51-901F. A cover page to the schedules titled BC Form 51-901F that includes the issuer details and certificate is all that is required to meet the BC Form 51-901F requirements. The form of certificate should be amended so as to refer to one or two of the three schedules required to complete the report.

**ISSUER DETAILS**

NAME OF ISSUER		FOR QUARTER ENDED	DATE OF REPORT YY / MM / DD
AVCAN SYSTEMS INC.		APR. 30, 2002	2002/06/20
ISSUER ADDRESS			
SUITE 100, 625 WEST KENT AVENUE			
CITY / PROVINCE / POSTAL CODE		ISSUER FAX NO.	ISSUER TELEPHONE NO.
VANCOUVER, BC V6P 6T7		(604) 654-1880	(604) 654-1850
CONTACT NAME	CONTACT POSITION	CONTACT TELEPHONE NO.	
DECLAN BRADY	PRESIDENT	(604) 654-1850	
CONTACT EMAIL ADDRESS	WEB SITE ADDRESS		
	www.avcan.com		

**CERTIFICATE**

The two schedules required to complete this Report is attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Report will be provided to any shareholder who requests it.

DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED YY / MM / DD
 "Declan Brady" (signed)	DECLAN BRADY	2002/06/26
DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED YY / MM / DD
 "Kenneth R. Miller" (signed)	KENNETH R. MILLER	2002/06/26

**AVCAN SYSTEMS INC.**

SCHEDULE B: SUPPLEMENTARY INFORMATION

FOR THE THREE MONTHS ENDING APRIL 30, 2002

1. Analysis of expenses and deferred costs

Cost of Sales

The Company incurred cost of sales of \$16,189 during the three months ending April 30, 2002.

These costs include:

Employee salaries	\$48,348
Subcontractor costs	\$52,315
Subcontractor flights	\$68,303
Travel	\$14,845
Miscellaneous	<u>\$7,852</u>
subtotal	\$191,663
Opening Work In Progress	\$61,693
Closing Work in Progress	<u>(\$237,167)</u>
Cost of Sales	<u>\$16,189</u>

Employee salaries relate to processing and analyzing transmission corridor inspection and mapping data acquired for utility customers, which is delivered in digital report format. The Company subcontracted aerial data acquisition and some of the data processing. Travel relates to employee travel expenses incurred for the acquisition of data.

The Company has deferred \$237,167 in unbilled cost of sales, which have been recorded as inventory.

Development

The Company incurred development cost of \$32,875 during the three months ending April 30, 2002. These cost include:

Developer's salaries	\$16,088
External consulting services	\$5,966
Flight certification & test flights	<u>\$10,821</u>
Total	<u>\$32,875</u>

Sales and Administration

The Company incurred sales and administrative costs of \$209,578 during the three months ending April 30, 2002. These costs include:

Management Salaries & Consulting

Management Salaries	\$18,515
External Consulting Services	<u>\$33,661</u>
sub-total	<u>\$52,176</u>

Professional Fees

Audit Fees	\$5,000
Legal Fees	\$30,250
Regulatory Fees	<u>\$4,360</u>
sub-total	<u>\$39,610</u>

<u>Travel and Marketing</u>	
Employee Salaries	\$13,695
External Consulting Services	\$25,870
Travel	\$6,019
Conferences	\$1,410
sub-total	<u>\$46,994</u>

2. Related Party payments – Paid or Payable

Management and consulting fees of \$15,000 were paid to a director.

3. Summary of securities issued and options granted in the quarter

a. Summary of Securities Issued in the Quarter

NIL

b. Summary of Options Granted in the Quarter

On March 12, 2002 the Company granted incentive stock options to acquire 950,000 common shares at a price of \$.24 per share to directors, officers, employees and consultants of the Company. The incentive stock options are exercisable on or before March 12, 2007

4. Summary of securities as at the end of the reporting period

a. The authorized share capital of the Company as at April 30, 2002 consisted of 100,000,000 common shares without par value.

b. Share Capitalization

As at April 30, 2002 there were 7,291,473 common shares issued and outstanding.

c. Warrants and Options Outstanding

As at April 30, 2002, there were 950,000 incentive stock options outstanding exercisable at a price of \$.24 per share until March 12, 2007.

As at April 30, 2002, there were no warrants outstanding.

d. Shares Held in Escrow

NIL

5. List of Directors and Officers as at April 30, 2002

Declan Brady, President, Chief Executive Officer and Director  
 Dirk J. Schillebeeckx, Chairman  
 Erik Dysthe, Director  
 Kenneth R. Miller, Director  
 Raymond Caldwell, Director  
 Michael Varabioff, Secretary

## **AVCAN SYSTEMS INC.**

### **SCHEDULE C: MANAGEMENT DISCUSSION**

**FOR THE THREE MONTHS ENDING APRIL 30, 2002**

#### **Description of Business**

Avcan Systems Inc. (the "Company") specializes in airborne collection and processing of detailed, geo-referenced data for use in Geographic Information Systems and other applications, such as aerial inspection of power transmission and pipeline corridors. The proprietary core technologies for the "AVCAN" low altitude remote sensing systems were developed for a variety of mapping and asset inspection applications, with the focus on the special requirements for dealing with electricity transmission networks. Following reorganization of the Company during the fiscal year ended January 31 2001, the Company has placed more emphasis on expanded abilities for post acquisition data processing and integration services, tailored to each customer's specific requirements, including special applications employing other remote sensing data which is employed when highly accurate location of features is required for engineering survey applications. The Company's data acquisition and processing services are focused on growing needs for cost effective asset management systems in the energy utilities markets.

#### **Discussion of Operations and Financial Condition**

The comparative quarter to April 30, 2001 was the period during which the assignment in bankruptcy was filed, on January 31, 2001 and annulled on April 26, 2001. The reader's attention is particularly drawn to this fact when reviewing the comparative Statement of Operations & Deficit and Statement of Cashflow which are provided in accordance with the CICA Handbook

Following the restructuring that occurred in the previous year the company resumed operations with commencement of work under purchase orders from Optimal Technology Ltd. to provide data collection and processing services for Eastern U.S. and European power utilities which amount to over \$1,000,000. The operating results for the first quarter ended April 30 2002 reflect the initial phases of those contracts. Sales of \$52,655 were recorded during the quarter ended April 30 2002, as compared to sales revenues of \$226,138 in the first quarter of the previous year. Cost of sales amounted to \$16,189 in the quarter resulting in a gross margin of \$36,466 compared to a gross margin of \$112,911 recorded in the comparable period of the previous year.

Administration and sales costs amounted to \$209, 578 during the quarter; in the comparable period in the prior year administration costs of \$194,813 were recorded. These costs included expenditures of \$46,994 on travel and marketing, reflecting reestablishment of sales activities following the reorganization. These expenses will continue to increase as the company re-establishes a sales and marketing team.

The net loss from operations during the first quarter was \$205,987, which, as noted above, reflects costs of entering the first phase of the new contracts with Optimal Software's customers, and does not represent the net profit margins, which are expected when the Company's services are completed under these contracts. A net loss of \$81,902 was incurred in the first quarter of the previous fiscal year.

The Company continued to increase staffing levels to enable execution of the contracts for services to Optimal's customers. Additionally, the company continues to draw on services from contract employees and professional firms to support delivery of services under the contracts in hand and pending, as well as to maintain product development and support marketing efforts.

#### **Liquidity and Solvency**

As at April 30 2002, there was a working capital surplus of \$9,902 not accounting for the shareholder's advances from Patonhill Investments Ltd. of \$574,094 which amount was treated as a current liability at

that date and which resulted in a deficit working capital of \$564,192. The advances from Patonhill are demand loans bearing an interest rate of 10% per annum, payable quarterly.

New financing is planned, to support the Company's global marketing plans. The board of directors has approved a financing of \$2,000,000 by way of convertible debentures with a three-year term and carrying annual interest of 10%. The debenture is convertible into common shares at a price of \$0.24 per share with the conversion price rising annually over the three term of the debenture.

The Company's long-term liquidity requirements remain dependent on several factors, including the rate the Company expands its business, whether internally or through acquisitions or strategic alliances. Such activities may not be fully supported by internally generated funds which would require the company to raise additionally financing from public or private sources. No assurance can be given that additional financing will be available or available on terms that would be satisfactory to the Company.

### **Subsequent Events**

On March 8, 2002, the Company announced that it has entered into a non-binding letter of intent dated March 7, 2002 to acquire all of the shares of Optimal Technology Limited ("Optimal").

Optimal is a profitable United Kingdom based firm with a worldwide client base. An ISO9001/TickIT Certified company, it's resources are dedicated to the design, development and marketing of advanced computer systems for use in overhead line engineering. The company has over 17 years of development experience and approximately 15 patents.

Optimal's engineering products offer a complete overhead power line design system used by utilities to address the entire design process, from survey, through plan and profile production, structure spotting to parts and materials and construction drawings. Optimal incorporates company-specific design standards and a smooth/logical methodology to integrate the overhead line design process with a company's CAD drafting system. In addition to the power line survey and design solutions that Optimal has developed and sold, Optimal has recently sought to leverage its position in the UK market by expanding delivery of engineering services to its customers. The process of privatization and consolidation in the UK regional electricity market in the past decade has given rise to demand for a wide range of outsourced service activity. Optimal's utility services division has recently been expanded and new staff recruited to deliver valued added contracted services to UK power industry.

The combined products and extensive asset management services offered through the Avcan/Optimal partnership address several of the market needs in the high growth sectors of the electrical utility industry, including asset inspection, asset management, mapping, management information applications, survey, expert engineering design solutions, and more.

Under the terms of the letter of intent, the Company would purchase all of the shares of Optimal for 1,050,000 (Cdn.\$2,383,500 using an exchange rate of \$2.27 to 1) by the issuance of approximately 9,931,250 shares at a deemed price of \$0.24 per share. The transaction is deemed to be a related party transaction. The Company has created a special committee of it Board who are independent directors to review and negotiate the final terms of the transaction. The transaction is subject to regulatory and shareholder approval and the execution of a definitive agreement.

On Behalf of Management and the Board of Directors

Kenneth R. Miller

Director