ATI AIRTEST TECHNOLOGIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

AUDITORS' REPORT

To the Shareholders of ATI Airtest Technologies Inc.

We have audited the consolidated balance sheets of ATI Airtest Technologies Inc. as at December 31, 2008 and 2007 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial positions of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

DMCL

Vancouver, B.C.
April 20, 2009

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

ATI AIRTEST TECHNOLOGIES INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS		
Cash	$ -	$ 44,755
Accounts receivable (Note 5)	243,060	246,280
Inventory (Note 3)	201,042	119,136
Prepaid expenses	11,638	9,872
	455,740	420,043
Equipment (Note 4)	29,474	10,504
	$ 485,214	$ 430,547
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
CURRENT LIABILITIES		
Bank Indebtedness	$ 11,260	$ -
Accounts payable and accrued liabilities	1,094,469	835,045
Customer deposits	10,994	13,850
Loans (Note 5)	312,459	261,572
Convertible debt (Note 5)	74,014	74,014
Due to related parties (Note 10)	218,437	242,663
	1,721,633	1,427,144
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 6)	7,261,294	6,690,294
Subscription received	-	130,000
Subscriptions receivable	-	(180,800)
Contributed surplus (Note 6)	656,280	656,280
Deficit	(9,153,993)	(8,292,371)
	(1,236,419)	(996,597)
	$ 485,214	$ 430,547

Commitments and contingencies (Notes 5 and 11)
Subsequent event (Note 13)

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, 2008 AND 2007

	2008	2007
REVENUES		
Product sales	$ 1,307,073	$ 1,044,187
COST OF GOODS SOLD	690,865	573,131
GROSS PROFIT	616,208	471,056
EXPENSES		
Amortization	5,509	3,694
Automotive	7,039	6,437
Bad debts	-	19,768
Bank charges and factoring fees	95,910	107,379
Foreign exchange (gain) loss	63,674	(79,100)
Freight	29,146	19,647
Interest on loans and convertible debt	-	6,592
Office and general	79,963	36,038
Professional and management fees	167,734	107,039
Regulatory fees	21,990	45,323
Rent and property tax	54,271	58,244
Research and development (Note 7)	91,888	78,720
Salaries and benefits	279,927	232,904
Sales, marketing and promotion	616,333	325,424
Stock-based compensation – management salaries (Note 6)	-	92,854
	(1,513,384)	(1,060,963)
LOSS BEFORE OTHER ITEMS	(897,176)	(589,907)
OTHER ITEMS		
Gain on debt conversion (Note 6)	-	2,118,754
Recovery on payables settlement	35,554	-
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	(861,622)	1,528,847
Deficit, beginning of year	(8,292,371)	(9,821,218)
Deficit, end of year	$ (9,153,993)	$ (8,292,371)
Basic and diluted earning (loss) per share	$ (0.01)	$ 0.04
Weighted average number of common shares outstanding	77,405,217	37,835,360

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, 2008 AND 2007

	2008	2007
CASH PROVIDED BY (USED IN):		
Operating Activities:		
Net income (loss) for the year	$ (861,622)	$ 1,528,847
Items not involving cash:		
Accrued interest	-	23,986
Amortization	5,509	3,694
Stock-based compensation	-	92,854
Foreign exchange loss	-	9,360
Gain on debt conversion	-	(2,118,754)
Changes in non-cash working capital items:		
Accounts receivable	3,220	(83,193)
Customer deposits	(2,855)	(14,054)
Inventory	(81,906)	(61,770)
Prepaid expenses	(1,766)	(3,705)
Accounts payable and accrued liabilities	259,422	(328,845)
Net cash used in operating activities	(679,998)	(951,580)
Investing Activities		
Purchase of furniture and equipment	(24,479)	-
Net cash used in investing activities	(24,479)	-
Financing Activities:		
Share issuance, net	526,800	860,185
Subscriptions received	95,000	130,000
Convertible debt repayment	-	(32,518)
Loan proceeds	51,905	95,000
Repayment of advances	(25,243)	(52,443)
Net cash from financing activities	648,462	1,000,224
Increase (decrease) in cash	(56,015)	48,644
Cash (deficiency), beginning of year	44,755	(3,889)
Cash (deficiency), end of year	$ (11,260)	$ 44,755

Supplementary cash flow information (Note 8)

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

1. Business activities:

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

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

These financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. They do not include adjustments, if any, that may be required to either the realization of assets or the settlement of liabilities should the Company be unable to continue as a going concern. The Company has experienced significant operating losses (excluding debt settlement gains) since its inception and has a working capital deficiency at December 31, 2008 of $1,265,893 (2007 - $1,007,101). The Company has financed its operations through equity, related party loans and through trade receivable factoring. The Company restructured and converted significant amounts of debt to equity in 2007. Although this has improved the debt position, the Company continues to sustain operating losses. Future operations are dependent upon the Company's ability to obtain additional financing, continued support of existing creditors and lenders, continued financial support from related parties, and attaining profitable operations. The ultimate realization of amounts reported for assets and liabilities is dependent upon market acceptance of the Company's products and services and generation of future profitable operations.

Management has assessed the Company has the ability to sustain future operations and continue as a going concern. Management believes that the Company can, despite current economic conditions in the capital markets, 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 raise sufficient funding or increase sales to levels necessary to achieve profitable operations. If the Company is unable to achieve profitable operations and continue extending payment arrangements 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.

Subsequent to the year end, the Company completed a private placement for $259,000 **(Note 13**).

2. Significant accounting policies:

(a) Principles of consolidation:

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

(b) Inventories:

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

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

2. Significant accounting policies (continued):

(c) Equipment:

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, providing 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 CICA handbook section 3450.

(f) Stock-based compensation:

The Company follows the recommendations of the CICA Handbook Section 3870, for stock-based compensation and other stock based payments. The standard requires that all stock based awards made to employees and non-employees be measured and recognized using a fair value based method. The amount of compensation is measured at the date of the grant or substantive change in terms and is charged over the vesting period. The Company has an incentive stock option plan that is described in Note 6.

(g) Non-monetary transactions

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

(h) Related party transactions

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

(i) Measurement uncertainty and use of estimates

The preparation of these financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses for the reporting period. Significant areas requiring the use of management estimates relate to the valuation of inventory, going concern assessment, recoverable values and useful lives

2. Significant accounting policies (continued):

for equipment, fair values of stock based transactions, tax assumption used to determine future income taxes, and the impact of any uncertainty relating to future operations. Actual results could differ from these estimates.

(j) Earnings (loss) per share:

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

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

As the average market price per share during both years presented was less than the exercise price of all options, warrants, and conversion features, the effect of the application of the accounting treatment would be anti-dilutive. Accordingly, no dilution adjustment has been presented and basic earnings (loss) per share are equal to diluted earnings (loss) per share.

(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 if it is more likely than not that the assets will not be realized.

(l) Asset retirement obligations

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

(m) Comparative figures:

Certain of the 2007 comparative figures have been reclassified to conform with current presentation..

(n) Foreign currency translation

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

(o) Long-lived assets and impairment

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

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

2. Significant accounting policies (continued):

p) 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 and bank indebtedness, accounts receivable, loans, accounts payable and amounts due to related parties. Cash and bank indebtedness are measured at their face value, representing fair value. Accounts receivable, accounts payables loans, and amounts due to the 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.

q) 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.

r) Newly adopted accounting policies

On January 1, 2008, the Company adopted the new and amended accounting standards related to going concern, financial instruments – presentation and disclosure, and capital disclosures that were issued by the CICA. These standards were adopted on a prospective basis and are primarily related to disclosures. There were no adjustments recorded to opening balance sheet items or deficit as a result of the adoption of these standards.

Section 1400, General Standards of Financial Statement Presentation

The CICA accounting standards board amended section 1400 to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The impact of the amendments has been disclosed in Note 1 to these financial statements.

Section 3862, Financial Instruments – Disclosures & Section 3863, Financial Instruments – Presentation

Effective January 1, 2008, the Company adopted these new standards related to financial instruments, these sections replace Section 3861 - Disclosure and Presentation, revising and enhancing disclosure requirements while carrying forward presentation requirements. These new Sections will place increased emphasis on disclosure about the nature and extent of risk arising from financial instruments and how the entity manages those risks. The adoption of these sections has resulted in additional disclosures in these financial statements. (Note 14)

Section 1535, Capital Disclosures

The Company has adopted CICA Handbook Section 1535, Capital Disclosures. Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. (Note 15)

Section 3031, Inventories

The Company has adopted CICA Handbook Section 3031, Inventories. Section 3031 establishes standards for determination of inventory cost and its subsequent recognition as an expense, including any write-down to net realizable value. In certain circumstances, write downs of inventory previously recorded may be reversed. There were no adjustments recorded as a result of the adoption of the section.

2. Significant accounting policies (continued):

s) Recent accounting pronouncements, not yet adopted

Transition to International Financial Reporting Standards

In 2006, Canada's Accounting Standards Board (AcSB) ratified a strategic plan that will result in the convergence of Canadian GAAP, as used by public companies, with International Financial Reporting Standards (IFRS) over a transitional period. The AcSB has developed and published a detailed implementation plan, with a changeover date for fiscal years beginning on or after January 1, 2011. The Company is beginning to review some of the differences and options available under IFRS and is continuing to assess the impact of this initiative on its financial statements. A more comprehensive review and conversion strategy is planned for early 2010.

Section 306, Goodwill and Intangible Assets
As of December 31, 2008, the Company will be required to adopt the CICA Handbook Section 3064 "Goodwill and Intangible Assets", which will replace the existing Goodwill and Intangible Assets standard. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

Section 1582, Business Combinations
In January 2009, the CICA issued Section 1582, Business Combinations, which will provide the Canadian equivalent to International Financial Reporting Standard IFRS 3, Business Combinations, and replace the existing Section 1581, Business Combinations. The new standard will apply prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling Interests. Management does not expect that the adoption of this new standard will have significant impact on the Company's financial statements.

Section 1601, Consolidated Financial Statements
In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, which establishes standards for the preparation of consolidated financial statements and will replace the existing Section 1600, Consolidated Financial Statements. The new standard is effective for interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1582, Business Combinations, and Section 1602, Non-Controlling Interests. Management does not expect that the adoption of this new standard will have significant impact on the Company's financial statements.

Section 1602, Non-Controlling Interests
In January 2009, the CICA issued Section 1602, Non-Controlling Interests, which establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, Consolidated and Separate Financial Statements. The new standard is effective for interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1582, Business Combinations, and Section 1601, Consolidated Financial Statements. Management does not expect that the adoption of this new standard will have significant impact on the Company's financial statements.

EIC 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities
In January 2009, the CICA approved EIC 173, Credit Risk and the Fair Value of Financial Assets and Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. Management has not assessed the impact that this standard will have on its financial reporting. although certain financial liabilities that may be subject to settlement or renewal in 2009 may be impacted..

3. Inventory:

Inventory at year-end consists of the following:

	2008	2007
Finished goods	$ 120,514	$ 31,956
Raw materials	80,528	87,180
	$ 201,042	$ 119,136

4. Equipment:

2008	Cost	Accumulated amortization	Net book value
Computer hardware	$ 73,255	$ 63,414	$ 9,841
Office furniture and fixtures	39,765	23,658	16,107
Testing equipment	17,967	15,147	2,820
Assembly equipment	5,793	5,087	706
	$ 136,780	$ 107,306	$ 29,474

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

5. Bank Indebtedness, loans, convertible debt, and advances:

(a) Factoring Loan:

During July 2004, the Company entered into a lending arrangement whereby the Company may borrow up to 77% of its accounts receivables that are less than 90 days overdue. The specified trade receivables are pledged as security for the arrangement, with full recourse against the Company for any amounts longer than 90 days overdue. The loans bear interest at 1.5% per month for the first 60 days outstanding, 3.5% per month for the period outstanding greater than 61 days and up to 90 days, and 5% per month for the period outstanding greater then 90 days. There is a 3% processing charge for all accounts receivable factored. At December 31, 2008 the outstanding balance including principal and interest was $170,911 (2007 – $160,015).

(b) Line of Credit:

The Company has a line of credit available through a shareholder totaling $500,000, which was repayable on demand and interest bearing at the bank prime rate plus 1%. As at December 31, 2008, the outstanding balance of the loan including interest is $nil (2007 - $nil). This note was converted to shares at $0.10 per share as part of a 2007 debt settlement agreement. **(Note 6)**

(c) Convertible debt:

From June 2004 to January 2005, the Company issued convertible debt instruments for total proceeds of $414,600. The debt instruments are unsecured and bear no interest subsequent to conversion in 2007. Each of the instruments matured nine months following the date of issue and are repayable on demand. At December 31, 2008, the outstanding balance of the demand notes including principal and interest was $74,014 (2007 – $74,014).

The debt holders have the right to convert all or a portion of the outstanding principal balance to common shares at a rate of $0.10 per common share. The majority of the debt holders converted debt to shares during the 2007 fiscal year. **(Note 6)**

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

5. Bank Indebtedness, loans, convertible debt, and advances (continued):

(d) Loans and advances:

During 2004, the Company received two advances totaling US$75,000 from an unrelated party. The advances bear interest at the bank prime rate plus one percent, are unsecured, and repayable on demand. At December 31, 2008, the outstanding balance including principal and interest was $nil (2007 –$nil). The loan was converted to shares at $0.10 per share as part of the debt settlement agreement during 2007.

During 2007, the Company received four advances totaling $95,000 from an unrelated party. The 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, 2008, the outstanding balance including principal and interest was $51,548 (2007 - $101,592). Amounts from 2006 were converted during 2007 to shares at $0.10 per share as part of a debt settlement agreement**. (Note 6)**

During 2008, the Company entered into two loan agreements with a third party and received advances of $35,000 and $30,000, respectively. These loans are non-interest bearing, unsecured, and repayable on demand. At December 31, 2008, the total outstanding balance is $65,000.

During the year, the Company entered into an agreement with a third party air testing company in product development. Upon signing the memorandum of understanding, the third party paid the Company $25,000 with the condition that the product must be developed by February 1, 2009. Subsequent to year end, the Company was unable to develop the product; and; as a result, the amounts received must be repaid upon mutually agreeable terms. In the event the parties cannot agree upon such repayment terms the amounts shall be repaid in full within 180 days of being advanced to the Company.

6. Share capital:

(a) Authorized:

100,000,000 common shares without par value

(b) Issued and outstanding:

	Number of shares	Amount
Balance, December 31, 2006	12,928,160	$ 4,236,807
Shares issued in private placement (i)	17,264,000	863,200
Shares issued in private placement (ii)	5,080,000	254,000
Share issue costs for private placements	-	(76,216)
Shares issued in debt conversion (iii)	35,312,565	1,412,503
Balance, December 31, 2007	70,584,725	6,690,294
Shares issued in private placement (iv)	9,700,000	485,000
Shares cancellation	(180,000)	(9,000)
Shares previously held for cancellation returned to treasury	(100,000)	-
Shares issued in private placement (v)	2,000,000	95,000
Balance, December 31, 2008	82,004,725	$ 7,261,294

6. Share capital (continued):

i) On June 25, 2007, the Company completed a private placement of 17,264,000 share units at $0.05 per unit for total proceeds of $863,200. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at a price of $0.10 per share for a period of 12 months from June 25, 2007. The Company paid $63,016 in finder's fees in relation to this private placement. The fair value of the warrant included in the unit was estimated to be $0.01 using the Black-Scholes option pricing model with volatility of 100%, stock price at issue date of $0.08, expected life of 1 year, and a risk free rate of 4.66%.

ii) On December 21, 2007, the Company completed the first tranche of a private placement and issued 5,080,000 share units at $0.05 per unit for total proceeds of $254,000. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at a price of $0.10 per share for a period of 24 months from December 21, 2007. The Company paid $13,200 in finder's fees in relation to this private placement. The fair value of the warrant included in the unit was estimated to be $0.01 using the Black-Scholes option pricing model with volatility of 100%, stock price at issue date of $0.05, expected life of 1 year, and a risk free rate of 3.89%.

iii) During 2007, the Company issued 35,312,565 shares in settlement, by way of conversion, of outstanding debts totalling $3,531,257. The settlement was made at $0.10 per share which is the minimum share for debt conversion price allowed by regulatory policy. The settlement included trade payables, line of credit, convertible notes, advances, and amounts due to related parties (Notes 6 and 11). The terms of the conversion were negotiated and accepted by the various credit holders at a time when the Company's shares were determined to have a fair value of $0.04 per share. Management has estimated the $0.04 per share fair value as the most reliable measure of the fair value of the related obligations at the time of settlement. Consequently, a gain on debt conversion of $2,118,754 was recorded in the statement of operations, being the difference between the $0.10 conversion rate and the $0.04 fair value multiplied by the number of shares issued.

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

iv) On April 15, 2008, the Company completed the second tranche of a private placement and issued 9,700,000 share units at $0.05 per unit for total proceeds of $485,000. 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 $0.10 per share for a period of 24 months from April 15, 2008. 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 223%, stock price at issue date of $0.04, expected life of 2 years and a risk free rate of 2.66%.

v) On September 18, 2008, the Company completed a private placement of 2,000,000 share units at $0.05 per unit for total proceeds of $95,000. 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 $0.10 per share for a period of 12 months from September 18, 2008. $5,000 in finder's fees is payable in relation to this private placement. 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 144%, stock price at issue date of $0.04, expected life of 1 years and a risk free rate of 2.43%..

(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 the optionee's employment. Vesting and the option terms are set at the discretion of the Board of Directors at the time the options are granted. The following summarizes the changes in the Company's stock options for the year:

6. Share capital (continued):

	December 31, 2008		December 31, 2007	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	1,511,000	$ 0.11	460,750	$ 0.18
Grant	-	-	1,290,000	0.10
Expired	(229,750)	0.12	(239,750)	0.21
Outstanding, end of year	1,281,250	$ 0.11	1,511,000	$ 0.11

As at December 31, 2008, all options are exercisable by the holders. The following table summarizes information about options outstanding at December 31, 2008:

Number of outstanding Stock options	Exercise price	Weighted average life to expiry
1,215,000	$ 0.10	3.3 years
66,250	0.24	1.3 years
1,281,250		3.2 years

(d) Warrants

	December 31, 2008		December 31, 2007	
	Warrants	Weighted average exercise price	Warrants	Weighted average exercise price
Outstanding, beginning of year	22,344,000	$ 0.10	-	$ -
Issued	11,700,000	0.10	22,344,000	0.10
Expired	(17,264,000)	0.10	-	-
Outstanding, end of year	16,780,000	$ 0.10	22,344,000	$ 0.10

The following table summarizes information about share warrants outstanding at December 31, 2008:

Number of outstanding warrants	Exercise price	Weighted average life to expiry
5,080,000	$ 0.10	0.97 years
9,700,000	0.10	1.29 years
2,000,000	0.10	0.72 years
16,780,000		1.12 years

(d) Contributed surplus:

	2008	2007
Balance, beginning of year	$ 656,280	$ 563,426
Stock-based compensation	-	92,854
Balance, end of year	$ 656,280	$ 656,280

6. Share capital (continued):

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

7. Research and development:

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

	2008	2007
Labour	$ 41,778	$ 60,409
Product development/certification	50,110	17,774
Other	-	537
	$ 91,888	$ 78,720

The Company's research and development work in 2008 included modifications to existing products plus the development of two new products. The Company is developing the ability for more of its transmitters to communicate using lon-based communications. The Company also continues to research the ability of its transmitters to communicate using wireless technology.

8. Supplementary cash flow information:

(a) Non-cash transactions

There were no significant non-cash transactions during the year ended December 31, 2008.

During the 2007 fiscal year, the Company issued 35,312,565 shares pursuant to debt conversion agreements (Note 6).

(b) Supplemental information:

	2008	2007
Interest paid in cash during year	$ 85,520	$ 78,091
Income taxes paid during year	-	-

9. 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 31.5% (2007 – 34.1%) to income before income taxes as follows:

9. Income Taxes (continued):

		2008		2007
Net Income (loss) for the year	$	(861,622)	$	1,528,847
Expected income tax expense (recovery)	$	(271,411)	$	521,337
Tax effect on:				
Non deductible items		-		39,842
Expiring losses		62,468		(5,198)
Capital gains inclusion differential		-		(361,248)
Previously unrecognized losses and benefits		-		(194,733)
Unrecognized benefit of loss carry forwards		208,943		-
Income tax expense (recovery)	$	-	$	-

As at December 31, 2008, significant components of the Company's potential future tax assets are as follows:

		2008		2007
Potential future tax assets at 26.5% (2007 - 31.5%)				
Losses carried forward	$	1,281,000	$	2,029,170
Financing fees		-		19,206
Equipment		27,000		44,749
Total potential future tax assets		1,308,000		2,093,125
Valuation allowance 100% (2007 – 100%)		(1,308,000)		(2,093,125)
	$	-	$	-

The Company has cumulative income tax loss carry forwards at December 31, 2008 of approximately $4,850,000, which are potentially available to offset future taxable income. These losses expire at various dates up to 2028. As the Company has not established sufficient likelihood of future operating profitability to utilize available losses, a valuation allowance of 100% (2007 – 100%) has been recorded against the potential future tax assets.

10. 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 $195,600 (2007 - $188,200).

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, 2008, $218,437 (2007 - $242,663) is payable to directors and officers for accrued services and advances.

(c) During the year ended December 31, 2007, debt obligations with directors and companies controlled by directors totaling $662,960 were converted to common shares (Note 6).

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

11. Commitments:

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

2009	$ 43,345
2010	43,345
2011	44,082
2012	45,114
2013	26,316

12. 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:

	2008	2007
U.S.A.	$ 853,854	$ 797,996
Canada	398,741	158,669
Other	54,478	87,522
	$ 1,307,073	$ 1,044,187

13. Subsequent event:

On April 15, 2009, the Company closed a private placement and issued 12,950,000 share units at $0.02 per unit for total proceeds of $259,000. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to buy one additional common share of the Company at a price of $0.10 per share for a period of 12 months from April 15, 2009.

14. Financial Instruments:

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

Currency risk

The Company is potentially exposed to currency risk as a portion of its assets and liabilities are held in foreign currencies. At December 31, 2008, the Company's net liability denominated in foreign currency is $32,000. 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 ensure that it will have sufficient liquidity to meet liabilities as they come due. Due to current economic conditions in capital 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 to its accounts receivable.

Funding risk is the risk that the Company may not be able to raise equity 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 current market and economic conditions funding risk is considered high.

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, 2008, four customers represent approximately 47% (2007 – 39%) of accounts receivable. Management performs a periodic assessment of the credit worthiness of customers to reduce exposure to credit risk.

15. Capital Management:

The Company is in the business of manufacturing and selling air testing equipment and related services. Its principal source of capital is cash from operations and from the issuance of equity securities.

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

The Company manages the capital structure and makes adjustments to its capital management strategies when economic conditions or risk characteristics of its capital change. To maintain or adjust the capital structure, the Company may consider the issuance of shares, factoring additional receivables, or adjust the amount of cash held. Currently, the Company’s strategy is to monitor cash flow and actively limiting expenditures to preserve operating capital for ensuring cash flow liquidity.

In order to maximize the Company’s liquidity and resources for investments and acquisitions no dividends have been paid. The Company is not subject to externally imposed capital requirements. Management plans additional capital equity funding in 2009 to assist with current capital resources to ensure sufficient working capital is available to meet operational plans through its ensuing operating period.