ATI AIRTEST TECHNOLOGIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

(Expressed in Canadian dollars)

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INDEPENDENT AUDITOR'S 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 statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive loss, changes in shareholders' deficiency and cash flows for the years ended December 31, 2011 and December 31, 2010, 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 International Financial Reporting Standards, 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.

Auditor's 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 auditor's 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 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. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of *matter*

We draw attention to Note 1 in the consolidated financial statements which advises that ATI Airtest Technologies Inc. has had recurring operating losses and additional material uncertainties that may cast significant doubt about its ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

DMCL

April 30, 2012
Vancouver, Canada

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

ATI AIRTEST TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

	Note	December 31, 2011	(Note 20) December 31, 2010	(Note 20) January 1, 2010
ASSETS				
Current				
Cash		$ 34,550	$ 52,316	$ -
Accounts receivable	4	452,389	351,647	237,414
Inventory	5	241,692	407,005	234,408
Prepaid expenses		65,126	10,626	10,571
		793,757	821,594	482,393
Non-current				
Equipment	6	13,470	17,364	22,546
Intangible asset	7	-	60,000	60,000
		$ 807,227	$ 898,958	$ 564,939
LIABILITIES				
Current				
Cash deficiency		$ -	$ -	$ 15,065
Accounts payable and accrued liabilities	8	1,655,019	1,680,899	1,164,227
Customer deposits		12,960	12,960	12,960
Loans and advances	9	1,091,235	1,038,176	256,927
Convertible debt notes	9	74,014	74,014	74,014
Share subscriptions received	19	416,000	-	-
Due to related parties	13	229,104	169,869	163,004
		3,478,332	2,975,918	1,686,197
SHAREHOLDERS' DEFICIENCY				
Share capital	10	8,879,407	8,266,195	7,987,395
Subscriptions receivable	10	(157,000)	(22,000)	(22,000)
Reserve		1,303,271	1,301,703	1,301,703
Deficit		(12,696,783)	(11,622,858)	(10,388,356)
		(2,671,105)	(2,076,960)	(1,121,258)
		$ 807,227	$ 898,958	$ 564,939

Commitments and contingencies (Note 14)
Subsequent events (Note 19)

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

APPROVED ON BEHALF OF THE BOARD

/s/ "George Graham"

/s/ "Darrel Taylor"

ATI AIRTEST TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

YEARS ENDED DECEMBER 31, 2011 AND 2010
(Expressed in Canadian dollars)

	Note		2011		2010
PRODUCT SALES		$	3,000,364	$	2,544,086
COST OF GOODS SOLD			1,853,613		1,455,020
GROSS PROFIT			1,146,751		1,089,066
EXPENSES					
General and administrative	16		841,584		730,784
Business development and marketing	16		521,557		446,143
Factoring fees and finance charges	9		387,988		310,266
Research and development	11		409,547		836,375
			(2,160,676)		(2,323,568)
OTHER ITEM					
Write-off of intangible asset	7		(60,000)		-
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR			(1,073,925)		(1,234,502)
Loss per shares – basic and diluted	10	$	(0.06)	$	(0.07)
Weighted average number of common shares outstanding – basic & diluted	10		19,458,935		17,282,770

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

ATI AIRTEST TECHNOLOGIES INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHARHOLDERS' DEFICIENCY

YEARS ENDED DECEMBER 31, 2011 AND 2010
(Expressed in Canadian dollars)

	Note	Share capital		Subscriptions receivable	Stock-based reserve	Deficit	Total shareholders' deficiency
		Number of shares	Amount $	$	$	$	$
Balance, January 1, 2010	20	17,218,843	7,987,395	(22,000)	1,301,703	(10,388,356)	(1,121,258)
Shares issued for cash:							
-Private placement units at $0.30 per unit	10	933,333	280,000	-	-	-	280,000
Share issuance costs		-	(1,200)	-	-	-	(1,200)
Comprehensive loss for the year		-	-	-	-	(1,234,502)	(1,234,502)
Balance, December 31, 2010		18,152,176	8,266,195	(22,000)	1,301,703	(11,622,858)	(2,076,960)
Shares issued for cash:							
-Private placement units at $0.30 per unit	10	2,230,000	669,000	(135,000)	-	-	534,000
Finders units issued		50,000	15,000	-	-	-	15,000
Share issuance costs	10	-	(70,788)	-	1,568	-	(69,220)
Comprehensive loss for the year		-	-	-	-	(1,073,925)	(1,073,925)
Balance, December 31, 2011		20,432,176	8,879,407	(157,000)	1,303,271	(12,696,783)	(2,671,105)

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, 2011 AND 2010
(Expressed in Canadian dollars)

	2011	2010
CASH PROVIDED BY (USED IN):		
Operating Activities:		
Net loss for the year	$ (1,073,925)	$ (1,234,502)
Items not involving cash:		
Amortization	3,895	5,182
Write-off of intangible assets	60,000	-
Changes in non-cash working capital items:		
Accounts receivable	(100,742)	(114,233)
Inventory	165,313	(172,597)
Interest payable	136,713	61,000
Prepaid expenses	(54,500)	(55)
Interest Payable on Factoring	27,000	31,376
Accounts payable and accrued liabilities	275,925	281,572
Net cash used in operating activities	(560,321)	(1,142,257)
Financing Activities:		
Proceeds from share issuance	479,782	278,800
Share subscriptions received	416,000	-
Loan proceeds (repayment)	(412,460)	923,976
Advances from related parties	59,233	6,862
Net cash from financing activities	542,555	1,209,638
Increase (decrease) in cash	(17,766)	67,381
Cash (deficiency), beginning of year	52,316	(15,065)
Cash , end of year	$ 34,550	$ 52,316

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 head office and warehouse is located at Unit 9-1520 Cliveden Ave, Delta, British Columbia V3M 6J8.

These consolidated 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 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, 2011 of $2,684,575 and has accumulated a deficit of $12,696,783 to date. The Company has financed its operations through equity, factoring loans, third party loans, related party advances and deposits. 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.

2. Statement of compliance and conversion to International Financial Reporting Standards

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), specifically as applied to the preparation of the Company's first set of financial statements under IFRS, including IFRS 1 – First-time Adoption of International Financial Reporting Standards. IFRS represents standards and interpretations approved by the International Accounting Standards Board ("IASB"), and are comprised of IFRS, International Accounting Standards ("IASs"), and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRICs") or the former Standing Interpretations Committee ("SICs"). Subject to certain transition elections disclosed in Note 20, the Company has consistently applied these same accounting policies (Note 3) in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect.

(Expressed in Canadian dollars, except where noted)

2. Statement of compliance and conversion to International Financial Reporting Standards (continued)

Note 20 discloses the impact of the transition to IFRS on the Company's reported statement of financial position, statements of comprehensive loss and cash flows, including the nature and effect of significant changes in accounting policies from those previously used by the Company in its consolidated financial statements for the year ended December 31, 2010. The comparative figures in these financial statements have been restated to give effect to these changes.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of April 29, 2012, the date the Board of Directors approved these financial statements.

3. Significant accounting policies

(a) Consolidation:

The Company consolidates all entities under its control. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of controlled entities are included in the consolidated financial statements from the date that control commences until the date that control ceases. Any changes in the effective ownership interest, where control continues, are recorded as acquisition or disposals through equity.

			Percentage owned	
	Country of incorporation		**December 31, 2011**	**December 31, 2010**
Airwave Environmental Technologies Inc.	Canada	(inactive)	100%	100%
Airtest Technologies Corp.	USA	(inactive)	100%	100%
Clairtec Inc.	USA	(inactive)	100%	100%

These consolidated financial statements include the accounts of the Company and each of its wholly owned subsidiaries. Inter-company transactions and balances have been eliminated upon consolidation.

(b) Inventories:

Inventories include raw materials, work in process and finished goods, all of which are stated at the lower of weighted average cost and net realizable value. Cost includes the cost of direct material, direct labour and other overhead costs. Labour costs are allocated to items based on actual labour rates. Fixed and variable overhead are allocated to production activities in converting materials to finished goods.

3. 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, prices are fixed, and the risks of ownership or title pass to the customer. This is normally when products are shipped from the warehouse, 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: a) The technical feasibility of completing the intangible asset so that it will be available for use or sale b) The intention to complete the intangible asset and use or sell it c) The ability to use or sell the intangible asset; d) How the intangible asset will generate probable future economic benefits; e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and f) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The Company amortizes costs, commencing with commercial production, over the expected future benefit period based upon quantities delivered compared to expected levels contracted to be delivered.

(f) Impairment of assets

The carrying amount of the Company's long term assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset, or the asset's cash generating unit, exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive income (loss).

The recoverable amount of an asset is measured at the greater of its fair value less cost to sell and its value in use. In assessing value in use, the estimated attributable future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

3. Significant accounting policies (continued)

(f) Impairment of assets (continued)

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, a reversal cannot exceed the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

(g) Stock-based compensation:

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined that the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number and attributes of equity instruments that ultimately vest.

(h) 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.

(i) 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.

3. Significant accounting policies (continued)

(j) Significant accounting judgments, estimates and assumptions:

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent assets and liabilities and reported amounts of revenues and expenses at the date of the consolidated financial statements and during the reporting period. Estimates and assumptions are made and continuously evaluated based upon management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Areas requiring a significant degree of management estimation relate to the determination of the useful lives of property, plant and equipment, the recoverability of the carrying value of assets, fair value measurements for financial instruments and stock-based compensation and other equity-based payments, warranty accruals, and the measurement of deferred tax assets and liabilities. Management attempts to use all current and relevant information available in making estimates, however actual results may differ substantially from those estimates.

Areas requiring a significant degree of management judgment include reviewing for indicators of impairment of intangible assets, determining functional currency, determining cost centers and cash generating units for impairment, selection of fair value models, and the potential exposure related to tax filing positions or non-compliance.

(k) Loss per share:

Basic earnings (loss) per share amounts are calculated by dividing net earnings (loss) by the weighted average number of common shares outstanding during the year.

Diluted earnings per share amounts are computed similarly to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of additional options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the year.

(l) Income taxes:

Current income tax assets and liabilities for the period and as at the year end are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable activities.

3. Significant accounting policies (continued)

(l) Income taxes (continued):

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(m) Foreign currency translation

These consolidated financial statements are presented in Canadian dollars which is the parent Company's and each of the subsidiaries functional currency.

Transactions and balances:

Where the functional currency of the entity is the same as the parent company, foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were initially determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive income in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

3. Significant accounting policies (continued)

(m) Foreign currency translation (continued)

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of comprehensive income to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

(n) Government assistance:

The Company may make periodic applications for financial assistance under available government incentive programs. Government assistance relating to capital asset expenditures is reflected as a reduction of the cost of such asset. Government assistance relating to current expenses is recorded as a reduction of such expenses. The amount of government assistance is recognized when there is reasonable assurance that a benefit will be realized. Reasonable assurance is considered to have occurred when the relevant authorities have indicated that the Company's research and development activities qualify for government assistance. The Company did not receive any government assistance during the years ended December 31, 2011 or December 31, 2010.

(o) Leases

Leases of property, plant and equipment, where substantially all the risks and benefits incidental to the ownership of the asset are transferred to the Company, are classified as finance leases.

Finance leases are capitalized by recording an asset and a liability at the lower of the fair value of the lease interest or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognized as a deferred liability and amortized to the lease expense on a straight-line basis over the lease term.

3. Significant accounting policies (continued)

(p) Financial Instruments:

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

Financial liabilities (excluding financial guarantees that are derivatives) are subsequently measured at amortized cost.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether impairment has arisen.

3. Significant accounting policies (continued)

(q) Warranty provision:

The Company accrues for estimated warranty obligations under a warranty provision at the time sales are recognized and any changes in estimates are recognized prospectively through the provision. The Company provides its customers with a limited right of return for defective products. All warranty returns must be authorized by the Company prior to acceptance. Warranty provisions are estimated based on the Company's experience and to date have been insignificant.

(r) Recent accounting pronouncements, not yet adopted:

The IASB issued the following new and amended standards and interpretations with future effective dates, which have not yet been adopted by the Company: IFRS 9, Financial Instruments (IFRS 9), IFRS 10, Consolidated Financial Statements (IFRS 10), IFRS 11, Joint Arrangements (IFRS 11), IFRS 12, Disclosure of Interests in Other Entities (IFRS 12), IAS 27, Separate Financial Statements (IAS 27), IFRS 13, Fair Value Measurement (IFRS 13), and amended IAS 28, Investments in Associates and Joint Ventures (IAS 28). Each of the new standards is effective for annual periods beginning on or after January 1, 2013, except for IFRS 9 which is for annual periods on or before January 1, 2015, with early adoption permitted.

A series of additional amendments to IAS 1 - Financial Statement Presentation, regarding separation of OCI components, IFRS 7 – Financial Instruments: Disclosure, requiring disclosure of the effects of offsetting financial assets and liabilities, and other related sections to incorporate the new standards noted. The Company has not assessed the impact of the new and amended standards on its financial statements and the Company is not expecting to early adopt any of the new requirements.

The following is a brief summary of the new standards which may be relevant to the Company:

IFRS 9 – Financial Instruments

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit and loss or at fair value through other comprehensive income. IFRS 9 is currently proposed to be effective for annual periods beginning on or after January 1, 2015.

IFRS 10 – Consolidation

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

3. Significant accounting policies (continued)

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

IFRS 11 - Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles, and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

(Expressed in Canadian dollars, except where noted)

4. Accounts receivable

	December 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	$ 28,701	24,301	-
Trade receivables factored (Note 9(a))	429,089	332,747	242,815
Allowance for doubtful amounts	(5,401)	(5,401)	(5,401)
	$ 452,389	$ 351,647	$ 237,414

5. Inventory

Inventory at year-end consists of the following:

	December 31, 2011	December 31, 2010	January 1, 2010
Finished goods	$ 110,036	$ 160,006	$ 116,106
Work in progress	10,991	26,008	-
Raw materials and component parts	120,665	220,991	118,302
	$ 241,692	$ 407,005	$ 234,408

For the year ended December 31, 2011, inventory recognized as an expense in cost of sales amounted to $1,45,766 (2010 - $1,283,401). Included in the above amounts were inventory write downs of $10,292 (2010 - $nil). There were no reversals of previously recorded inventory write downs for 2011 (2010 - $nil). As at December 31, 2011, the Company anticipates that the net inventory will be realized within one year.

(Expressed in Canadian dollars, except where noted)

6. Equipment

	Office furniture & fixtures	Computer hardware	Testing equipment	Assembly equipment	Total
Cost:					
At January 1, 2010	$ 39,765	$ 73,255	$ 17,967	$ 5,793	$ 136,780
Additions/disposals	-	-	-	-	-
At December 31, 2010	39,765	73,255	17,967	5,793	136,780
Additions/disposals	-	-	-	-	-
At December 31, 2011	$ 39,765	$ 73,255	$ 17,967	$ 5,793	$ 136,780
Depreciation:					
At January 1, 2010	$ 26,838	$ 66,175	$ 15,993	$ 5,228	$ 114,234
Charge for the year	2,545	1,932	592	113	5,182
At December 31, 2010	29,383	68,107	16,585	5,341	119,416
Charge for the year	2,036	1,354	414	90	3,894
At December 31, 2011	$ 31,419	$ 69,461	$ 16,999	$ 5,431	$ 123,310
Net book value:					
At January 1, 2010	$ 12,927	$ 7,080	$ 1,974	$ 565	$ 22,546
At December 31, 2010	$ 10,382	$ 5,148	$ 1,382	$ 452	$ 17,364
At December 31, 2011	$ 8,346	$ 3,794	$ 968	$ 362	$ 13,470

7. Intangible Asset

	Cost	Accumulated amortization	Net book value
Balance, January 1, 2010	$ 60,000	$ -	$ 60,000
Technology rights acquired	-	-	-
Balance, December 31, 2010	60,000	-	60,000
Write-off of intangible asset cost	(60,000)	-	-
Balance, December 31, 2011	$ -	$ -	$ -

During the year ended December 31, 2011, the Company discontinued its funding under a new product development project (Note 11). As a result, the Company relinquished many, if not all, of its rights under the agreement. As part of the review for indicators of impairment, the Company's determined that its rights have been impaired and has written-off the carrying value of the intangible asset to the statement of comprehensive loss.

(Expressed in Canadian dollars, except where noted)

8. Accounts payable and accrued liabilities

	December 31, 2011	December 31, 2010	January 1, 2010
Trade payables	1,363,433	1,353,074	1,109,085
Due to government agencies	10,549	-	-
Payroll accrual and vacation payable	7,418	7,825	26,142
Accrued obligations	273,619	320,000	29,000
	$ 1,655,019	$ 1,680,899	$ 1,164,227

During 2010, the Company assumed certain obligations relating to product development costs (Note 11), administrative and financing efforts funded and paid by arms' length parties totaling $291,000. These obligations are non-interest bearing, unsecured, and repayable on demand.

9. Loans, advances and convertible debt

a) Loans and advances

	December 31, 2011	December 31, 2010	January 1, 2010
i) Factoring loan, secured against receivables with full recourse for uncollectable accounts	$ 457,507	$ 522,349	$ 198,099
ii) Loans and advances, unsecured, due on demand:			
Funded – 2007, interest at 10% per annum	29,828	29,827	33,828
Funded –2008, non-interest bearing	25,000	25,000	25,000
Funded – 2010, interest at 18% per annum	521,400	461,000	-
Funded – 2011, interest at 18% per annum	57,500	-	-
	$ 1,091,235	$ 1,038,176	$ 256,927

i) Factoring loan facility:

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. 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.

9. Loans , advances and convertible debt (continued)

i) Factoring Loan (continued):

The amount due to the lender at December 31, 2011 includes current purchase orders for orders in progress.

The Company does not record a sale of the trade receivable or offset factored trade receivables to the related liability as the Company retains all the risks and rewards of ownership.

ii) The Company has received a number of loans and advances since 2007 from private lenders. All of the amounts are due on demand are effectively in default. The Company is working with the parties to settle loans through new funding, debt settlements and other arrangements. To date, none of the counterparties have taken legal action to recover the funds, however demands for payment have been made.

Until the Company arranges new equity funding or can settle the obligations, the loans and advances will continue in default and accrue interest, where applicable. Uncertainty remains over timing and amount of ultimate settlement.

b) Convertible debt notes:

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, 2011, the outstanding balance of the demand notes was $74,014 (December 31, 2010 – $74,014; January 1, 2010 - $74,014).

10. Share capital

a) Authorized and share consolidation:

Unlimited common shares without par value

Effective October 11, 2011, the Company completed a six for one share consolidation pursuant to a special resolution passed by shareholders September 28, 2010. All references to the number of shares, options, warrants, and loss per share have been restated to give effect to the share consolidation as though it had occurred at the date of the opening statement of financial position.

b) Issued and outstanding:

At December 31, 2011, there are 19,982,176, being 20,432,176 issued shares less 450,000 shares under the control of management (See (c) below), (2010 – 18,152,176) fully paid common shares issued and outstanding.

10. Share capital (continued)

c) Private placements:

On July 12, 2011, the Company entered into a private placement of 1,196,667 share units at $0.30 per unit for total gross proceeds of $359,000. 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 $0.60 per share for a period of 24 months from July 12, 2011.

The fair value of the warrant included in the unit was estimated to be $0.02 using the Black-Scholes option pricing model with volatility of 133%, dividend yield of 0%, expected life of 2 years and a risk free rate of 1.22%. In connection with the financing, the Company paid cash finders fees of $46,220 and issued 50,000 finders' units, with a market value of $15,000, and issued 119,667 Agents' warrants with an estimated fair value of $1,568, determined using the Black-Scholes option pricing model and assumptions noted above.

On April 28, 2011, the Company completed a private placement of 1,033,333 share units at $0.30 per unit and netted cash proceeds of $167,000. As a result of certain subscription agreements not being honored, the Company's management has retained control of share certificates representing 450,000 share units which were held at year end to be returned to treasury. 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 $0.60 per share for a period of 24 months from April 28, 2011. At the date of this report, management is still seeking recovery of the amount due for the subscribed amounts. The 450,000 shares and the related subscription price of $135,000 has been recorded as a separate component and reduction of shareholders equity.

The fair value of the warrant included in the unit was estimated to be $0.06 using the Black-Scholes option pricing model with volatility of 119%, dividend yield of 0%, expected life of 2 years and a risk free rate of 1.18%. In connection with the financing, the Company paid cash finders' fees of $8,000.

On December 6, 2010, the Company completed a private placement of 933,333 share units at $0.30 per unit for total proceeds of $280,000. 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 $0.60 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 $0.06 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 connection with the financing, the Company incurred shares issuance costs of $1,200.

(d) 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.

(Expressed in Canadian dollars, except where noted)

10. **Share capital (continued)**

(d) Stock options (cont'd)

The following summarizes the movement in the Company's stock options for the year:

	December 31, 2011		December 31, 2010	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	1,566,667	$ 0.60	1,571,083	$ 0.60
Granted	-	-	-	-
Expired	-	-	(4,416)	0.60
Outstanding, end of year	1,566,667	$ 0.60	1,566,666	$ 0.60

As at December 31, 2011, all options are exercisable by the holders.

The following table summarizes information about the options outstanding at December 31, 2011:

Number of outstanding Stock options	Exercise price	Expiration Date
183,333	$ 0.60	July 2012
1,383,334	0.60	June 2014
1,566,667	$ 0.60	

(e) Warrants

The following table summarizes information about warrants for the year:

	December 31, 2011		December 31, 2010	
	Warrants	Weighted average exercise price	Warrants	Weighted average exercise price
Outstanding, beginning of year	933,333	$ 0.60	4,441,528	$ 0.60
Issued	2,399,667	0.60	933,333	0.60
Expired	-	-	(4,441,528)	0.60
Outstanding, end of year	3,333,000	$ 0.60	933,333	$ 0.60

(Expressed in Canadian dollars, except where noted)

10. **Share capital (continued)**

(e) Warrants

The following table summarizes information about share warrants outstanding at December 31, 2011:

Number of warrants	Exercise price	Weighted average life to expiry
3,333,000	$0.60	1.3 years

11. Research and development

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

	2011	2010
Product development/certification	$ 46,761	$ 132,468
Proprietary licensing - license funding	362,786	703,907
	$ 409,547	$ 836,375

The Company's research and development work in 2011 included modifications to existing products, continued development of two new products and funding for research and development of products using the exclusive licensed technology.

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 provided 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 use with the Company's product lines.

Pursuant to the agreement the Company was required to pay a minimum of USD $50,000 per month to fund research and prototype development for a period of two years from October 1, 2009 to September 30, 2011. Thereafter, the Company would pay a royalty on any products sold of 5% subject to certain minimums to maintain the technology rights. Management 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 could be made of the feasibility and market potential for the applications developed.

The expenditures did not meet the criteria for capitalization.

(Expressed in Canadian dollars, except where noted)

11. Research and development

Based on an analysis of prototypes developed by Airware Inc. under the License Agreement, the Company discontinued making monthly payments as of July 2011. At that time, management assessed there was still considerable time and expense required to develop the technology to a market ready product. Airware has arranged for a separate third party manufacturer to further develop the technology and commence manufacture of the first sensor modules once they are market ready.

Discussion is ongoing regarding the mutual commitments under the License Agreement, and the Company is taking the necessary steps to ensure its exclusive marketing rights are maintained in the event products do become ready to market. During the current year, the Company has written off the initial $60,000 capitalized for the license rights as the deferred expenditures no longer meet the criteria of an asset.

12. 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 26.5% (2010 – 29.5%) to income before income taxes as follows:

		2011		2010
Net loss for the year	$	(1,073,925)	$	(1,234,502)
Statutory tax rate		26.5%		29.5%
Expected income tax recovery at substantively enacted rates	$	(284,590)	$	(364,178)
Tax effect on:				
Permanent differences and other		(20,766)		131,612
Expiring losses		-		481,839
Impact of tax rate changes		18,428		(37,273)
Change in valuation allowance		286,928		(212,000)
Income tax expense (recovery)	$	-	$	-

(Expressed in Canadian dollars, except where noted)

12. Income Taxes

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

	December 31, 2011	December 31, 2010	January 1, 2010
Non-capital loss carry-forwards and other discretionary deductions	$ 1,521,000	$ 1,155,000	$ 1,368,000
Equipment	44,000	28,000	27,000
	$ 1,565,000	$ 1,183,000	$ 1,395,000

The tax pools relating to these deductible temporary differences expire as follows:

	Canadian non-capital losses
2014	$ 695,000
2015	596,000
2026	778,000
2027	318,000
2028	736,000
2029	488,000
2030	1,127,000
2031	962,000
	$ 5,700,000

13. 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 of $26,000 (2010 - $nil). 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, 2011, $229,104 (2010 - $169,869, 2009 - $163,004) is payable to directors 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.

(Expressed in Canadian dollars, except where noted)

13. Related party transactions

Key management personnel compensation

The Company's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company and consist of the Company's Board of Directors and the Company's Executive Leadership Team. The Executive Leadership Team consists of the CEO and President, and Chief Financial Officer (CFO)

	Year ended			
		December 31, 2011		December 31, 2010
Salaries	$	280,000	$	227,425
Total	$	280,000	$	227,425

14. Commitments and Contingencies

Commitments:

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

2012	$ 45,114
2013	26,316

Contingencies:

The Company has approximately $82,834 in aged trade payables where there has been no contact by the counterparty 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 9) is uncertain. No interest has been accrued on these aged balances in the financial statements.

(Expressed in Canadian dollars, except where noted)

15. Segmented information

The Company operates in one reportable operating segment being the manufacture and sale of gas detection equipment. 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:

	2011	2010
U.S.A.	$ 1,982,725	$ 1,834,097
Canada	924,255	649,700
Other	93,383	60,289
	$ 3,000,364	$ 2,544,086

16. Supplementary information

Presentation of the Company's operating expenses by nature versus function for the years ended December 31, 2011 and 2010 is as follows:

	2011	2010
OPERATING EXPENSES		
General and administrative:		
Amortization	$ 3,893	$ 5,182
Automotive	18,843	15,939
Bad debts	20	258
Bank charges and interest	51,871	39,938
Consulting fees	60,806	-
Foreign exchange (gain) loss - realized	25,925	(15,034)
Freight	44,195	33,266
Office and general	38,855	55,866
Professional and management fees	149,310	196,581
Regulatory fees	31,612	22,381
Rent and property tax	55,504	49,963
Salaries and benefits	360,750	326,444
Total general and administrative	841,584	730,784
Business development and marketing:		
Advertising	4,048	25,546
Auto	14,127	16,923
Business promotion	15,447	9,648
Meals and entertainment	6,889	21,779
Office and general	9,399	9,993
Salaries and benefits	438,245	320,250
Trade shows	9,540	11,831
Travel	23,862	30,173
Total business development and marketing	$ 521,557	$ 446,143

(Expressed in Canadian dollars, except where noted)

17. 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, 2011, the Company's significant foreign denominated liabilities consist of US$800,847 and Euro €113,734 (2010- US$938,837 and Euro €137,757). Based on the year end exposures 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 $80,847, respectively. Should the Canadian dollar to Euro exchange rate appreciate or depreciate by 10%, the anticipated impact on operations would be a gain or loss of $15,013. 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 manage cash flows so that the Company will have sufficient available resources to meet operating liabilities as they are due. Due to Company's financial position and 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. This is a high cost of capital that will only be relieved by equity infusion. At December 31, 2011, all of the Company's' non-derivative liabilities are due on demand.

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.

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, 2011, there are two customers that represent approximately 13% ($384,825) and 18% ($533,856) of revenue. Four customers represent approximately 66% (2010 – 67%) 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 9(a)(i)). Aged receivables pose a greater amount of credit risk. The aging of the Company's receivables is as follows:

	Current	30-60 days	60-90 days	90-120 days	120+ days
Trade receivables	52%	44%	3%	0%	1%

See note 9.

17. Financial Instruments:

Fair value

The fair value of the Company's financial assets and liabilities approximates the carrying amount.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

At December 31, 2011 and December 31, 2010 the only asset recognized at fair value on a recurring basis in the Company's statements of financial position is the cash account. Cash is measured based on its unrestricted face value, being a level 1indicator.

The Company has classified its financial instruments as follows :

Accounts	Classification	Fair Value Input
Cash (bank indebtedness)	Fair value through profit and loss	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

18. 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. Management plans additional funding in 2012 to assist with current working capital needs. The funding may be debt or equity or a combination of both.

The Company is not subject to externally imposed capital requirements other than under factoring arrangements as described in note 9.

19. Subsequent Events

On March 13, 2012, the Company closed the first tranche of a non-brokered private placement issuing 3,352,885 share units at a price of $0.13 per unit for gross proceeds of $435,875. Each unit consists of one common share in the Company and four share purchase warrants. Four warrants may be exercised into three common shares of the Company at a price of $0.20 per share, for a period of five years.

At December 31, 2011, the Company had received $416,000 of the subscription funds above, which were updated as a financial liability at December 31, 2011.

20. Transition to IFRS

As result of the Accounting Standards Board of Canada's decision to adopt IFRS for publicly accountable entities for financial reporting periods beginning on or after January 1, 2011, the Company has adopted IFRS in these financial statements, making them the first annual financial statements of the Company under IFRS. The Company previously applied the available standards under previous Canadian GAAP that were issued by the Accounting Standards Board of Canada.

IFRS 1 - First-time Adoption of International Financial Reporting Standards sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the transitional statement of financial position date with all adjustment to assets and liabilities taken to retained earnings unless certain exemptions are applied.

Estimates

IFRS 1 requires that estimates made in accordance with IFRS at the date of transition and other comparative periods shall be consistent with estimates made for the same date in accordance with Canadian GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2010, December 31, 2010, and for the period ended December 31, 2010 are consistent with its Canadian GAAP estimates for the same periods.

Exemptions applied

The Company has applied the following optional transition exemptions to full retrospective application of IFRS:

- IFRS 3 "Business Combinations" has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before January 1, 2010.

- IFRS 2 "Share-based Payment" has not been applied to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005.

20. Transition to IFRS

Exemptions applied (cont'd)

- IAS 32 "Financial Instruments" requires an entity to split a compound financial instrument at inception into separate liability and equity components, unless the liability component is no longer outstanding at the date of transition to IFRSs. The Company's convertible debt remains outstanding as demand Notes at December 31, 2011. The Notes were previously accounted for under similar guidance with separation of the liability and equity component. The application of IAS 32 has not resulted in a material difference.

Impact of transition to IFRS

IFRS 1 requires reconciliations of adjustments made to the Company's previously reported figures as a result of the adoption of IFRS. The transition to IFRS did not have any material impact upon the previously reported figures. Specifically, the adoption of IFRS has not had a material impact on:

- Shareholders' equity previously reported under Canadian GAAP as at January 1, 2010 and December 31, 2010;
- Comprehensive loss previously reported under Canadian GAAP for the year ended December 31, 2010; and
- Consolidated Statements of Cash Flows previously reported under Canadian GAAP for the year ended December 31, 2010.

Terminology

IFRS uses different terminology than previous Canadian GAAP for certain financial statements as well as line items within the financial statements. Specifically, under previous Canadian GAAP the Company allocated the estimated fair value of stock-options and similar awards to Contributed Surplus within Shareholders' Equity. Under IFRS, the Company uses a Shareholder's Equity account titled Share-Based Reserve to record the fair value of stock options

Financial Presentation

There was no restated financial adjustment to the opening balance sheet under IFRS other than the terminology items notes. Accordingly a detailed transition reconciliation has not been presented.