ATI AIRTEST TECHNOLOGIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

DALE MATHESON
CARR-HILTON LABONTE LLP
DMCL CHARTERED ACCOUNTANTS

Partnership of:

Vancouver: Robert J. Burkart, Inc. James F. Carr-Hilton Ltd. Kenneth P. Chong Inc. Alvin F. Dale Ltd. Barry S. Hartley, Inc. Reginald J. LaBonte Ltd. Robert J. Matheson, Inc. Rakesh I. Patel Inc.
South Surrey: Michael K. Braun Inc. Peter J. Donaldson, Inc.
Port Coquitlam: Wilfred A. Jacobson Inc. Fraser G. Ross, Ltd. Brian A. Shaw Inc.

AUDITORS' REPORT

To the Shareholders of ATI Airtest Technologies Inc.

We have audited the consolidated balance sheets of ATI Airtest Technologies Inc. as at December 31, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the years then ended. 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 Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial positions of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

DMCL

Vancouver, B.C.
April 17, 2008

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

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ATI AIRTEST TECHNOLOGIES INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2007	December 31, 2006
ASSETS		
CURRENT ASSETS		
Cash	$ 44,755	$ -
Accounts receivable (Note 7(a))	246,280	163,087
Inventory (Note 5)	119,136	57,366
Prepaid expenses	9,872	6,167
	420,043	226,620
Equipment (Note 6)	10,504	14,198
	$ 430,547	$ 240,818
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
CURRENT LIABILITIES		
Bank Indebtedness	$ -	$ 3,889
Accounts payable and accrued liabilities	835,045	1,657,126
Customer deposits	13,850	27,904
Loans (Notes 7(a),(d))	261,572	2,077,375
Convertible debt (Note 7(c))	74,014	537,444
Due to related parties (Note 12)	242,663	958,065
	1,427,144	5,261,803
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 8)	6,690,294	4,236,807
Subscription received (Note 8)	130,000	-
Subscriptions receivable (Note 8)	(180,800)	
Contributed surplus (Note 8)	656,280	563,426
Deficit	(8,292,371)	(9,821,218)
	(996,597)	(5,020,985)
	$ 430,547	$ 240,818

Future operations (Note 2)
Commitments and contingencies (Notes 7(a) and 13)
Subsequent events (Note 15)

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

APPROVED ON BEHALF OF THE BOARD

signed: "George Graham" **Director**

signed: "Ken Danderfer" **Director**

ATI AIRTEST TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
REVENUES		
Product sales	$ 1,044,187	$ 1,014,826
COST OF GOODS SOLD:	573,131	575,056
GROSS PROFIT	471,056	439,770
EXPENSES		
Amortization	3,694	4,598
Automotive	6,437	4,790
Bad debts	19,768	3,642
Bank charges and factoring fees	107,379	87,136
Foreign exchange (gain) loss	(79,100)	35,036
Freight	19,647	18,515
Interest on loans and convertible debt	6,592	288,684
Office and general	36,038	27,963
Professional and management fees	107,039	42,031
Regulatory fees	45,323	10,858
Rent and property tax	58,244	52,370
Research and development (Note 9)	78,720	83,954
Salaries and benefits	232,904	262,777
Sales, marketing and promotion	325,424	319,165
Stock-based compensation – management salaries (Note 8)	92,854	-
Write-down of inventory	-	4,239
	(1,060,963)	(1,245,758)
LOSS BEFORE OTHER ITEM	(589,907)	(805,988)
OTHER ITEM		
Gain on debt conversion ((Note 8(b)iii))	2,118,754	-
NET INCOME (LOSS) FOR THE YEAR	1,528,847	(805,988)
Deficit, beginning of year	(9,821,218)	(9,015,230)
Deficit, end of year	$ (8,292,371)	$ (9,821,218)
Basic and diluted loss per share before other item	$ (0.02)	$ (0.06)
Basic and diluted earning (loss) per share for the year	$ 0.04	$ (0.06)
Weighted average number of common shares outstanding	37,835,360	12,761,493

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

ATI AIRTEST TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
CASH PROVIDED BY (USED IN):		
Operations:		
Net income (loss) for the year	$ 1,528,847	$ (805,988)
Items not involving cash:		
Accrued interest	23,986	236,352
Amortization	3,694	4,598
Stock-based compensation	92,854	-
Write-down of inventory	-	4,239
Foreign exchange loss	9,360	-
Gain on debt conversion	(2,118,754)	-
Shares issued for bonus	-	50,000
Changes in non-cash working capital items:		
Accounts receivable	(83,193)	45,808
Customer deposits	(14,054)	6,076
Inventory	(61,770)	18,530
Prepaid expenses	(3,705)	4,598
Accounts payable and accrued liabilities	(328,845)	385,415
Net cash used in operating activities	(951,580)	(50,372)
Financing:		
Share issuance, net	860,185	-
Subscriptions received	130,000	-
Convertible debt repayment	(32,518)	-
Loan proceeds	95,000	-
Repayment of advances	(52,443)	-
Net cash from financing activities	1,000,224	-
Increase (decrease) in cash	48,644	(50,372)
Cash (deficiency), beginning of year	(3,889)	46,483
Cash (deficiency), end of year	$ 44,755	$ (3,889)

Supplementary cash flow information (Note 10)

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

1. Business activities:

ATI Airtest Technologies Inc. (the "Company") was incorporated in British Columbia on March 13, 1996. The primary business activity is the manufacture and sale of air testing equipment and related services in Canada and the United States.

The Company's shares are traded on the TSX Venture Exchange ("TSX-V"). The Company's trading status as a public issuer was halted by the BC Securities Commission ("BCSC")on May 9, 2006 and by the Alberta Securities Commission ("ASC") on September 13, 2006 as a result of late filing of financial records. The Company made application to both commissions to have their Cease Trade Orders revoked, and completed all filings in accordance with regulatory policy. The BCSC revoked the Cease Trade Order on March 7, 2007 and the ASC revoked the Cease Trade Order on March 9, 2007.

2. Future operations:

These financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. They do not include adjustments, if any, that may be required to either the realization of assets or the settlement of liabilities should the Company be unable to continue as a going concern. The Company has experienced significant operating losses (excluding debt settlement gains) since its inception and has a working capital deficiency at December 31, 2007 of $1,007,101 (2006 - $5,035,183). The Company has financed its operations through equity, shareholder loans and through asset-based factoring. The Company has restructured and converted significant amounts of debt to equity over the past year. Although this has improved the debt position, the Company continues to sustain operating losses. Future operations are dependent upon the Company's ability to obtain additional financing, continued support of existing creditors and lenders, continued financial support from related parties, and attaining profitable operations. The ultimate realization of amounts reported for assets and liabilities is dependent upon market acceptance of the Company's products and services and generation of future profitable operations.

Management believes the Company has the ability to sustain future operations and meet financial requirements through additional debt restructuring, equity financing, sales growth, support of related parties, and bridge financing. There is no certainty that the Company will be able to raise sufficient funding or increase sales to levels necessary to achieve profitable operations. If the Company is unable to achieve profitable operations and continue extended payment arrangements with creditors and related parties over the ensuing year, the going concern assumption may not be sustained. It is reasonable to assume that if the going concern assumption cannot be sustained that material adjustments to the carrying value of assets and liabilities may be required.

3. Changes in accounting policies:

On January 1, 2007, the Company adopted the following new accounting standards related to accounting changes, financial instruments, comprehensive income and hedges that were issued by the Canadian Institute of Chartered Accountants ("CICA"). These changes in accounting policies have been adopted on a prospective basis. At January 1, 2007, management determined there were no fair value adjustments required to the Company's financial instruments and no adjustments have been recorded to the opening deficit as a result of adopting these policies.

Section 1506, *Accounting Changes*

This Section establishes criteria for changes in accounting policies, accounting treatment and disclosure regarding changes in accounting policies, estimates and corrections of errors. In particular, this Section allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information. Furthermore, this Section requires disclosure of when an entity has not applied a new source of generally accepted accounting principles ("GAAP") that has been issued but is not yet effective. Such disclosures are provided below. The adoption of this Section had no other effects on the financial statements for the year ended December 31, 2007

3. Changes in accounting policies:

Section 3855, *Financial Instruments – Recognition and Measurement, and*
Section 3861, Financials Instruments - Presentation and Disclosure

These Sections establish standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives and the related disclosures thereof. All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, available for sale, held to maturity, loans and receivables, or other liabilities.

Financial assets and liabilities classified as held for trading are required to be measured at fair value, with gains and losses recognized in net earnings.

Financial assets classified as held to maturity, loans and receivables and other financial liabilities (other than those held for trading) are required to be measured at amortized cost using the effective interest method of amortization.

Available for sale financial assets are required to be measured at fair value, with unrealized gains and losses recognized in other comprehensive income. Investments in equity instruments classified as available for sale that do not have a quoted marked price in an active market should be measured at cost.

The Company classified its financial instruments as follows:

- Cash and cash equivalents are classified as held for trading.
- Accounts receivable are classified as loans and receivables.
- Accounts payable, loans, convertible debt, customer deposits, amounts due to related parties, accrued liabilities, and notes payable have been classified as other financial liabilities. Unless otherwise noted, management estimates the face value of these amounts to representative of the fair value, due to the short term to maturity.

Section 1530, *Comprehensive Income*

This Section establishes standards for reporting and presenting of comprehensive income which is defined as the change in equity from transaction and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net earnings. The Company currently does not have any Comprehensive Income items to disclose, and therefore this standard has no impact on the financial statements. For the year ended December 31, 2007 net income equals comprehensive income.

Section 3865, *Hedges*

This Section establishes standards for how hedge accounting may be applied. The Company currently does not have any hedges in place, and therefore this standard has no impact on the financial statements.

3. Changes in accounting policies:

Recent accounting pronouncements issued by the CICA, which have not yet been adopted by the Company:

Section 1400, *General Standards of Financial Statement Presentation*

In June 2007, the CICA amended this Section to include additional requirements to assess an entity's ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern. The mandatory effective date is for annual and interim financial statements for years beginning on or after January 1, 2008. This new requirement will be adopted by the Company effective January 1, 2008. The adoption of this Section may have an impact on future financial statement disclosures.

Section 1535, *Capital Disclosures*

In December 2006, the CICA issued this Section which specifies the disclosure of information that enables users of an entity's financial statements to evaluate its objectives, policies and processes for managing capital such as qualitative information about its objectives, policies and processes for managing capital, summary quantitative data about what the entity manages as capital, whether it has complied with any capital requirements and, if it has not complied, the consequences on non-compliance. The mandatory effective date is for annual and interim financial statements for years beginning on or after October 1, 2007. This new requirement must be adopted by the Company effective January 1, 2008.

Section 3862, *Financial Instruments Disclosures and* Section 3863, *Financial Instruments Presentation*

These sections will replace Section 3861, *Financial Instruments Disclosure and Presentation*, revising and enhancing disclosure requirements while carrying forward its presentation requirements. These new Sections will place increased emphasis on disclosure about the nature and extent of risk arising from financial instruments and how the entity manages those risks. The mandatory effective date is for annual and interim financial statements for years beginning on or after October 1, 2007. The Company will begin application of these sections effective January 1, 2008. It is not anticipated that the adoption of these new accounting standards will materially impact the amounts reported in the Company's financial statements as they related primarily to disclosure.

Section 3031, *Inventories*

In June 2007, the CICA issued this Section which prescribes the accounting treatment for inventories. In particular, this Section provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. The mandatory effective date is for annual and interim financial statements for years beginning on or after October 1, 2007. This new requirement will be adopted by the Company effective January 1, 2008 adoption of this section is not expected to have a significant impact on the Company's inventory carrying values and cost of sales.

Transition to International Financial Reporting Standards

In 2006, Canada's Accounting Standards Board (AcSB) ratified a strategic plan that will result in the convergence of Canadian GAAP, as used by public companies, with International Financial Reporting Standards over a transitional period. The AcSB has developed and published a detailed implementation plan, with a changeover date for fiscal years beginning on or after January 1, 2011. This initiative is in its early stages as of the date on these annual financial statements. Accordingly, management has not assessed the impact of the initiative on the Company's financial reporting at this time.

4. Significant accounting policies:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of ATI Airtest Technologies Inc. and its wholly owned subsidiaries Airwave Environmental Technologies Inc. ("Airwave") and Airtest Technologies Corp. Inter-company transactions and balances have been eliminated upon consolidation.

(b) Inventories:

All inventories are recorded at the lower of cost and net realizable value.

Raw materials inventory is stated at cost. Finished goods inventory is stated at estimated net realizable value. Work in progress includes the cost of raw materials and labour.

(c) Equipment:

Equipment is stated at cost. Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Computer hardware	declining-balance	20%
Office furniture and fixtures	declining-balance	20%
Assembly equipment	declining-balance	30%
Testing equipment	declining-balance	30%

(d) Revenue recognition:

Product sales revenue is recognized when evidence of a contractual arrangement exists and the risks of ownership pass to the customer. This is normally when products are shipped providing collection is reasonably assured.

Service revenue is recognized when the service has been completed to the customer's specification pending collection is reasonably assured.

(e) Research and development:

Research and development costs are expensed as incurred unless development costs meet the criteria for capitalization defined by the CICA handbook section 3450.

(f) Stock-based compensation:

The Company follows the recommendations of the CICA Handbook Section 3870, for stock-based compensation and other stock based payments. The standard requires that all stock based awards made to employees and non-employees be measured and recognized using a fair value based method. The amount of compensation is measured at the date of the grant or substantive change in terms and is charged over the vesting period. The Company has an incentive stock option plan that is described in Note 8(c).

4. Significant accounting policies (continued):

(g) Non-monetary transactions

All non-monetary transactions are measured at the fair value of the asset surrendered or the asset or services received, whichever is more reliable, unless the transaction lacks commercial substance. The commercial substance requirement is met when the future cash flows from the transaction are expected to change significantly as a result of the transaction.

(h) Related party transactions

All monetary transactions occurring with related parties in the normal course of operations are measured at the exchange value which is determined by management to approximate fair value. Non-monetary transactions in the normal course of operations that have commercial substance and do not involve the exchange of property or product held for sale are also measured at the fair value. All other related party transactions are measured at carrying value.

(i) Measurement uncertainty and use of estimates

The preparation of these financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses for the reporting period. Significant areas requiring the use of management estimates relate to the valuation of inventory, recoverable values and useful lives for equipment, fair values of stock based transactions, tax rates used to determine future inventory, and the impact of any uncertainty relating to future operations. Actual results could differ from these estimates.

(j) Risk management

Currency risk

The Company is potentially exposed to currency risk as a portion of its assets and liabilities are held in foreign currencies. The Company does not use hedges or derivative instruments to reduce its exposure to currency risk.

Liquidity risk

The Company is not holding significant long-term assets; however inventory may be subject to liquidity risk.

Credit risk

The Company is potentially exposed to moderate credit risk due to concentration of the majority of its accounts receivable with a small number of customers. As at December 31, 2007, four customers represent approximately 39% (2006 – 63%) of accounts receivable. Management performs a periodic assessment of the credit worthiness of customers to reduce exposure to credit risk.

(k) Earnings (loss) per share:

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding during the period.

The Company follows the CICA Handbook Section 3500 standards for calculating diluted earnings (loss) per share. The standard requires the use of the treasury stock method for computing diluted earnings per share. The treasury stock method assumes that any proceeds obtained upon exercise of options and warrants would be used to purchase common shares at the average market price during the year.

As the average market price per share during the year was less than the exercise price of all options, warrants, and conversion features, the effect of the application of the accounting treatment would be anti-dilutive. Accordingly, no dilution adjustment has been presented.

4. Significant accounting policies (continued):

(l) Future income tax:

Future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that the enactment or substantive enactment occurs. A valuation allowance is recognized against any potential future income tax assets if it is more likely than not that the assets will not be realized.

(m) Asset retirement obligations

The Company follows CICA Handbook Section 3110, relating to the recognition and disclosure of liabilities for long lived asset retirement obligations and associated asset retirement costs. Management has reviewed the anticipated obligations and retirement costs of long-lived assets for known obligations under contract, common practice, or laws and regulations in effect or anticipated. Management is not aware of any significant asset retirement obligations.

(n) Comparative figures:

Certain of the 2006 comparative figures have been reclassified to conform with the presentation adopted in the current year.

(o) Foreign currency translation

The functional currency of the Company is the Canadian dollar. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollar equivalents at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the exchange rates in effect at the transaction date. Revenues and expenses are translated at rates approximating exchange rates in effect at the time of the transactions. Exchange gains or losses arising on translation are included in operations for the year.

(p) Long-lived assets and impairment

The carrying values of long-lived assets with fixed or determinable lives are reviewed for impairment whenever events or changes in circumstances indicate recoverable values may be less than carrying amounts. Recoverable value determinations are based on management's estimates of undiscounted and discounted future net cash flows expected to be recovered from specific assets or groups of assets through use or future disposition. Impairment charges are recorded in the period in which determination of impairment is made by management.

Assets with indefinite or indeterminable lives are not amortized and are reviewed for impairment on a reporting period basis using fair value determinations based on management's estimate of recoverable value.

5. Inventory:

Inventory at year-end consists of the following:

	2007	2006
Finished goods	$ 31,956	$ 18,809
Work-in-progress	-	2,418
Raw materials	87,180	36,139
	$ 119,136	$ 57,366

6. Equipment:

2007	Cost	Accumulated amortization	Net book value
Computer hardware	$ 65,007	$ 61,237	$ 3,770
Office furniture and fixtures	24,239	21,622	2,617
Testing equipment	17,967	13,939	4,028
Assembly equipment	5,087	4,998	89
	$ 112,300	$ 101,796	$ 10,504

2006	Cost	Accumulated amortization	Net book value
Computer hardware	$ 65,007	$ 59,896	$ 5,111
Office furniture and fixtures	24,239	21,018	3,221
Testing equipment	17,967	12,212	5,755
Assembly equipment	5,087	4,976	111
	$ 112,300	$ 98,102	$ 14,198

7. Bank Indebtedness, loan, convertible debt, and advances:

(a) Factoring Loan:

During July 2004, the Company entered into a lending arrangement whereby the Company may borrow up to 77% of its accounts receivables that are less than 90 days overdue. The specified trade receivables are pledged as security for the arrangement, with full recourse against the Company for any amounts longer than 90 days overdue. The loans bear interest at 1.5% per month for the first 60 days outstanding, 3.5% per month for the period outstanding greater than 61 days and up to 90 days, and 5% per month for the period outstanding greater then 90 days. There is a 3% processing charge for all accounts receivable factored. At December 31, 2007 the outstanding balance including principal and interest was $160,015 (2006 – $145,336).

(b) Line of Credit:

The Company had a line of credit available through a shareholder totaling $500,000 (2006 - $500,000), which was repayable on demand and interest bearing at the bank prime rate plus 1%. As at December 31, 2007, the outstanding balance of the loan including interest is $nil (2006 - $575,920). This note was converted to shares at $0.10 per share as part of a debt settlement agreement. **(Note 8)**

7. Bank Indebtedness, loan, convertible debt, and advances (continued):

(c) Convertible debt:

From June 2004 to January 2005, the Company issued convertible debt instruments for total proceeds of $414,600. The debt instruments are unsecured and bear interest at 0.75% (2006 – 1.5%) per month. Each of the instruments mature nine months following the date of issue and are repayable on demand. At December 31, 2007, the outstanding balance of the demand notes including principal and interest was $74,014 (2006 – $537,444).

The debt holders have the right to convert all or a portion of the outstanding principal balance to common shares at a rate of $0.10 per common share. The majority of the debt holders converted debt to shares during the current year. **(Note 8)**

Application of the provisions of the CICA accounting recommendation 3861 “Financial Instruments” to the above convertible loan debt instrument resulted in an immaterial equity component being attributed to the instrument. Accordingly, the entire instrument has been classified as debt.

(d) Loans, advances and promissory notes:

During 2004, the Company received two advances totaling US$75,000 from an unrelated party. The advances bear interest at the bank prime rate plus one percent, are unsecured, and repayable on demand. At December 31, 2007, the outstanding balance including principal and interest was $ nil (2006 –CDN $104,475). The loan was converted to shares at $0.10 per share as part of the debt settlement agreement during the current year.

During 2007, the Company received four advances totaling CDN$95,000 from an unrelated party. The advances bear interest at a rate of 10% per annum, are unsecured and are repayable on demand. At December 31, 2007, the outstanding balance including principal and interest was $101,592 (2006 - $978,544). The prior year balance was converted during the current year to shares at $0.10 per share as part of a debt settlement agreement. **(Note 8)**

(e) Bonuses and incentives

During 2006, the Company issued 500,000 shares at $0.10 per share as a bonus for receiving a short term loan of $250,000. The loan bears interest at 15% per annum, is unsecured, and is payable on demand. At December 31, 2007, the outstanding balance of principal and interest was $ nil (2006 – $273,100). This loan was converted to shares at $0.10 per share as part of the debt settlement agreement during the current year. The total amount converted was $279,688, including interest of $6,588. **(Note 8)**

8. Share capital:

(a) Authorized:

100,000,000 common shares without par value

(b) Issued and outstanding:

	Number of shares	Amount
Balance, December 31, 2005	12,428,160	$ 4,186,807
Shares issued to secure a short-term loan (note 7(e))	500,000	50,000
Balance, December 31, 2006	12,928,160	4,236,807
Shares issued in private placement (i)	17,264,000	863,200
Shares issued in private placement (ii)	5,080,000	254,000
Share issue costs for private placements	-	(76,216)
Shares issued in debt conversion (iii)	35,312,565	1,412,503
Balance, December 31, 2007	70,584,725	$ 6,690,294

i) On June 25, 2007, the Company completed a private placement of 17,264,000 share units at $0.05 per unit for total proceeds of $863,200. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to buy one additional common share of the Company at a price of $0.10 per share for a period of 12 months from June 25, 2007. The Company paid $63,016 in finder's fees in relation to this private placement. The fair value of the warrant included in the unit was determined to be $0.01.

ii) On December 21, 2007, the Company completed the first tranche of a private placement and issued 5,080,000 share units at $0.05 per unit for total proceeds of $254,000. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to buy one additional common share of the Company at a price of $0.10 per share for a period of 12 months from December 21, 2007. The Company paid $13,200 in finder's fees in relation to this private placement. The fair value of the warrant included in the unit was determined to be $0.01.

iii) During the current year, the Company issued 35,312,565 shares in settlement, by way of conversion, of outstanding debts totalling $3,531,257. The settlement was made at $0.10 per share which is the minimum share for debt conversion price allowed by regulatory policy. The settlement included trade payables, line of credit, convertible notes, advances, and amounts due to related parties (Notes 7 and 12). The terms of the conversion were negotiated and accepted by the various credit holders at a time when the Company's shares were determined to have a fair value of $0.04 per share. Management has estimated the $0.04 per share fair value as the most reliable measure of the fair value of the related obligations at the time of settlement. Consequently, a gain on debt conversion of $2,118,754 was recorded in the statement of operations, being the difference between the $0.10 conversion rate and the $0.04 fair value multiplied by the number of shares issued.

Debt converted:

Trade payables	$ 493,232
Convertible notes	430,912
Loans and advances	1,944,153
Due to related parties	662,960
	$3,531,257

8. Share capital (continued):

(c) Stock options:

The Company's Board of Directors may, from time to time, grant stock options, subject to regulatory terms and approval, to employees, officers, directors and consultants. The exercise price of each option can be set at no less than the closing market price of the common shares on the TSX Venture Exchange on the date of grant. Options terminate 30 days following the termination of the optionee's employment. Vesting and the option terms are set at the discretion of the Board of Directors at the time the options are granted. The following summarizes the changes in the Company's stock options for the year:

(c) Stock options (continued):

	December 31, 2007		December 31, 2006	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	460,750	$ 0.18	815,500	$ 0.21
Grant	1,290,000	0.10	-	-
Expired	(239,750)	0.21	(354,750)	0.24
Outstanding, end of year	1,511,000	$ 0.11	460,750	$ 0.18

As at December 31, 2007, all options are exercisable by the holders. The following table summarizes information about share options outstanding at December 31, 2007:

Number of outstanding Stock options	Exercise price	Weighted average life to expiry
1,405,000	$ 0.10	4.3 years
106,000	0.24	1.7 years
1,511,000		4.1 years

(d) Warrants

	December 31, 2007		December 31, 2006	
	Warrants	Weighted average exercise price	Warrants	Weighted average exercise price
Outstanding, beginning of year	-	$ -	-	$ -
Issued	22,344,000	0.10	-	-
Expired	-	-	-	-
Outstanding, end of year	22,344,000	$ 0.10	-	$ -

(e) Contributed surplus:

	2007	2006
Balance, beginning of year	$ 563,426	$ 563,426
Stock-based compensation	92,854	-
Balance, end of year	$ 656,280	$ 563,426

8. Share capital (continued):

(e) Contributed surplus (continued):

On July 2, 2007, the Company granted 1,290,000 stock options to consultants, employees, and directors. The options were determined by management to have a fair value of $92,854 ($0.07 per option). Fair value was determined using the Black-Scholes option pricing model with the current assumptions: volatility 147%, expected life 5 years, dividend rate 0%, and risk-free rate 4.63%.

9. Research and development:

Research and development costs have been charged to operations and consist of the following:

	2007	2006
Labour	$ 60,409	$ 74,932
Product development/certification	17,774	8,390
Other	537	632
	$ 78,720	$ 83,954

The Company's research and development work in 2007 included modifications to existing products plus the development of one new product. The Company is developing the ability for more of its transmitters to communicate using lon-based communications. The Company also continues to research the ability of its transmitters to communicate using wireless technology.

10. Supplementary cash flow information:

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(a) Non-cash transactions

2007:

During the year ended December 31, 2007, the Company issued 35,312,565 shares pursuant to debt conversion agreements (Note 8).

2006:

During the year ended December 31, 2006, the Company issued 500,000 shares at $0.10 per share as a bonus for receiving a short term loan of $250,000.

(b) Supplemental information:

	2007	2006
Interest paid in cash during year	$ 78,091	$ 102,752
Income taxes paid during year	-	-

11. Income Taxes

Income tax recovery attributable to net loss before income tax recovery differs from the amounts computed by applying the combined Canadian federal and provincial income tax rate of 34.1% (2006 – 34.1%) to income before income taxes as follows:

		2007		2006
Net Income (loss) for the year	$	1,528,847	$	(805,988)
Expected income tax expense (recovery) at 34.1%	$	521,337	$	(274,842)
Tax effect on:				
Non deductible items		39,842		60,131
Share issue costs		(5,198)		(18,835)
Capital gains inclusion differential		(361,248)		-
Previously unrecognized losses and benefits		(194,733)		-
Unrecognized benefit of loss carry forwards		-		233,546
Income tax expense (recovery)	$	-	$	-

As at December 31, 2007, significant components of the Company's potential future tax assets are as follows:

		2007		2006
Potential future tax assets at 31.5% (2006 - 34.1%)				
Losses carried forward	$	2,029,170	$	2,760,123
Financing fees		19,206		1,785
Equipment tax basis		44,749		47,183
Total potential future tax assets		2,093,125		2,809,091
Valuation allowance 100% (2006 – 100%)		(2,093,125)		(2,809,091)
	$	-	$	-

The Company has cumulative income tax loss carry forwards at December 31, 2007 of approximately $6,441,000, which are potentially available to offset future taxable income. These losses expire at various dates up to 2026. As the Company has not established sufficient likelihood of future operating profitability to utilize available losses, a valuation allowance of 100% (2006 – 100%) has been recorded against the potential future tax assets.

12. Related party transactions:

The Company entered into the following transactions with related parties:

(a) In a prior year, the Company issued a promissory note to a company controlled by a director totaling $500,000 (Note 7 (b)) with interest at the bank prime rate and payable quarterly. In 2007, interest of $nil (2006 - $42,097) has been accrued and reflected in the statement of operations. At December 31, 2007 the outstanding balance of the note including principal and interest, was $nil (2006 – $575,583). The difference of $542,957 was converted to shares at $0.10 per share during the year.

(b) During the year, the Company paid or accrued salaries to directors and officers of $188,200 (2006 - $172,000).

(c) At December 31, 2007, $242,663 (2006 - $382,482) is payable to directors and officers for accrued services and advances.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties as fair value.

Debt obligations totaling $662,960 were converted to shares ((Note 8 (b) iii)).

Amounts becoming due to related parties in the normal course of operations, except where specifically stated, are non-interest bearing, unsecured, and without terms of repayment.

13. Commitments:

The Company is committed under a lease for office premises to July 31, 2008. Annual anticipated lease payments are as follows:

2008	$ 27,534

14. Segmented information:

The Company operates in one reportable operating segment being the manufacture and sale of gas detection equipment and related services. Substantially all of the Company's assets are located in Canada. The Company sells its products primarily in Canada and the United States. Geographic information with respect to sales, based on the location of the customer, is as follows:

	2007	2006
U.S.A.	$ 797,996	$ 835,612
Canada	158,669	124,455
Other	87,522	54,759
	$ 1,044,187	$ 1,014,826

15. Subsequent events:

i. On February 14, 2008, a creditor settled $6,162.50 in debt pursuant to the issuance by the Company of 61,625 shares.

ii. On April 4, 2008, the Company closed the second tranche of a private placement issuing 9,520,000 share units at $0.05 per unit for proceeds totaling $476,000. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to buy one additional common share of the Company at a price of $0.10 per share for a period of 12 months from December 21, 2007. The Company paid $13,200 in finder's fees in relation to this private placement.