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<u>AUDITED FINANCIAL STATEMENTS</u>

Leininger & Leininger, Ltd. Certified Public Accountants

Independent Auditor's Report

To the Stockholders and Board of Directors of
SolarAttic, Inc., Elk River, Minnesota

We have audited the accompanying balance sheets of **SolarAttic, Inc. (A Development Stage Company)** as of December 31, 1995 and 1996, and the related statements of operations, stockholders' equity, and cash flows for the years then ended, and the period from August 11, 1986 (inception) to December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SolarAttic, Inc. as of December 31, 1995 and 1996, and the results of its operations and its cash flows for the above periods then ended, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 6 to the financial statements, the Company has been in the development stage since its inception on August 11, 1986 and has suffered recurring losses from operations. This raises substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

Plymouth, Minnesota
August 20, 1997

Leininger & Leininger, Ltd

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SOLARATTIC, INC. (A Development Stage Company)
BALANCE SHEETS

December 31,		1995		1996
ASSETS				
Current Assets				
Cash	$	22,758	$	29,698
Accounts receivable		-		430
Inventories		34,300		40,927
Prepaid expenses		-		3,025
Total current assets		57,058		74,080
Furniture and Equipment		32,804		45,873
Less accumulated depreciation		20,720		25,692
Net furniture and equipment		12,084		20,181
Other Assets				
Due from officer		33,502		43,206
Patent, net of amortization of $21,205 and $27,647		39,995		33,553
Customer list, net of amortization of $ - and $2,357		-		30,643
Total other assets		73,497		107,402
Total assets	$	142,639	$	201,663
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Accrued liabilities	$	3,393	$	409
Current maturities of note payable to officer		3,042		647
Total current liabilities		6,435		1,056
Note Payable to Officer, Net of Current Portion		23,979		89,353
Stockholders' Equity				
Common stock, no par value; authorized 100,000,000 shares; issued and outstanding 8,767,506 and 8,977,216 shares		466,911		544,353
Deficit accumulated during the development stage		(354,686)		(433,099)
Total stockholders' equity		112,225		111,254
Total liabilities and stockholders' equity	$	142,639	$	201,663

See Notes to Financial Statements.

SOLARATTIC, INC. (A Development Stage Company)
STATEMENTS OF OPERATIONS

	Years Ended December 31, 1995	Years Ended December 31, 1996	Period From August 11, 1986 (Inception) to December 31, 1996
Revenues	$ 49,934	$ 46,967	$ 240,235
Cost of Goods Sold	24,879	24,168	123,473
Gross profit	25,055	22,799	116,762
Operating Expenses	105,755	95,139	516,239
Operating loss	(80,700)	(72,340)	(399,477)
Interest Expense	6,934	6,073	33,622
Net loss	$ (87,634)	$ (78,413)	$ (433,099)
Net Loss Per Common Share	$ (.01)	$ (.01)	$ (.04)
Weighted Average Common Shares Outstanding	8,584,772	8,947,695	10,107,357

See Notes to Financial Statements.

SOLARATTIC, INC. (A Development Stage Company)
STATEMENTS OF STOCKHOLDERS' EQUITY

Period From August 11, 1986 (Inception), to December 31, 1996				
	Common Stock		Deficit Accumulated During the Development Stage	Total Stockholders' Equity
Inception	Shares	Amount		
Initial sale of stock 1986	10,000,000	$ 1	$ -	$ 1
Additional sale of stock 1986	50,000	5,000	-	5,000
Net loss 1986	-	-	(3,608)	(3,608)
Sale of stock 1987	249,000	44,600	-	44,600
Net loss 1987	-	-	(31,356)	(31,356)
Sale of stock 1988	180,000	36,000	-	36,000
Net loss 1988	-	-	(32,100)	(32,100)
Sale of stock 1989	80,000	16,000	-	16,000
Net loss 1989	-	-	(22,947)	(22,947)
Sale of stock 1990	32,500	6,500	-	6,500
Net loss 1990	-	-	(22,245)	(22,245)
Sale of stock 1991	73,674	14,735	-	14,735
Net loss 1991	-	-	(26,625)	(26,625)
Sale of stock 1992	40,000	9,000	-	9,000
Stock issued for patent 1992	204,000	61,200	-	61,200
Stock issued for services 1992	34,347	10,304	-	10,304
Net loss 1992	-	-	(24,902)	(24,902)
Sale of stock 1993	109,167	29,500	-	29,500
Stock issued for inventory 1993	93,334	28,000	-	28,000
Stock issued for services 1993	69,440	20,832	-	20,832
Net loss 1993	-	-	(37,991)	(37,991)
Sale of stock 1994	234,544	65,989	-	65,989
Cancellation of stock 1994	(3,000,000)	-	-	-
Net loss 1994	-	-	(65,278)	(65,278)
Balance, December 31, 1994	8,450,006	347,661	(267,052)	80,609
Sale of stock 1995	307,500	115,250	-	115,250
Stock issued for services 1995	10,000	4,000	-	4,000
Net loss 1995	-	-	(87,634)	(87,634)
Balance, December 31, 1995	8,767,506	466,911	(354,686)	112,225
Sale of stock 1996	112,210	38,442	-	38,442
Stock issued for services 1996	15,000	6,000	-	6,000
Stock issued for customer list 1996	82,500	33,000	-	33,000
Net loss 1996	-	-	(78,413)	(78,413)
Balance, December 31, 1996	8,977,216	$ 544,353	$ (433,099)	$ 111,254

See Notes to Financial Statements.

SOLARATTIC, INC. (A Development Stage Company)
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 1995	Years Ended December 31, 1996	Period From August 11, 1986 (Inception) to December 31, 1996
Cash Flows From Operating Activities			
Net loss	$ (87,634)	$ (78,413)	$ (433,099)
Adjustments to reconcile net loss to net cash flows from operating activities:			
Depreciation	1,804	4,972	30,115
Amortization	6,442	8,799	30,004
Issuance of common stock for services	4,000	6,000	41,136
(Increase) decrease in:			
Accounts receivable	-	(430)	(430)
Inventory	(3,267)	(6,627)	(12,927)
Prepaid expenses	-	(3,025)	(3,025)
Deferred financing costs	21,724	-	-
Increase (decrease) in:			
Accounts payable and accrued liabilities	(32,081)	(2,984)	409
Net cash flows from operating activities	(89,012)	(71,708)	(347,817)
Cash Flows From Investing Activities			
Increase in due from officers, net	(1,233)	(9,704)	(43,206)
Purchase of equipment	(9,308)	(13,069)	(50,630)
Proceeds from sale of equipment	-	-	334
Net cash flows from investing activities	(10,541)	(22,773)	(93,502)
Cash Flows From Financing Activities			
Proceeds from issuance of common stock	116,750	38,442	381,017
Proceeds from note payable to officer	-	65,430	101,060
Payments on note payable to officer	(2,772)	(2,451)	(11,060)
Net cash flows from financing activities	113,978	101,421	471,017
Net increase in cash and equivalents	14,425	6,940	29,698
Cash and Equivalents			
Beginning	8,333	22,758	-
Ending	$ 22,758	$ 29,698	$ 29,698

See Notes to Financial Statements.

SOLARATTIC, INC. (A Development Stage Company)
STATEMENTS OF CASH FLOWS (Continued)

	Years Ended December 31, 1995	Years Ended December 31, 1996	Period From August 11, 1986 (Inception) to December 31, 1996
Supplemental Disclosures of Cash Flow Information			
Cash payments for interest	$ 6,934	$ 6,073	$ 33,622
Supplemental Schedule of Noncash Investing and Financing Activities			
Issuance of common stock for services	$ 4,000	$ 6,000	$ 41,136
Issuance of common stock for patent	-	-	61,200
Issuance of common stock for customer list	-	33,000	33,000
Issuance of common stock for inventory	-	-	28,000

See Notes to Financial Statements.

Note 1. Nature of Business and Significant Accounting Principles

Nature of operations:

SolarAttic, Inc. (the Company), a Minnesota corporation formed on August 11, 1986, is a development stage company developing new solar and ventilation technology, along with limited manufacturing and sale of attic based solar heating or ventilation units. Sales are currently throughout the continental United States. However, markets for the Company's technology and products are international in nature.

Basis of financial statement presentation and accounting estimates:

The accompanying financial statements are presented in accordance with generally accepted accounting principles. In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could vary from those estimates.

Cash equivalent policy and cash flows:

For purposes of reporting cash flows, cash and equivalents is comprised of bank checking accounts.

Inventories:

Inventories are valued at the lower of cost (first-in, first-out method) or market. Inventory is comprised primarily of raw materials.

Furniture and equipment:

Furniture and equipment is recorded at cost, less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful life of three to seven years.

Patent:

The Company has capitalized costs related to acquiring a patent, which are being amortized using the straight-line method over 9.5 years.

Customer List:

The Company has capitalized costs related to acquiring a customer list which are being amortized using the straight-line method over 7 years.

Research and Development:

Research and development costs are charged to operations as incurred and totaled $5,266 and $7,817 for 1995 and 1996, respectively.

Stock based compensation:

In 1995, the Financial Accounting Standards Board issued SFAS No. 123, *Accounting for Stock-Based Compensation*. As permitted by this Standard, the Company will continue to measure compensation cost using the intrinsic value-based method of accounting prescribed by the Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*.

Income taxes:

The Company has adopted FASB Statement No. 109, *Accounting for Income Taxes*, which requires an asset and liability approach to financial accounting and reporting for income taxes. Under the asset and liability method, deferred tax assets are recognized for deductible temporary differences and operating loss or tax credit carry forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes. Deferred tax assets are reduced by a valuation allowance when management determines that it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Net loss per common share:

Net loss per common share is computed based on the weighted average number of common shares outstanding during the period, without considering the dilutive effect of options or warrants.

Note 2. Related Party Transactions

Note payable to officer at December 31, 1995 and 1996, consists of the following:

	1995	1996
Unsecured note payable, due in monthly installments of $642, including interest at 18%. The note was paid in full during 1996.	$ 27,021	
Unsecured note payable, maturing January 1, 2027, monthly installments of $708 including interest at 8.75%. The rate adjusts every six months, based on the 6 month deposit rate plus 6%.		$ 90,000
Less current maturities	3,042	647
	$ 23,979	$ 89,353

Future maturities are as follows:

1997	$ 647
1998	706
1999	770
2000	840
2001	917
Thereafter	86,120
	$ 90,000

Note 2. Related Party Transactions (Con't)

Interest expense for related parties was $5,060 in 1995 and $4,939 in 1996.

Amounts due from officers are unsecured, non interest bearing and mature December 31, 1999.

The Company is renting office and warehouse facilities from an officer of the Company on a month-to-month basis. In addition, the Company pays certain real estate taxes and repairs. Total occupancy related expense was $2,718 in 1995 and $10,432 in 1996.

Note 3. Stockholders' Equity

Stock option plan:

The Company has reserved 1,000,000 shares of common stock for issuance under an incentive stock option plan established in 1986. Under the plan, options are granted at prices determined by the Board of Directors. It is the Company's policy to not grant any options at a price less than the current market or sales price. No options have been granted as of December 31, 1996. The incentive stock option plan matures in 2001.

Stock options:

Certain stockholders are able to purchase additional stock with stock options from options granted which are considered associated with compensation issues under reporting requirements. At December 31, 1996, there were 850,000 options outstanding and exercisable. Of this total, 200,000 options are exercisable at 20¢ per share expiring December 31, 1998, 250,000 options are exercisable at 30¢ per share expiring December 31, 1998, and 400,000 shares are exercisable at 40¢ per share expiring December 31, 2000. These options were granted outside of the stock option plan. During 1996, options to purchase 400,000 shares were granted at an exercise price of 40¢ per share. No options were granted in 1995. No option shares expired, were canceled or exercised in 1995 and 1996.

Stock warrants:

Certain stockholders are able to purchase additional stock with stock warrants attached to common stock issued. At December 31, 1996, there were 815,993 warrants outstanding and exercisable. Of this total, 775,993 warrants are exercisable at 20¢ per share expiring December 31, 1998. The remaining 40,000 warrants are exercisable at 30¢ per share expiring December 31, 1998. No warrants were granted in 1995 and 1996. 38,750 Shares were exercised in 1995 at 20¢ per share, and 32,210 shares were exercised in 1996 at 20¢ per share.

Common shares issued as consideration:

Common shares have been issued periodically for patents, inventory, consulting services and customer lists. The amount assigned to each transaction is based upon contractual agreements.

Note 3. Stockholders' Equity (Con't)

Stock based compensation:

The Company applies APB Opinion No. 25 in accounting for its stock incentive plans. Accordingly, no compensation cost has been recognized for options granted. There are no charges or credits to expense with respect to the granting or exercise of options since the options were issued with exercise prices at or exceeding fair market value on their respective dates of grant. However, using an option pricing model to determine the fair value of the options and considering the expected option life, anticipation of no dividends, and the risk-free interest rate, determining compensation cost for stock-based compensation plans consistent with SFAS 123 would not have had a material impact on reported net income of the Company.

Note 4. Income Taxes

The Company recorded no provision for income tax expense for the periods ended December 31, 1995 and 1996.

Deferred tax assets and liabilities were comprised of the following at December 31,

		1995		1996
Deferred tax asset - net operating losses	$	140,000	$	172,000
Less valuation allowance		140,000		172,000
Net deferred tax assets		-		-
Deferred tax liabilities		-		-
Total deferred income taxes	$	-	$	-

A valuation allowance has been established for the deferred tax asset because management determined it is more likely than not that the deferred tax asset will not be realized. The Company's valuation allowance increased $32,000 from December 31, 1995 to December 31, 1996, due to net operating losses incurred during 1996. At December 31, 1996, for income tax purposes, the Company had federal and state net operating loss carry forwards of approximately $433,000 available that expire through the year 2011.

Note 5. Commitments and Contingencies

Insurance:

Until April of 1997, the Company was self-insured for all business risks and did not have any stop loss insurance. Effective April 22, 1997, the company is carrying general liability, fire and theft insurance. Management stated the Company has not experienced any losses and is not aware of any potential losses.

Note 5. Commitments and Contingencies (Con't)

Warranty:

The materials assembled by the Company generally carry warranties provided by the manufacturers against product failure. In addition, the Company provides a warranty of its assembled product workmanship. Management has determined that no warranty reserve was necessary as of December 31, 1995 and 1996.

Note 6. Ability to Continue as a Going Concern

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Company as a going concern. However, the Company has been in the development stage since its inception on August 11, 1986 and has suffered recurring losses from operations. While the Company has maintained operations with new capital in the past, additional financing will be necessary for the Company to pursue its growth strategies. Ultimately, the Company will need to attain future profitable operations. It is uncertain whether the Company will be able to achieve these objectives. Management believes that actions presently being taken to raise capital and attain profitable operations provide the opportunity for the Company to continue as a going concern.