ATI AIRTEST TECHNOLOGIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

INDEPENDENT AUDITORS' REPORT

To the Shareholders of ATI Airtest Technologies Inc.:

We have audited the accompanying consolidated financial statements of ATI Airtest Technologies Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence that we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ATI Airtest Technologies Inc. and its subsidiaries as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company incurred a net loss of $1,234,502 during the year ended December 31, 2010, and as of that date, the Company has a working capital deficiency of $2,154,324 and has accumulated a deficit of $11,622,858. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
April 28, 2011

ATI AIRTEST TECHNOLOGIES INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS		
Cash	$ 52,316	$ -
Accounts receivable (Note 6)	351,647	237,414
Inventory (Note 3)	407,005	234,408
Prepaid expenses	10,626	10,571
	821,594	482,393
Equipment (Note 4)	17,364	22,546
Intangible assets (Note 5)	60,000	60,000
	$ 898,958	$ 564,939
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
CURRENT LIABILITIES		
Bank indebtedness	$ -	$ 15,065
Accounts payable and accrued liabilities	1,439,899	1,164,227
Customer deposits	12,960	12,960
Loans (Note 6)	1,279,176	256,927
Convertible debt (Note 6)	74,014	74,014
Due to related parties (Note 11)	169,869	163,004
	2,975,918	1,686,197
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 7)	8,266,195	7,987,395
Subscriptions receivable	(22,000)	(22,000)
Contributed surplus (Note 7)	1,301,703	1,301,703
Deficit	(11,622,858)	(10,388,356)
	(2,076,960)	(1,121,258)
	$ 898,958	$ 564,939

Going concern (Note 1)
Commitments and contingencies (Notes 6, 8 and 12)

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

APPROVED ON BEHALF OF THE BOARD

signed: *"George Graham"* **Director**

signed: *"Darrel Taylor"* **Director**

ATI AIRTEST TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
REVENUES		
Product and service sales	$ 2,544,086	$ 1,661,016
COST OF GOODS AND SERVICE SALES	1,455,020	890,941
GROSS PROFIT	1,089,066	770,075
EXPENSES		
Amortization	5,182	6,929
Automotive	15,939	15,393
Bad debts	258	7,533
Bank charges and factoring fees	350,205	171,762
Foreign exchange gain - realized	(15,034)	(67,405)
Freight	33,266	26,357
Office and general	55,866	42,752
Professional and management fees	196,581	154,661
Regulatory fees	22,381	34,818
Rent and property tax	49,963	50,943
Research and development (Note 8)	836,375	145,492
Salaries and benefits	326,443	285,337
Sales, marketing and promotion	446,143	516,615
Stock-based compensation (Note 7)	-	645,423
Travel	-	6,605
	(2,323,568)	(2,043,215)
LOSS BEFORE OTHER ITEM	(1,234,502)	(1,273,140)
OTHER ITEM		
Recovery on payables settlement	-	38,777
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(1,234,502)	(1,234,363)
Deficit, beginning of year	(10,388,356)	(9,153,993)
Deficit, end of year	$ (11,622,858)	$ (10,388,356)
Basic and diluted loss per share	$ (0.01)	$ (0.01)
Weighted average number of common shares outstanding – basic & diluted	103,697,675	92,060,844

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, 2010 AND 2009

	2010	2009
CASH PROVIDED BY (USED IN):		
Operating Activities:		
Net loss for the year	$ (1,234,502)	$ (1,234,363)
Items not involving cash:		
Amortization	5,182	6,929
Stock-based compensation	-	645,423
Changes in non-cash working capital items:		
Accounts receivable	(114,233)	5,646
Customer deposits – foreign exchange adjustment	-	1,966
Inventory	(172,597)	(33,366)
Interest payable	92,376	-
Prepaid expenses	(55)	1,067
Accounts payable and accrued liabilities	281,572	69,760
Net cash used in operating activities	(1,142,257)	(536,938)
Investing Activities		
Purchase of technology rights	-	(60,000)
Net cash used in investing activities	-	(60,000)
Financing Activities:		
Proceeds from share issuance	278,800	704,101
Loan proceeds	923,976	(56,549)
Advances from related parties	6,865	(54,419)
Net cash from financing activities	1,209,638	593,133
Increase (decrease) in cash	67,381	(3,805)
Cash (deficiency), beginning of year	(15,065)	(11,260)
Cash (deficiency), end of year	$ 52,316	$ (15,065)

Supplementary cash flow information (Note 9)

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

(in Canadian dollars, except where noted)

1. Business activities and basis of presentation:

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").

These consolidated financial statements are presented under Canadian Generally Accepted Accounting Principles ("GAAP") 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 for 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 since its inception and has a working capital deficiency at December 31, 2010 of $2,154,327 and has accumulated a deficit of $11,622,858 to date. The Company has financed its operations through equity, related party advances and deposits and through trade receivable factoring. 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 ultimately attaining profitable operations. The realization and settlement of amounts reported for assets is dependent upon market acceptance of the Company's products and services and generation of future profitable operations.

Management believes that the Company can meet financial requirements through equity financing, sales growth, support of related parties, and bridge financing for at least the ensuing 12 month period. There is no certainty that the Company will be able to acquire sufficient financing or increase sales to levels necessary to achieve profitability. If the Company is unable to achieve profitable operations and is unable to settle payment of liabilities with creditors and related parties, the going concern assumption may not be sustainable. 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.

The Company's functional and reporting currency is the Canadian dollar.

2. Significant accounting policies:

(a) Consolidation:

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

(b) Inventories:

All inventories are stated at the lower of weighted average cost and net realizable value.

(in Canadian dollars, except where noted)

2. Significant accounting policies (continued):

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

Asset	Basis	Rate
Computer hardware	declining-balance	30%
Office furniture and fixtures	declining-balance	20%
Assembly equipment	declining-balance	20%
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, provided collection is reasonably assured.

Service revenue is recognized when the service has been completed to the customer's specification and 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 Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064 – Goodwill and Intangible Assets.

(f) Stock-based compensation:

The Company follows CICA Handbook Section 3870 – Stock-based Compensation and Other Stock-based Payments. All stock based awards made to employees and non-employees are measured and recognized using fair value methods. The fair value of stock options is measured at the date of the grant or substantive change in terms and is charged to income over the vesting period. The Company uses the Black-Scholes option pricing model to estimate fair value.

The Company has an incentive stock option plan that is described in Note 7.

(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

Monetary transactions occurring with related parties in the normal course of operations are measured at the exchange amount. 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 measured at fair value. All other related party transactions are measured at carrying value.

(in Canadian dollars, except where noted)

2. Significant accounting policies (continued):

(i) Measurement uncertainty and use of estimates:

The preparation of financial statements in conformity with 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 estimates include the allowance for doubtful accounts, provision for obsolete inventory, amortization of equipment, valuation of stock based transactions, intangible asset allocations, future income taxes, allocations of costs to inventories and research and development, and certain assumptions required in the assessment of the Company as a going concern. Actual results could differ from these estimates and assumptions.

(j) Loss per share:

Basic loss per share is calculated using the weighted average number of shares outstanding during the year.

The Company follows CICA Handbook Section 3500for calculating diluted loss per share. The section requires the use of the treasury stock method, which 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.

The effect of the application of the accounting treatment on all outstanding options, warrants and conversion rights would be anti-dilutive. Accordingly, no dilution adjustment has been presented and basic loss per share is equal to diluted loss per share for both periods presented.

(k) 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 where realization does not meet the more likely than not criteria.

(l) Foreign currency translation:

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 average rates during the period or at the time of the transactions. Exchange gains or losses arising on translation are included in operations for the year.

(in Canadian dollars, except where noted)

2. Significant accounting policies (continued):

(m) 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 future cash flows from use or sale.

(n) Financial Instruments:

The Company follows CICA Handbook Section 3855, Financial Instruments. The Section prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. Under the guidance, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are measured at the balance sheet date at fair value except for loans and receivables, held-to-maturity investments, and other financial liabilities which are measured at amortized cost.

The Company's financial instruments consist of cash (bank indebtedness), accounts receivable, loans, convertible debt, accounts payable and amounts due to related parties. Cash (bank indebtedness) is measured at its face value, representing fair value. Accounts receivable, accounts payables loans, convertible debt and amounts due to related parties are recorded at amortized cost. The fair value of all of the Company's financial instruments approximates their carrying value due to their short-term maturity.

Section 3862, "Financial Instruments – Disclosures," requires disclosures about fair market value measurements for financial instruments and liquidity risk disclosures. There is a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to unadjusted quoted prices at the measurement date for identical assets and liabilities in active markets. Assets and liabilities in Level 2 include valuations using observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. Level 3 valuations are based on significant management and unobservable inputs which are not supported by market activity.

(in Canadian dollars, except where noted)

2. Significant accounting policies (continued):

The Company has classified its financial instruments as follows:

Accounts	**Classification**	**Fair Value Input**
Cash (bank indebtedness)	Held for trading	Level 1
Accounts receivables	Loans and receivables	Level 3
Accounts Payables, Customer Deposits, Loans, amounts payable to related parties and Convertible Debt	Other financial liabilities	Level 3

(o) Comprehensive income (loss):

The Company follows CICA Handbook Section 1530, Comprehensive Income. Comprehensive income (loss) is defined as the change in equity from transactions and other events from non-owner sources. Section 1530 establishes standards for reporting and presenting certain gains and losses not normally included in net income or loss, such as unrealized gains and losses related to available for sale securities and gains and losses resulting from the translation of self-sustaining foreign operations, in a statement of comprehensive income. For all periods presented, the Company has no items that are required to be reported in comprehensive income (loss). Accordingly, net loss and comprehensive loss are equal.

(p) Intangible assets:

The Company's intangible asset consists of an exclusive technology license. The technology license has an indefinite life and is not subject to amortization. The technology license is subject to an annual impairment review. If management determines that such costs exceed estimated net recoverable value based on future cash flows, the excess of such costs are charged to operations in the period of determination.

(r) Recent accounting pronouncements, not yet adopted:

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company continues to monitor, and assess, the impact of the conversion of Canadian GAAP to IFRS. The company plans to use certain conversion elections for first time adoption where appropriate, applying carrying value of assets and liabilities as deemed cost. Any other initial adoption differences for the

(in Canadian dollars, except where noted)

2. Significant accounting policies (continued):

(r) Recent accounting pronouncements, not yet adopted (continued):

opening balance sheet will be presented in the first quarterly opening balances sheet of 2011with comparative figures for the prior year.

In January 2009, the CICA issued Handbook Sections 1582, Business Combinations, ("Section 1582"), 1601, Consolidated Financial Statements, ("Section 1601") and 1602, Non-controlling Interests, ("Section 1602") which replaces CICA Handbook Sections 1581, Business Combinations, and 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Adoption of the section is not expected to have significant impact on the Company's financial reporting.

3. Inventory:

Inventory at year-end consists of the following:

	2010	2009
Finished goods	$160,006	$ 116,106
Work in progress	26,008	-
Raw materials and component parts	220,991	118,302
	$ 407,005	$ 234,408

(in Canadian dollars, except where noted)

4. Equipment:

2010	Cost	Accumulated amortization	Net book value
Computer hardware	$ 73,255	$ 68,107	$ 5,148
Office furniture and fixtures	39,765	29,383	10,382
Testing equipment	17,967	16,585	1,382
Assembly equipment	5,793	5,341	452
	$ 136,780	$ 119,416	$ 17,364

2009	Cost	Accumulated amortization	Net book value
Computer hardware	$ 73,255	$ 66,175	$ 7,080
Office furniture and fixtures	39,765	26,838	12,927
Testing equipment	17,967	15,993	1,974
Assembly equipment	5,793	5,228	565
	$ 136,780	$ 114,234	$ 22,546

5. Intangible Assets:

Balances as December 31, 2010 and 2009	Cost	Accumulated amortization	Net book value
Technology rights	$ 60,000	$ -	$ 60,000

During the year ended December 31, 2009, the Company capitalized $60,000 paid for exclusivity rights to use a patented technology for the purposes of the Company's business. The amount capitalized is the cost assigned to the rights which will be used in a new product development project directly related to the Company's strategic product offerings. See Note 8.

(in Canadian dollars, except where noted)

6. Factoring loans, convertible debt, loan and advances:

(a) Factoring Loan:

During July 2004, the Company entered into a lending arrangement whereby the Company may borrow up to 80% of its accounts receivables that are less than 90 days overdue. In addition, the Company may request loans or advances against purchase orders received from customers. The specified trade receivables are pledged as security for the arrangement, with full recourse against the Company for any amounts outstanding 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 and advances received. At December 31, 2010 the amount due to the lender was $522,349 (2009 – $198,099). The amount due to the lender at December 31, 2010, includes current purchase orders for orders in progress.

(b) Convertible debt:

From June 2004 to January 2005, the Company issued convertible debt instruments. The remaining debt instruments are unsecured and bear no interest. Each of the instruments have matured and are now repayable on demand. At December 31, 2010, the outstanding balance of the demand notes was $74,014 (2009 – $74,014).

(c) Loans and advances:

During 2007, the Company received four loan advances totaling $95,000 from an unrelated party. The loan advances bear interest at a rate of 10% per annum, are unsecured and are repayable on demand. The loan was partially repaid over the year. At December 31, 2010, the outstanding balance including principal and interest was $29,828 (2009 - $33,828).

During 2010, the Company entered into four loan agreements with unrelated parties and received advances of $65,000, $125,000, $26,000, and $25,000, respectively. These loans are non-interest bearing, unsecured, and repayable on demand. At December 31, 2010, the total outstanding balance is $241,000 (2009 - $nil).

During 2010, the Company entered into three loan agreements with unrelated parties and received loan advances of $100,000, $200,000, and $100,000 respectively. These loans are unsecured, and repayable on demand. During 2010, interest charges associated with these loans amounted to $110,500 with $61,000 remaining unpaid at the year1end. At December 31, 2010, the total outstanding balance is $461,000 (2009 - $nil).

During 2008, the Company entered into an agreement with an arm's length air testing company for certain product development work. Under the memorandum of understanding, the third party paid the Company $25,000 with the condition that the specified product be developed by February 1, 2009. The Company was unable to develop the product; and; as a result, the amounts received must be repaid upon mutually agreeable terms. At December 31, 2010 and to the audit report date, the total outstanding balance was $25,000 (2009 - $25,000) and mutually agreeable terms for settlement have not been finalized.

(in Canadian dollars, except where noted)

7. Share capital:

(a) Authorized:

Unlimited common shares without par value

(b) Issued and outstanding:

	Number of shares	Amount
Balance, December 31, 2008	82,004,725	$ 7,261,295
Shares issued in private placements, (i and ii)	21,308,335	726,100
Balance, December 31, 2009	103,313,060	7,987,395
Shares issued in private placement, (iii)	5,600,000	278,800
Balance, December 31, 2010	108,913,060	$ 8,266,195

i) On April 30, 2009, the Company completed a private placement of 12,950,000 share units at $0.02 per unit for total net proceeds of $253,640. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at a price of $0.10 per share for a period of 12 months from April 30, 2009. The fair value of the warrant included in the unit was estimated to be $0.01 using the Black-Scholes option pricing model with volatility of 166%, dividend yield of 0%, expected life of 1 year and a risk free rate of 2.25%.

ii) On November 4, 2009, the Company completed a private placement of 8,358,335 share units at $0.06 per unit for total proceeds of $472,460. Each unit consists of one common share and one half of one share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at a price of $0.10 per share for a period of 12 months from November 4, 2009. The fair value of each whole warrant was estimated to be $0.01 using the Black-Scholes option pricing model with volatility of 179%, dividend yield of 0%,, expected life of 1 year and a risk free rate of 2.25%.

iii) On December 6, 2010, the Company completed a private placement of 5,600,000 share units at $0.05 per unit for total net proceeds of $278,800. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at a price of $0.10 per share for a period of 24 months from December 6, 2010. The fair value of the warrant included in the unit was estimated to be $0.01 using the Black-Scholes option pricing model with volatility of 113%, dividend yield of 0%, expected life of 2 years and a risk free rate of 1.16%.

(in Canadian dollars, except where noted)

7. 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-V on the date of grant. Options terminate 30 days following the termination of 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 activity in the Company's stock options for the year:

	December 31, 2010		December 31, 2009	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	9,426,500	$ 0.10	1,281,250	$ 0.11
Granted	-	-	8,300,000	0.10
Expired	(26,500)	0.10	(154,750)	0.14
Outstanding, end of year	9,400,000	$ 0.10	9,426,500	$ 0.10

As at December 31, 2010, all options are exercisable by the holders. The following table summarizes information about the options outstanding at December 31, 2010:

Number of outstanding Stock options	Exercise price	Expiration Date
1,100,000	$ 0.10	July 2012
8,300,000	0.10	June 2014
9,400,000	$ 0.10	

(in Canadian dollars, except where noted)

7. Share capital (continued):

(d) Warrants

The following table summarizes information about warrants for the year:

	December 31, 2010		December 31, 2009	
	Warrants	Weighted average exercise price	Warrants	Weighted average exercise price
Outstanding, beginning of year	26,649,167	$ 0.10	16,600,000	$ 0.10
Issued	5,600,000	0.10	17,129,167	0.10
Expired	(26,649,167)	0.10	(7,080,000)	0.10
Outstanding, end of year	5,600,000	$ 0.10	26,649,167	$ 0.10

The following table summarizes information about share warrants outstanding at December 31, 2010:

Number of outstanding warrants	Exercise price	Weighted average life to expiry
5,600,000	$0.10	1.9 years

(e) Contributed surplus:

	2010	2009
Balance, beginning of year	$ 1,301,703	$ 656,280
Stock-based compensation	-	645,423
Balance, end of year	$ 1,301,703	$ 1,301,703

On June 29, 2009, the Company granted 8,300,000 fully vested 5 year stock options to consultants, employees, and directors. The options were determined by management to have a fair value of $645,423 ($0.08 per option) using the Black-Scholes option pricing model with the following assumptions: volatility of 197%, expected life of 5 years, dividend rate of 0%, and risk-free discount rate of 2.25%.

(in Canadian dollars, except where noted)

8. Research and development:

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

		2010	2009
Product development/certification	$	132,468	$ 45,492
Proprietary licensing - license funding		703,907	100,000
	$	836,375	$ 145,492

The Company's research and development work in 2010 included modifications to existing products, two new products and funding for research and development of products using the exclusive licensed technology (note 5).

By agreement dated October 1, 2009 the Company was granted the exclusive right, for the limited use of patented technologies, for its products and business lines. The agreement provides for payments of USD $50,000 per month for the use of the technology and for funding research and development activities of the Patent holder for further research and development of applications of the technology for the Company's product lines.

Pursuant to the agreement the Company must pay a minimum of USD $50,000 per month for a period of two years from October 1, 2009 to September 30, 2011. Thereafter, the Company must pay a royalty on any products sold of 5% subject to certain minimums to maintain the technology rights. Management has allocated the initial payment of USD $50,000, plus $10,000 in related legal costs, to the technology rights and the balance of payments to research and development until such time as a determination can be made of the feasibility and market potential for the applications developed.

Once the products are ready for sale, the Company will be required by the Licensing Agreement to use it's best efforts to reach the following milestones in USD revenue of the Royalty-Bearing Products; i) 2011 - $2,500,000; ii) 2012- $10,000,000; iii) 2013 - $25,000,000; iv) 2014 - $50,000,000; and v) 2015 and each year beyond 2015 - $100,000,000. If the Company fails to meet any of the revenue milestones, and does not make a payment to the Patent holder equal to 5% of the revenue shortfall within sixty days of receipt of written notice, the licensing agreement may be terminated.

9. Supplementary cash flow information:

(a) Non-cash transactions

There were no were no significant non-cash transactions during the years ended December 31, 2010 and 2009.

(in Canadian dollars, except where noted)

9. Supplementary cash flow information (continued):

(b) Supplemental information:

	2010	2009
Interest paid in cash during year	$ 49,500	$ 50,666
Income taxes paid during year	-	-

10. 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 29.5% (2009 – 30.5%) to income before income taxes as follows:

		2010		2009
Net loss for the year	$	(1,234,502)	$	(1,234,363)
Statutory tax rate		29.5%		30.5%
Expected income tax recovery at substantively enacted rates	$	(364,178)	$	(376,481)
Tax effect on:				
Permanent differences and other		131,612		188,220
Expiring losses		481,839		-
Impact of tax rate changes		(37,273)		101,261
Change in valuation allowance		(212,000)		87,000
Income tax expense (recovery)	$	-	$	-

As at December 31, 2010, significant components of the Company's potential future tax assets are as follows:

		2010		2009
Potential future tax assets at 25% (2009-25%)				
Losses carried forward	$	1,155,000	$	1,368,000
Equipment		28,000		27,000
Total potential future tax assets		1,183,000		1,395,000
Valuation allowance 100% (2009 – 100%)		(1,183,000)		(1,395,000)
	$	-	$	-

(in Canadian dollars, except where noted)

10. Income Taxes (continued):

The Company has cumulative income tax loss carry forwards at December 31, 2010 of approximately $4,500,000, which are potentially available to offset future taxable income. These losses expire at various dates up to 2030. As the Company has not established sufficient likelihood of future operating profitability to utilize available losses, a valuation allowance of 100% (2009 – 100%) has been recorded against the potential future tax assets.

11. Related party transactions:

The Company entered into the following transactions with related parties:

(a) During the current year, the Company paid or accrued salaries to directors and officers of $227,425 (2009 - $200,900). 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.

(b) At December 31, 2010, $169,869 (2009 - $163,004) is payable to directors and officers for accrued services and advances.

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

12. Commitments and Contingencies:

(a) Commitments:

The Company is committed under a lease for office and production premises to July 31, 2013. Annual anticipated lease payments are as follows:

2011	$ 44,082
2012	45,114
2013	26,316

The Company’s research and technology license commitments are outlined in Note 8.

(b) Contingencies:

The Company has approximately $65,000 in aged trade payables where there has been no contact by the counterpart for enforcement of payment over the past several years. Management does not expect that many of theses amounts will be paid. However, the ultimate settlement amount, including the possibility of interest accruals relating to the aged trade payables and convertible notes (Note 6) is uncertain. No interest has been accrued on these aged balances in the financial statements.

(in Canadian dollars, except where noted)

13. 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:

	2010	2009
U.S.A.	$ 1,834,097	$ 1,098,429
Canada	649,700	510,175
Other	60,289	52,412
	$ 2,544,086	$ 1,661,016

14. Financial Instruments:

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, interest rate, liquidity and funding risk.

Currency risk

The Company is potentially exposed to foreign currency risk as a portion of its assets and liabilities are held in foreign currencies. At December 31, 2010, the Company's significant foreign denominated liabilities consist of US $938,837 and Euro €137,757 (2009- US $551,448 and Euro €43,164). Should the Canadian dollar to US dollar exchange rate appreciate or depreciate by 10%, the anticipated impact on operations would be a gain or loss of $93,884, respectively. The Company does not use hedges or derivative instruments to reduce its exposure to currency risk.

Liquidity and funding risk

The Company's approach to managing liquidity risk is to attempt to ensure that the Company will have sufficient available resources to meet liabilities as they are due. Due to current economic conditions in capital and selling markets, the Company has a high risk associated with liquidity. The Company does not hold complex financial instruments or significant long-term assets. The Company uses a factoring agent to provide immediate liquidity from its accounts receivable and certain purchase orders.

Funding risk is the risk that the Company may not be able to raise equity or alternative financing in a timely manner and on terms acceptable to management. There are no assurances that such financing will be available when, and if, the Company requires additional equity financing. Under economic conditions for the Company funding risk is considered high.

(in Canadian dollars, except where noted)

14. Financial Instruments (continued):

Credit risk

The Company is 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, 2010, four customers represent approximately 67% (2009 – 32%) of accounts receivable. Management performs a periodic assessment of the credit worthiness of customers to reduce exposure to credit risk. The Company regularly factors accounts receivable and pledges qualifying receivables to the lender. (Note 6(a))

15. Capital Management:

The Company's principal sources of capital are cash from operations and from the issuance of debt and equity securities.

The Company manages its cash, accounts receivable and loans in conjunction with budgeted or expected capital needs. The Company's objective when managing capital is to maintain sufficient liquidity to continue to meet ongoing expenditure and operational needs.

The Company manages the capital structure and makes adjustments to capital management strategies based on economic conditions and as risk characteristics of its capital change. To maintain or adjust the capital structure, the Company may consider the issuance of shares, factoring additional receivables, debt issues or other management policies.

The Company is not subject to externally imposed capital requirements. Management plans additional capital equity funding in 2011 to assist with current working capital needs.

Additional funding will be needed to continue the research and development commitments (Notes 6 and 8). Management expects to be able to raise this capital through equity, loans and assignments of interests in the technology in the 2011 fiscal year.

16. Subsequent Events

Subsequent to the year end, the Company has announced two proposed private placements. The first is a private placement for up to 24,000,000 units to Canaccord Genuity Corp. for $0.05 per unit. Each unit is to consist of one common share and one common share purchase warrant exercisable for 24 months after closing. The second is a non-brokered private placement of up to 6,200,000 units under the same terms as previously mentioned. Both private placements are subject to funding and exchange approvals.