International Technologies Corporation

(ITI – TSX Venture)

Jeff Howlett
tel: (604) 885-0883
e-mail: info@howlett-research.com
website: www.howlett-research.com

Jeff Howlett is a financial analyst who for over the past 10 years has provided research services to companies lacking adequate coverage. Mr. Howlett was previously affiliated with a major Canadian investment firm specializing in Mergers & Acquisitions and has received a B.Sc. in Economics from the Wharton School of the University of Pennsylvania..

Successful distributor of advanced electronics products. Company continues to grow sales at 50+% year over year. Now becoming increasingly profitable.

The Business

ITC's product line is centered around computer display monitors, including both CRT technology and, increasingly, state-of-the-art flat panel displays. The company also distributes other computer and electronic products. Manufacturing relationships are with well-established companies, in particular *Hansol Korea*. Since incorporation in 1998, ITC has successfully penetrated some of Canada's most notable retailers and resellers – products are now in place at well over 100 stores in Canada.

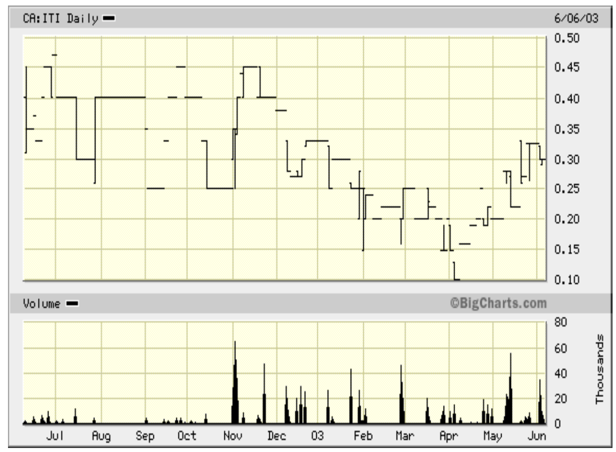
The company's core strategy is to successfully distribute a manufacturers' products directly to retailers more effectively and more efficiently than the manufacturer can do on its own. ITC has successfully executed this strategy and enjoys strong relationships.

Financial

Performance to Date. From start up in 1998, sales have grown roughly 50% per year to $22.5 million in 2002, which continues into 2003. The Company follows a highly disciplined approach and its cost structure appears relatively predictable. Our forecast for 2003 is for ***sales of over $30 million*** and ***EPS of roughly $0.066*** (see p. 3 - note - reported earnings are expected to be higher due to loss carryforwards).

2003 and Beyond. As the company continues to expand its product line (i.e. plasma TV's, new MP3 players, etc.) through 2003+, we expect strong growth to continue.

Value Indications. Our research indicates that a ***multiple of roughly 12 – 15 times*** seems warranted for ITC (see p. 4). We believe that should ITC reach a much greater critical mass with similar growth prospects its multiple could well be much greater.



Share Data ($Cdn):

Recent Price:	$0.30
52-week Price Range:	$0.10 - $0.50
Shares Outstanding (1/09/03):	9.20 million
Fully Diluted Shares (1):	10.54 million

(1) Incl.414,000 warrants @ $035 & 928,000 options @ $0.25.

Capitalization ($Cdn):

Market Capitalization:	$2.76 million
Total Debt (12/31/02):	nil

Corporate Information:

President:	Michael Uhm
CFO:	Fred Baldwiin
Investor Relations:	Lindsay Malcolm
Phone:	**1-866-222-3469**
Website:	www.itcco.com
e-mail:	lmalcolm@itcco.com

WE LIKE ITC FOR SEVERAL REASONS:

- Management's absolute commitment to profitable growth.
- It's strong strategic partners in Asia.
- Favorable market niche.
- Proven success with penetrating the Canadian marketplace.

We feel comfortable with our 2003 forecast in view of ITC's past financial performance and Management's careful attention to detail. We also believe that going forward there is plenty of room for additional growth as new products are introduced into its established dealer network, and should ITC enter the Ontario marketplace in a profitable fashion.

Our research indicates that ITC is undervalued at current stock price levels.

As ITC continues to reach a very meaningful size, we see the potential for the company to become an interesting takeover candidate.

THE COMPANY

ITC began operations as Hansol Canada in June 1998. A subsidiary of Hansol USA, the company was essentially the distributor of advanced electronics products for Hansol Korea, the parent of Hansol USA. Present senior management of ITC were appointed its initial officers and directors, later purchasing the company in August 1999. This was concurrent with Hansol Canada entering into a dealership agreement with *Hansol Korea*. This agreement has resulted in a highly successful relationship which continues to be in effect. In September, 2000, ITC acquired *VDS*, a private computer products distribution company based in Montreal, and in January, 2001, acquired *Intertek*, a private computer products distribution company based in a Dallas suburb. In June, 2002, the company began trading as a publicly listed company and has continued to successfully implement its strategy since that time.

BUSINESS STRATEGY

The fundamental strategy of the company has been to leverage its favorable vendor relationship with Hansol Korea to capture increasing market share and spread its cost structure over a larger revenue base. ITC has been successful with this strategy by simply focusing to date on computer display devices and other computer peripherals – over 90% of sales in 2002 were for monitors. We expect that the favorable market dynamics for monitors, particularly for flat panel display devices will continue to be strong. Management has been rather successful in getting placement for its products, and is now in well over 100 stores, including some of Canada's largest electronic retailers (i.e. *Future Shop* & *A&B Sound*, others).

> ITC focuses on well positioned, well-researched, larger ticket product lines having ongoing favorable market dynamics.
>
> ***Relationships with manufacturers are predicated on ITC having the ability to more effectively market and service their products in Canada than they could themselves***. Management has proven that ITC can accomplish this profitably – the *DirectLink* business model.

Going forward, we believe there are several keys to understanding ITC's approach:

- **Diversify the product line** with additional items that are sufficiently differentiated from others and fit with ITC's approach. We understand from speaking with Management that a customer-centric approach is taken and new products are taken on only after having completed an extensive due diligence process. It is only after ITC is completely comfortable with a product that it is taken to its vendors, retailers, and resellers. The company does not deal with small ticket items and seeks to maintain a degree of exclusivity with suppliers to avoid deterioration in margins.
- **Maintain the disciplined approach with its cost structure**. In all cases, Management is aware that misadventures are very costly and is careful to avoid growing revenues in ways that could potentially harm profitability. We would not, for example, expect a major new marketing initiative (i.e. adding hundreds of thousands of dollars in new marketing expenses in Ontario) that would in any way take ITC back to break even or worse. Management is intent on profitable growth.
- **Maintain existing product lines.** in particular we believe that the experience with Hansol Korea has been highly positive for both parties. As noted below, with a margin of only about 10%, Hansol Korea (and other manufacturers) obtain highly cost effective access to major distribution in Canada. We don't believe that there are any substantial negative issues with respect to its vendor relationships and sales from existing manufacturers can be maintained and increased.

THE CASE FOR CONTINUED GROWTH

We can see growth coming from several areas:

- New product lines, including MP3 players with materially improved capabilities, and new, lower cost plasma TV's could add to results by Q4, 2003.
- There is the possibility for growth in the Ontario market through acquisition(s).
- Management recently completed a trip to China and Korea and there may be potential for additional products to be sourced there down the road.
- With the Best Buy acquisition of Future Shop, there is the potential to add these 12 stores to Future Shop's 100+. In addition, Best Buy is expected to significantly expand its presence by 60+ stores in Canada over the next 5 years.

FINANCIAL PERFORMANCE & EXPECTATIONS

Micro cap companies are typically very difficult to assess in terms of past financial performance and future expectations. In the case of ITC, we believe that the company has been able, over a relatively short period of time, to establish itself as a reliable, successful company in terms of penetrating the market, growing sales, and actually executing its business strategy. We note the following:

- From start up in 1998, the Company has followed a fairly rapid ramp up in sales, from roughly $5 - $10 million annualized in 1999 to $13 - $14 million in 2000. As most readers will recall, 2001 was a down year for tech sales / computer related equipment, but returned to somewhat "normal" levels in 2002. ***This equates to just under a 50% revenue annual growth rate***. We also note that for Q1, 2003, this growth continues, reaching $6.7 million and ***growing nearly 60%*** from $4.2 million a year earlier. For the year 2003, we believe that barring major unforeseen events it is reasonable to expect similar increases.
- Cost of sales has *declined* slightly over time as sales of the slightly higher margin LCD computer display continues to ramp up. Given the nature of the company's product line and future focus, we may well see this continue.
- Other costs, such as advertising and promotion, appear to be relatively predictable and are managed rather carefully by the company.
- One time costs experienced in 2001 (goodwill writeoffs, going public costs) are non-recurring.
- Salaries and wages, certainly over the short term, are relatively fixed.

Accordingly, we feel comfortable with estimating earnings for 2003 as follows:

International Technologies Corporation
Financial Statement Analysis

Actual Reported Results	9 months 9/00 – 5/01	7 months 6/01 – 12/01	Recalc'd 12 mos /01	12 months 12/2002	3 months 3/2003
Revenue	**10,529,000**	**7,626,000**	**14,700,000**	**22,510,964**	**6,700,000**
- Cost of Sales	9,538,000	6,985,000	13,500,000	20,052,804	5,953,000
Gross Profit	**991,000**	**641,000**	**1,200,000**	**2,458,160**	**747,000**
- Advertising & Promotion	91,000	147,000		443,167	
- Amortization	50,000	38,000		11,794	
- Goodwill Write down		219,000			
- Interest & Finance	123,000	38,000		98,769	
- Office & General	288,000	367,000		464,366	137,000
- Salaries, Wages, & Benefits	528,000	482,000	826,000	1,154,122	
Earnings Before Income Tax	**-89,000**	**-650,000**		**285,942**	**196,000**
Earnings Per Share	**($0.02)**	**($0.11)**		**$0.03**	**$0.02**

Annualized Data	12 Month Estimates / Actuals For Periods Ending		12/2001	12/2002	2003 E		Add $1 million In Annual Sales
Revenue			**14,700,000**	**22,510,964**	**33,766,446**	Maintain 50% growth for yr	**1,000,000**
- Cost of Sales			13,500,000	20,052,804	30,220,969	Maintain margins.	890,000
Gross Profit			**1,200,000**	**2,458,160**	**3,545,477**		**110,000**
- Advertising & Promotion			200,000	443,167	675,329	Maintain @ 2% level.	20,000
- Amortization			65,000	11,794	11,794		0
- Goodwill Write down			219,000	0	0		0
- Interest & Finance			65,000	98,769	100,000	Up slightly w/ incr. Inv.	2,962
- Office & General			550,000	464,366	548,000	Maintain @ Q1 / 03 levels.	16,229
- Salaries, Wages, & Benefits			826,000	1,154,122	1,200,000	Maintain @ 2002 level.	0
Earnings Before Income Tax			**-725,000**	**285,942**	**1,010,354**		**70,809**
- Provision for Income Taxes (loss c/f will reduce actual charge)				113,233	400,100		28,041
Net Income ("Normalized")				**172,709**	**610,254**		**42,769**
Earnings Per Share – "Normalized"				**$0.02**	**$0.066**		**$0.005**
Value @ 12 x PE --->				**$0.23**	**$0.80**		**$0.06**
Value @ 15 x PE --->				**$0.28**	**$1.00**		**$0.07**
Key Ratios					11.15%	<-- Q1	
Gross Margin	9.41%	8.41%	8.16%	10.92%	10.50%		11.00%
Advertising & Promo / Sales	0.86%	1.93%		1.97%	2.00%		2.00%

Reported earnings in 2003 are expected to be significantly higher due to tax loss carryforwards.

VALUATION ISSUES

PE Level Expectations

We would tend to impute a PE ratio of roughly 12 – 15 times earnings to ITC, bearing in mind the following issues:

- Publicly traded comparable EMJ Canada (EMJ – TSX) appears to trade at slightly over 10 times our "normalized" earnings (i.e. after adjusting for tax charges). While EMJ has a much more diversified product line and a very lengthy history of consistent profitability, sales appear to be leveling off.
- In general, major companies involved in the sector (i.e. Dell, Intel, Best Buy, Circuit City, etc.) now have multiples ranging from 20 to over 40 x.
- As a profitable company experiencing continuing rapid growth, a premium multiple could be expected to be attributed to ITC.
- That being said, micro cap stocks are typically given a meaningful haircut on their valuation from what a major company would expect.

Given these, we feel that an appropriate PE level that investors could expect would range in the ***12 – 15 x level***.

CONCLUSIONS

We like the ITC in view of several factors:

➊ Management's absolute commitment to profitable growth.

➋ It's strong strategic partners in Asia.

➌ Favorable market niche.

➍ Proven success with penetrating the Canadian marketplace.

Given our expectations of roughly $0.066 per share in earnings for this year, and using reasonable multiples, we see ITC as significantly undervalued at this time. (note that reported earnings are expected to be higher due to loss carryforwards).

We believe that should Management be successful at maintaining profitability and growing sales at anything close to forecast levels, shareholders could be well rewarded through the balance of 2003 and beyond.