ATI AIRTEST TECHNOLOGIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

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, 2009 and 2008 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 position of the Company as at December 31, 2009 and 2008 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, Canada
April 28, 2010

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

ATI AIRTEST TECHNOLOGIES INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2009	December 31, 2008
ASSETS		
CURRENT ASSETS		
Accounts receivable (Note 6)	$ 237,414	$ 243,060
Inventory (Note 3)	234,408	201,042
Prepaid expenses	10,571	11,638
	482,393	455,740
Equipment (Note 4)	22,546	29,474
Intangible Assets (Note 5)	60,000	-
	$ 564,939	$ 485,214
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
CURRENT LIABILITIES		
Bank Indebtedness	$ 15,065	$ 11,260
Accounts payable and accrued liabilities	1,164,227	1,094,469
Customer deposits	12,960	10,994
Loans (Note 6)	256,927	312,459
Convertible debt (Note 6)	74,014	74,014
Due to related parties (Note 11)	163,004	218,437
	1,686,197	1,721,633
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 7)	7,987,395	7,261,294
Subscriptions receivable	(22,000)	-
Contributed surplus (Note 7)	1,301,703	656,280
Deficit	(10,388,356)	(9,153,993)
	(1,121,258)	(1,236,419)
	$ 564,939	$ 485,214

Commitments and contingencies (Notes 6 and 12)

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

APPROVED ON BEHALF OF THE BOARD

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

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

ATI AIRTEST TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
REVENUES		
Product and service sales	$ 1,661,016	$ 1,307,073
COST OF GOODS SOLD	890,941	690,865
GROSS PROFIT	770,075	616,208
EXPENSES		
Amortization	6,929	5,509
Automotive	15,393	7,039
Bad debts	7,533	-
Bank charges and factoring fees	171,762	95,910
Foreign exchange (gain) loss	(67,405)	63,674
Freight	26,357	29,146
Office and general	42,752	79,963
Professional and management fees	154,661	167,734
Regulatory fees	34,818	21,990
Rent and property tax	50,943	54,271
Research and development (Note 8)	145,492	91,888
Salaries and benefits	285,337	279,927
Sales, marketing and promotion	516,615	616,333
Stock-based compensation (Note 7)	645,423	-
Travel	6,605	-
	(2,043,215)	(1,513,384)
LOSS BEFORE OTHER ITEM	(1,273,140)	(897,176)
OTHER ITEM		
Recovery on payables settlement	38,777	35,554
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(1,234,363)	(861,622)
Deficit, beginning of year	(9,153,993)	(8,292,371)
Deficit, end of year	$ (10,388,356)	$ (9,153,993)
Basic and diluted loss per share	$ (0.01)	$ (0.01)
Weighted average number of common shares outstanding	92,060,844	77,405,217

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, 2009 AND 2008

	2009	2008
CASH PROVIDED BY (USED IN):		
Operating Activities:		
Net loss for the year	$ (1,234,363)	$ (861,622)
Items not involving cash:		
Amortization	6,929	5,509
Stock-based compensation	645,423	-
Changes in non-cash working capital items:		
Accounts receivable	5,646	3,220
Customer deposits – foreign exchange adjustment	1,966	(2,855)
Inventory	(33,366)	(81,906)
Prepaid expenses	1,067	(1,766)
Accounts payable and accrued liabilities	69,760	259,422
Net cash used in operating activities	(536,938)	(679,998)
Investing Activities		
Purchase of furniture and equipment	-	(24,479)
Purchase of technology rights	(60,000)	-
Net cash used in investing activities	(60,000)	(24,479)
Financing Activities:		
Share issuance, net	704,101	526,800
Subscriptions received	-	95,000
Loan proceeds	(56,549)	51,905
Repayment of advances	(54,419)	(25,243)
Net cash from financing activities	593,133	648,462
Decrease in cash	(3,805)	(56,015)
Cash (deficiency), beginning of year	(11,260)	44,755
Cash (deficiency), end of year	$ (15,065)	$ (11,260)

Supplementary cash flow information (Note 9)

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

(in Canadian dollars, except where noted)

1. Business activities and basis of presentation:

ATI Airtest Technologies Inc. (the "Company") was incorporated in British Columbia on March 13, 1996. The primary business activity is the manufacture and sale of air testing equipment and related services in Canada and the United States. The Company's shares are traded on the TSX Venture Exchange ("TSX-V").

These consolidated financial statements are presented under Canadian Generally Accepted Accounting Principles ("GAAP") on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. They do not include adjustments, if any, that may be required 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 since its inception and has a working capital deficiency at December 31, 2009 of $1,203,804 (2008 - $1,265,893). The Company has financed its operations through equity, related party advances and deposits and through trade receivable factoring. Future operations are dependent upon the Company's ability to obtain additional financing, continued support of existing creditors and lenders, continued financial support from related parties, and ultimately attaining profitable operations. The realization and settlement of amounts reported for assets is dependent upon market acceptance of the Company's products and services and generation of future profitable operations.

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

Certain of the 2008 comparative figures have been reclassified to conform with the current presentation.

2. Significant accounting policies:

(a) Consolidation:

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

(b) Inventories:

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

(in Canadian dollars, except where noted)

2. Significant accounting policies (continued):

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

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

(d) Revenue recognition:

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

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

(e) Research and development:

Research and development costs are expensed as incurred unless development costs meet the criteria for capitalization defined by the Canadian Institute of Chartered Accountants ("CICA") handbook section 3064 – Goodwill and Intangible Assets.

(f) Stock-based compensation:

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

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

(g) Non-monetary transactions

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

(h) Related party transactions

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

(in Canadian dollars, except where noted)

2. Significant accounting policies (continued):

(i) Measurement uncertainty and use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses for the reporting period. Significant estimates include the allowance for doubtful accounts, provision for obsolete inventory, amortization of equipment, valuation of stock based transactions, intangible asset allocations, future income taxes, allocations of costs to inventories and research and development, and certain assumptions required in the assessment of the company as a going concern. Actual results could differ from these estimates and assumptions.

(j) Loss per share:

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

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

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

(k) Future income tax:

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

(l) 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.

(in Canadian dollars, except where noted)

2. Significant accounting policies (continued):

(m) Long-lived assets and impairment

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

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

(n) Financial Instruments

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

The Company's financial instruments consist of bank indebtedness, accounts receivable, loans, convertible debt, accounts payable and amounts due to related parties. Bank indebtedness is 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. The Company has classified its financial instruments as follows:

Other receivables	Loans and receivables
Bank indebtedness, accounts payable, loans and amounts due to related parties	Other liabilities

(o) Comprehensive income (loss)

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

(in Canadian dollars, except where noted)

2. Significant accounting policies (continued):

(p) Intangible assets

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

(q) Newly adopted accounting policies

Effective January 1, 2009, the Company adopted the recommendations of CICA Handbook Section 3064, "Goodwill and Intangible Assets". Section 3064, which replaced Section 3062, "Goodwill and Other Intangible Assets", and section 3450, "Research and Development Costs", established standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of this new standard did not have a material impact on the Company's financial statements.

Effective in January 2009, the Company adopted the new recommendations of revised CICA Handbook Section 3862, "Financial Instruments – Disclosures", to include additional disclosure requirements about fair market value measurements for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to unadjusted quoted prices at the measurement date for identical assets and liabilities in active markets. Assets and liabilities in Level 2 include valuations using observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. Level 3 valuations are based on significant unobservable inputs which are supported by little or no market activity. This new standard became effective for the Company on December 31, 2009.

(r) Recent accounting pronouncements, not yet adopted

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company continues to monitor, and assess, the impact of the conversion of Canadian GAAP to IFRS.

In January 2009, the CICA issued Handbook Sections 1582, Business Combinations, ("Section 1582"), 1601, Consolidated Financial Statements, ("Section 1601") and 1602, Non-controlling Interests, ("Section 1602") which replaces CICA Handbook Sections 1581, Business Combinations, and 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business

(in Canadian dollars, except where noted)

2. Significant accounting policies (continued):

(r) Recent accounting pronouncements, not yet adopted

combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards (“IFRS”). Section 1582 is applicable for the Company’s business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company’s interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time.

3. Inventory:

Inventory at year-end consists of the following:

	2009	2008
Finished goods	$ 116,106	$ 120,514
Raw materials	118,302	80,528
	$ 234,408	$201,042

4. Equipment:

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

(in Canadian dollars, except where noted)

4. Equipment (continued):

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

5. Intangible Assets:

	Cost	Accumulated amortization	Net book value
Technology rights	$ 60,000	$ -	$ 60,000
	$ 60,000	$ -	$ 60,000

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

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

(a) Factoring Loan:

During July 2004, the Company entered into a lending arrangement whereby the Company may borrow up to 80% of its accounts receivables that are less than 90 days overdue. The specified trade receivables are pledged as security for the arrangement, with full recourse against the Company for any amounts outstanding longer than 90 days overdue. The loans bear interest at 1.5% per month for the first 60 days outstanding, 3.5% per month for the period outstanding greater than 61 days and up to 90 days, and 5% per month for the period outstanding greater then 90 days. There is a 3% processing charge for all accounts receivable factored. At December 31, 2009 the amount due to the lender was $198,099 (2008 – $170,911).

(in Canadian dollars, except where noted)

6. Factoring loans, convertible debt, loan and advances (continued):

(b) Convertible debt:

From June 2004 to January 2005, the Company issued convertible debt instruments. The remaining debt instruments are unsecured and bear no interest. Each of the instruments have matured and are now repayable on demand. At December 31, 2009, the outstanding balance of the demand notes was $74,014 (2008 – $74,014).

The note 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. As at the audit report date non of these notes had been converted.

(c) Loans and advances:

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, 2009, the outstanding balance including principal and interest was $33,828 (2008 - $51,548).

6. Factoring loan, convertible debt, loan and advances (continued):

During 2008, the Company entered into two loan agreements with an unrelated 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, 2009, the total outstanding balance is $nil (2008 - $65,000).

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

(in Canadian dollars, except where noted)

7. Share capital:

(a) Authorized:

Unlimited common shares without par value

(b) Issued and outstanding:

	Number of shares	Amount
Balance, December 31, 2007	70,584,725	$ 6,690,294
Shares issued in private placement (i)	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 (ii)	2,000,000	95,000
Balance, December 31, 2008	82,004,725	7,261,294
Shares issued in private placements, net of issue costs (iii and iv)	21,308,335	726,100
Balance, December 31, 2009	103,313,060	$ 7,987,394

i) 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%, expected life of 2 years and a risk free rate of 2.66%.

ii) 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%, expected life of 1 year and a risk free rate of 2.43%.

(in Canadian dollars, except where noted)

7. Share capital(continued):

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

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

(c) Stock options:

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

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

	December 31, 2009		December 31, 2008	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	1,281,250	$ 0.11	1,511,000	$ 0.11
Grant	8,300,000	0.10	-	-
Expired	(154,750)	0.14	(229,750)	0.12
Outstanding, end of year	9,426,500	$ 0.10	1,281,250	$ 0.11

(in Canadian dollars, except where noted)

7. Share capital (continued):

As at December 31, 2009, all options are exercisable by the holders. The following table summarizes information about the options outstanding at December 31, 2009:

Number of outstanding Stock options	Exercise price	Weighted average life to expiry
1,100,000	$ 0.10	2.5 years
26,500	0.24	0.8 years
8,300,000	0.10	4.5 years
9,426,500	0.10	4.3 years

(d) Warrants

	December 31, 2009		December 31, 2008	
	Warrants	Weighted average exercise price	Warrants	Weighted average exercise price
Outstanding, beginning of year	16,600,000	$ 0.10	22,344,000	$ 0.10
Issued	17,129,167	0.10	11,520,000	0.10
Expired	(7,080,000)	0.10	(17,264,000)	0.10
Outstanding, end of year	26,649,167	$ 0.10	16,600,000	$ 0.10

The following table summarizes information about share warrants outstanding at December 31, 2009:

Number of outstanding warrants	Exercise price	Weighted average life to expiry
9,520,000	$ 0.10	0.4 years
17,129,167	0.10	0.5 years
26,649,167	$0.10	0.5 years

(in Canadian dollars, except where noted)

7. Share capital (continued):

(e) Contributed surplus:

		2009	2008
Balance, beginning of year	$	656,280	$ 656,280
Stock-based compensation		645,423	-
Balance, end of year	$	1,301,703	$ 656,280

On June 29, 2009, the Company granted 8,300,000 fully vested stock options to consultants, employees, and directors. The options were determined by management to have a fair value of $645,423 ($0.08 per option) using the Black-Scholes option pricing model with the current assumptions: volatility 197%, expected life 5 years, dividend rate 0%, and risk-free discount rate of 4.00%.

8. Research and development:

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

		2009	2008
Labor	$	-	$ 41,778
Product development/certification		45,492	50,110
Proprietary licensing funding		100,000	-
	$	145,492	$ 91,888

The Company's research and development work in 2009 included modifications to existing products, two new products and funding for research and development of products using the exclusive licensed technology (note 5).

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

(in Canadian dollars, except where noted)

8. Research and development (continued):

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

9. Supplementary cash flow information:

(a) Non-cash transactions

Other than disclosed in the financial statements, there were no significant non-cash transactions during the years ended December 31, 2009 and 2008

(b) Supplemental information:

		2009	2008
Interest paid in cash during year	$	50,666	$85,520
Income taxes paid during year		-	-

(in Canadian dollars, except where noted)

10. Income Taxes

Income tax recovery attributable to net loss before income tax recovery differs from the amounts computed by applying the combined Canadian federal and provincial income tax rate of 30.5% (2008 – 31.6%) to income before income taxes as follows:

		2009		2008
Net loss for the year	$	(1,234,363)	$	(861,622)
Statutory tax rate		30.5%		31.6%
Expected income tax recovery at substantively enacted rates	$	(376,481)	$	(271,411)
Tax effect on:				
Permanent differences and other		188,220		-
Expiring losses		-		62,468
Unrecognized benefit of loss carry forwards		-		208,943
Impact of tax rate changes		101,261		-
Change in valuation allowance		87,000		-
Income tax expense (recovery)	$	-	$	-

As at December 31, 2009, significant components of the Company's potential future tax assets are as follows:

		2009		2008
Potential future tax assets at 25% (2008-26%)				
Losses carried forward	$	1,368,000	$	1,281,000
Equipment		27,000		27,000
Total potential future tax assets		1,395,000		1,308,000
Valuation allowance 100% (2008 – 100%)		(1,395,000)		(1,308,000)
	$	-	$	-

The Company has cumulative income tax loss carry forwards at December 31, 2009 of approximately $5,420,000, which are potentially available to offset future taxable income. These losses expire at various dates up to 2029. As the Company has not established sufficient likelihood of future operating profitability to utilize available losses, a valuation allowance of 100% (2008 – 100%) has been recorded against the potential future tax assets.

(in Canadian dollars, except where noted)

11. Related party transactions:

The Company entered into the following transactions with related parties:

(a) During the current year, the Company paid or accrued salaries to directors and officers of $200,900 (2008 - $195,600). 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, 2009, $163,004 (2008 - $218,437) is payable to directors and officers for accrued services and advances.

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

12. Commitments:

The Company is committed under a lease for office and production premises to July 31, 2013. Annual anticipated lease payments are as follows: (See also note 8)

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

13. Segmented information:

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

	2009	2008
U.S.A.	$ 1,098,429	$ 853,854
Canada	510,175	398,741
Other	52,412	54,478
	$ 1,661,016	$ 1,307,073

(in Canadian dollars, except where noted)

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, 2009, the Company's net liability denominated in foreign currency is $346,096 (2008 - $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 are due. Due to current economic conditions in capital and selling markets, the Company has a high risk associated with liquidity. The Company does not hold complex financial instruments or significant long-term assets. The Company uses a factoring agent to provide immediate liquidity for 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.

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, 2009, four customers represent approximately 32% (2008 – 47%) 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'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.

(in Canadian dollars, except where noted)

15. Capital Management (continued):

The Company manages the capital structure and makes adjustments to capital management strategies based on economic conditions and 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 other management policies

The Company is not subject to externally imposed capital requirements. Management plans additional capital equity funding in 2010 to assist with current capital needs for working capital.

Additional funding will be needed to continue the research and development commitments (notes 6 and 8). Management expects to be able to raise this capital through equity, loans and assignments of interests in the technology in the 2010 fiscal year.

Fair Value of financial instruments

Fair value represents the amount that would be exchanged in an arm's length transaction between willing and knowledgeable counter-parties The carrying value of bank indebtedness, accounts receivable, and accounts payable and approximates the fair value due to the relatively short-term maturity of these financial instruments.