NEODYM TECHNOLOGIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR PERIODS ENDED MAY 31, 2012 AND 2011

(Unaudited – Prepared by Management)

NOTICE

No auditor review of the Interim Financial Statements

The accompanying unaudited condensed consolidated interim financial statements of Neodym Technologies Inc. ("the Company"), for the three months ended May 31, 2012, have been prepared by management and have not been the subject of a review by the Company's external independent auditors.

NEODYM TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)

	May 31 2012	February 29 2012
	$	$
ASSETS		
CURRENT		
Cash and cash equivalents	**11,179**	11,792
Accounts receivable (Note 3)	**20,326**	18,342
Materials inventory	**720**	-
	32,225	30,134
EQUIPMENT (Note 4)	**917**	990
INTANGIBLE ASSETS (Note 5)	**8,529**	8,204
	41,671	39,328
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 6)	**72,996**	56,233
Due to related parties (Note 9)	**983,996**	987,259
Sales prepayment	**-**	-
Loans payable (Note 7)	**21,252**	21,000
	1,078,244	1,064,492
SHAREHOLDERS' DEFICIENCY		
SHARE CAPITAL (Note 8)	**1,092,985**	1,092,985
CONTRIBUTED SURPLUS	**24,589**	24,589
DEFICIT	**(2,154,147)**	(2,142,738)
	(1,036,573)	(1,025,164)
	41,671	39,328

GOING CONCERN AND NATURE OF OPERATIONS (Note 1)
SUBSEQUENT EVENTS (Note 14)
These consolidated financial statements were authorized for issue by the Board of Directors on July 30, 2012. They are signed on the Company's behalf by:

Signed: ***"Juraj Krajci"***
Director

Signed: ***"Stephen Pearce"***
Director

The accompanying notes are an integral part of these Consolidated Financial Statements.

NEODYM TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

	For The Periods Ended	
	May 31, 2012	May 31, 2011
	$	$
REVENUE		
Sales	**43,846**	58,006
Cost of sales (Note 9)	**(15,748)**	(21,219)
Gross Profit	**28,098**	36,787
ADMINISTRATIVE EXPENSES		
Advertising and promotion	**416**	532
Amortization	**312**	1,940
Audit	**-**	850
Bank charges, interest and exchange	**1,261**	1,299
Customer service and application support	**6,054**	5,300
Management fees (Note 9)	**19,499**	17,227
Marketing (Note 9)	**5,652**	5,357
Office	**2,429**	4,588
Realized foreign exchange loss (gain)	**(654)**	(14)
Regulatory and stock transfer fees	**2,311**	1,904
Rent (Note 9)	**750**	750
Research and development (Note 9)	**1,129**	3,352
Telephone	**348**	791
	39,507	43,876
NET AND COMPREHENSIVE LOSS FOR THE PERIOD	**(11,409)**	(7,089)
NET LOSS PER COMMON SHARE - BASIC AND DILUTED	**(0.00)**	(0.00)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	**10,151,920**	10,151,920

The accompanying notes are an integral part of these Consolidated Financial Statements.

NEODYM TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED MAY 31, 2012 AND 2011
(Unaudited)

	SHARE CAPITAL			CONTRIBUTED			
	NUMBER		AMOUNT		SURPLUS		DEFICIT		TOTAL
Balance, February 29, 2011	12,151,920	$	1,092,985	$	24,589	$	(2,126,832)	$	(1,006,988)
Net loss for the period	-		-		-		(7,089)		(7,089)
Balance, May 31, 2011	12,151,920	$	1,092,985	$	24,589	$	(2,134,429)	$	(1,014,077)
Balance, February 29, 2012	**12,151,920**	**$**	**1,092,985**	**$**	**24,589**	**$**	**(2,142,738)**	**$**	**(1,025,164)**
Net loss for the Period	**-**		**-**		**-**		**(11,409)**		**(11,409)**
Balance, MAY 31, 2012	**12,151,920**	**$**	**1,092,985**	**$**	**24,589**	**$**	**(2,154,147)**	**$**	**(1,036,573)**

The accompanying notes are an integral part of these Consolidated Financial Statements.

NEODYM TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For The Periods Ended	
	May 31, 2012	May 31, 2011
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (Loss) for the period	**(11,409)**	(7,089)
Adjust for items not requiring an outlay of cash:		
Amortization	**312**	1,940
Foreign exchange loss (gain)	**-**	(14)
	(11,097)	(5,163)
Change in non cash working capital items:		
Accrued Interest payable	**252**	(2,748)
Accounts receivable	**(1,984)**	(9,721)
Materials inventory	**(720)**	(1,750)
Accounts payable and accrued liabilities	**16,763**	2,432
	3,214	(16,950)
CASH FLOWS FROM INVESTING ACTIVITIES		
Product development	**(564)**	(1,663)
CASH FLOWS FROM FINANCING ACTIVITIES		
Related party payable	**(3,263)**	23,459
CHANGE IN CASH	**(613)**	4,846
CASH AND CASH EQUIVALENTS – Beginning of period	**11,792**	14,830
CASH AND CASH EQUIVALENTS – End of period	**11,179**	19,676

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	**-**	3,000
Income tax paid	**-**	-

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

1. GOING CONCERN AND NATURE OF OPERATIONS

Neodym Technologies Inc. (the "Company") was incorporated under the laws of British Columbia, and its principal business activity is the development and sales of gas safety and loss control systems. The Company's registered office is located at 711 – 675 West Hastings Street, Vancouver BC, V6B 1N2

These consolidated financial statements have been prepared on the assumption that the Company is a going concern, meaning that it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of operations. The Company reported comprehensive loss for the periods ended May 31, 2012 and 2011 of $11,409 and $7,089 had working capital deficiencies of $1,046,019 and $1,026,706 at these dates. These factors create doubt as to the ability of the Company to continue as a going concern. The Company is critically dependent on investor financing and increasing levels of sales in order to carry out its short term plans for development, production and marketing. The consolidated financial statements do not reflect adjustments to the carrying values of assets should the Company be unable to generate sufficient sales or otherwise raise additional funds to continue operations.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The consolidated financial statements of the Company for the period-ending May 31, 2012 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

b) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Neodym Systems Inc. All significant intercompany transactions and balances have been eliminated upon consolidation. The functional currency of the Company is the Canadian dollar.

c) Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenditures during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of assets, and determination of fair value for stock based compensation and transactions. Due to the inherent uncertainty involved with making such estimates, actual results reported in future years could differ from these estimates.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

d) Financial instruments

Financial instruments are defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Company recognizes financial assets and financial liabilities when it becomes a party to the contractual provisions of the instrument.

Financial assets are classified into the following categories at their initial recognition:

- Financial assets at fair value through profit or loss;
- Held-to-maturity investments;
- Loans and receivables; and
- Available-for-sale investments

Financial liabilities are classified into the following categories at their initial recognition:

- Financial liabilities at fair value through profit or loss; and
- Financial liabilities measured at amortized cost.

Financial assets and liabilities are initially measured at fair value, plus, in the case of a financial asset or liability not at fair value through profit or loss, transactions costs directly attributable to the acquisition or issuance of the financial asset or liability. In a purchase or sale of financial assets recognition and de-recognition occurs using trade date accounting.

Financial assets are subsequently measured after initial recognition at fair value, except for financial assets classified as held-to-maturity investments or loans and receivables, which are subsequently measured at amortized cost using the effective interest method.

Financial liabilities at fair value through profit or loss are subsequently measured after recognition at fair value. All other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial assets are derecognized when:

- The contractual rights to cash flows from the financial asset expire;
- The contractual rights to the cash flows from the financial asset are retained, but a contractual obligation to pay the cash flows to another party without material delay is assumed by the Company.
- Or when the Company transfers substantially all the risk and rewards of ownership of the financial asset.

Financial liabilities are derecognized when the obligations are discharged, cancelled or expire.

The carrying amount of financial assets is reduced by impairment loss directly for all financial assets with the exception of financial assets classified as loans and receivables, where the carrying amount is reduced through the use of an allowance account. When these assets are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment loss been recognized.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

c) **Financial instruments** (continued)

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of loss and comprehensive loss.

The Company designates its financial instruments as follows:

- Cash and short-term investments are classified as fair value through profit or loss.
- Accounts receivable, interest receivable, HST recoverable are classified as loans and receivables.
- Accounts payable and accrued liabilities are classified as liabilities measured at amortized cost.

d) **Cash and cash equivalents**

For purposes of reporting cash flows, the Company considers cash and short-term investments to include amounts held in banks and highly liquid investments with remaining maturities at point of purchase of 90 days or less. The Company places its cash and cash investments with institutions of high-credit worthiness. As at May 31, 2012, there is $Nil (2011 - $Nil) included as cash equivalents.

f) **Foreign currency translation**

Transactions in foreign currencies are translated at the exchange rate in effect at the date of the transaction. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates prevailing at the statement of financial position date. Non-monetary items are translated into Canadian dollars at the exchange rate in effect on the respective transaction dates. Revenues and expenses are translated at average rates for the period, except for amortization, which is translated on the same basis as the related asset. Exchange gains or losses arising on foreign currency translation are reflected in profit or loss for the period.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

g) Share capital

i) Non-monetary consideration - Shares, agent's warrants, stock options and other equity instruments issued as purchase consideration in non-monetary transactions are recorded at fair value determined by management using the Black-Scholes option pricing model. The fair value of the shares issued is based on the trading price of those shares on the NEX on the date of the agreement to issue shares as determined by the Board of Directors.

ii) Stock based compensation - The Company measures the cost of the service received for all stock options made to consultants, employees and directors based on an estimate of fair value at the date of grant. The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock option at the date of grant. Stock options which vest immediately are recorded at the date of grant. Stock options that vest over time are recorded over the vesting period using the straight line method. Stock options issued to outside consultants that vest over time are valued at the grant date and subsequently re-valued on each vesting date. Stock based compensation is recognized as expense or, if applicable, capitalized to mineral property costs with a corresponding increase in contributed surplus. On exercise of the stock option, consideration received and the estimated fair value previously recorded in contributed surplus is recorded as share capital.

iii) Share issuance costs - Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issuance costs incurred in advance of share subscriptions are recorded as non-current deferred assets. Share issuance costs related to uncompleted share subscriptions are charged to operations.

h) Equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Depreciation is recorded at the following rates:

Communication equipment	20%
Computers	30%
Machinery and equipment	20%

In the year of acquisition, depreciation is provided at one-half the normal rate. An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

i) Inventory

Inventory is recorded at the lower of cost and net realizable value, and is comprised of materials required for the production of the Company's gas leak detection products.

An assessment is made of net realizable value from the inventory in each period. When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories is recognized as part of the cost of goods and services expense in the period the write-down or loss occurs. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed, limited to the amount of the original write-down, so that the new carrying amount is the lower of the cost and the revised net realizable value. The amount of any reversal of any write-down of inventories arising from an increase in net realizable value is recognized as a reduction in the amount of inventories recognized as part of the cost of goods and services expense in the period in which the reversal occurs.

j) Intangible assets

Intangible assets acquired separately - Patents are reported at cost less accumulated amortization and impairment losses. Patent costs represent amounts paid to third parties for the registration of patents. Amortization is charged on a straight line basis over a twenty year period. The estimated useful life and amortization method are reviewed each year end, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets – Deferred Product Development Costs are recognized only if all of the following conditions are met: an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; the development cost of the asset can be measured reliably; and the product from which the asset arises meets the IFRS criteria for technical and commercial feasibility. Internally-generated intangible assets are amortized on a straight-line basis over their useful lives. Costs meeting the capitalization criteria are recorded as Deferred Product Development Costs. Amortization is provided on a straight-line basis over the estimated three year commercial lives of the products. Where no internally generated intangible asset can be recognized, development expenditure is recognized as an expense in the period in which it is incurred. Capitalized expenses include the cost of material, direct labor, direct overhead and outsourcing costs.

k) Revenue recognition

Revenue from the sale of products is recognized upon shipment, which is when: ownership is transferred, the fee is fixed and determinable, the collection of resulting receivables is probable and any uncertainties with regard to customer acceptance are insignificant.

Revenue from the provision of engineering services is recognized upon project/service completion.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

l) Research and development

An internally-generated intangible asset arising from product development is recognized only if all of the following conditions are met: an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; the development cost of the asset can be measured reliably; and the product from which the asset arises meets the IFRS criteria for technical and commercial feasibility. Internally-generated intangible assets are amortized on a straight-line basis over their useful lives. Costs meeting the capitalization criteria are recorded as Deferred Product Development Costs. Amortization is provided on a straight-line basis over the estimated three year commercial lives of the products. Where no internally generated intangible asset can be recognized, development expenditure is recognized as an expense in the period in which it is incurred. Capitalized expenses include the cost of material, direct labor, direct overhead and outsourcing costs.

m) Asset impairment

On an annual basis, or when impairment indicators arise, the Company evaluates the future recoverability of its patent and deferred product development costs. Capitalized costs are written off to the extent that the accumulated costs exceed the undiscounted cash flows expected to be generated from those assets. When an asset is not recoverable, the impairment loss recognized is measured as the amount by which the carrying amount of the asset exceeds its fair value.

Where practicable, deferred product development costs are allocated to products or product groups on a specific identification basis. When costs are not specifically identified, costs are allocated on the basis of relative specifically identified costs.

n) Income taxes

Current income tax:
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the 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.

Deferred income tax:
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. 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, 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. Valuation allowances are provided where net deferred income tax assets are not more likely than not to be realized.

o) Earnings per share

Basic earnings per share are calculated by dividing net income (loss) by the weighted average number of shares issued and fully paid. The calculations of earnings per share on a diluted basis are calculated using the treasury stock method, which considers the potential exercise of outstanding financial instruments with equity purchase or conversion features.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Future accounting pronouncements

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

IFRS 9, “Financial Instruments”:

As of January 1, 2013, the Company will be required to adopt IFRS 9, “Financial Instruments”, which is the result of the first phase of the IASB’s project to replace IAS 39, “Financial Instruments: Recognition and Measurement”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The adoption of this standard should not have a material impact on the Company's Consolidated Financial Statements.

IFRS 10, “Consolidated Financial Statements”:

IFRS 10 is a new standard which identifies the concept of control as the determining factor in assessing whether an entity should be included in the consolidated financial statements of the parent company. Control is comprised of three elements: power over an investee; exposure to variable returns from an investee; and the ability to use power to affect the reporting entity’s returns. IFRS 10 is effective for annual period beginning on or after January 1, 2013. Earlier adoption is permitted.

IFRS 11, “Joint Arrangements”:

IFRS 11 is a new standard which focuses on classifying joint arrangements by their rights and obligations rather than their legal form. Entities are classified into two groups: parties having rights to the assets and obligations for the liabilities of an arrangement, and rights to the net assets of an arrangement. Entities in the former case account for assets, liabilities, revenues and expenses in accordance with the arrangement, whereas entities in the later case account for the arrangement using the equity method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

3. ACCOUNTS RECEIVABLE

	May 31, 2012	February 29, 2012
Value added tax recoverable	**$ 8,146**	$ 4,074
Deposit	**250**	250
Sales receivables	**11,930**	14,018
	$ 20,326	$ 18,342

4. EQUIPMENT

	Costs			
	Communication Equipment	Computers	Machinery and Equipment	Total
Balance February 28, 2011	$ 557	$ 14,844	$ 572	$ 15,973
Additions	-	-	-	-
Balance February 29, 2012	557	14,844	572	15,973
Additions	-	-	-	-
Balance May 31, 2012	$ 557	$ 14,844	$ 572	$ 15,973

	Accumulated Depreciation			
	Communication Equipment	Computers	Machinery and Equipment	Total
Balance February 28, 2011	$ 514	$ 13,503	$ 549	$ 14,566
Depreciation	9	403	4	416
Balance February 29, 2012	523	13,908	553	14,984
Depreciation	2	70	1	73
Balance May 31, 2012	$ 521	$ 13,838	$ 552	$ 14,911

	Net Carrying Amount			
	Communication Equipment	Computers	Machinery and Equipment	Total
Balance February 28, 2011	$ 43	$ 1,341	$ 23	$ 1,407
Balance February 29, 2012	34	938	18	990
Balance May 31, 2012	32	868	17	917

5. INTANGIBLE ASSETS

	Costs		
	Deferred Product Development Costs	Patent	Total
Balance February 28, 2011	$ 910,851	$ 7,883	$ 918,732
Additions	5,320	-	5,320
Balance February 29, 2012	916,171	7,883	924,054
Additions	564	-	564
Balance May 31, 2012	$ 916,735	$ 7,883	$ 924,618

5. **INTANGIBLE ASSETS (continued)**

	Accumulated Depreciation		
	Deferred Product Development Costs	**Patent**	**Total**
Balance February 28, 2011	**$ 900,767**	**$ 6,468**	**$ 907,235**
Depreciation	**8,413**	**202**	**8,615**
Balance February 29, 2012	**909,180**	**6,670**	**915,850**
Depreciation	**188**	**51**	**239**
Balance May 31, 2012	**$ 909,368**	**$ 6,619**	**$ 916,089**

	Net Carrying Amount		
	Deferred Product Development Costs	**Patent**	**Total**
Balance February 28, 2011	**$ 10,084**	**$ 1,415**	**$ 11,499**
Balance February 29, 2012	**6,991**	**1,213**	**8,204**
Balance May 31, 2012	**7,367**	**1,162**	**8,529**

The Company has registered a patent in the United States relating to its gas detection method and apparatus. The patent expires in 2019.

6. **ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	May 31, 2012	February 29, 2012
Trade payables	**$ 72,996**	$ 56,456

7. **LOANS PAYABLE**

	May 31, 2012	February 29, 2012
Repayable on demand, bearing interest at 5% per annum	**$ 10,000**	$ 10,000
Repayable on demand, bearing interest at 5% per annum	**10,000**	10,000
Accrued interest	**1,252**	1,000
	$ 21,252	$ 21,000

8. SHARE CAPITAL

a) Authorized - Unlimited common shares without par value

b) Share purchase warrants - No share purchase warrants were outstanding as at May 31, 2012.

c) Share purchase option - No stock options were outstanding as at May 31, 2012.

d) Performance shares

2,000,000 common shares are restricted. The Company's shareholders have approved the change of release provisions on the escrow shares from a performance based formula to a time release formula. This change is subject to regulatory approval.

As at May 31, 2012, no performance shares had been released. Performance shares are excluded from the calculation of weighted average number of shares outstanding in determining basic and diluted loss per share.

9. RELATED PARTY TRANSACTIONS

a) Pursuant to an employment services agreement, the Company was charged $16,398 (2011: $16,398) for management and product development services, provided by Stellar J Enterprises Corp., a private company controlled by a director. The same company also charged $3,338 (2011: $3,657) for assembly and manufacturing services, and $750 (2011: $750) for office rent. The Company was charged $9,000 (2011: $9,000) for marketing and product development services, by William McDonald, a director. These costs were allocated to cost of sales, deferred product development costs, research and developments costs, and marketing on the financial statements. The Company reimbursed business expenses as follows: Juraj Krajci - Director $2,004, and Alica Krajci – Wife of Director $807.

b) Related party payables of $983,996 (February 29, 2012: $987,259) are owed to directors or companies which have directors in common. They are non-interest bearing and have no fixed terms of repayment.

Related party transactions are conducted in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

10. SEGMENTED INFORMATION

The Company operates in one business segment, which is the development, manufacture and sale of gas detection devices and systems. Substantially all of the Company's identifiable assets are located in Canada.

11. ECONOMIC DEPENDENCE

The Company derives a sizable percent of its revenue from its largest customers. The cancellation of purchase orders from one or more of these customers may have a material adverse impact on the Company.

12. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company includes equity, comprised of issued capital stock, warrant capital, contributed surplus and deficit, in the definition of capital. The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to further develop and market its gas leak detection products, and to maintain its ongoing operations. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity and warrants or by securing strategic partners. The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the current period.

13. FINANCIAL INSTRUMENTS

The Company has classified fair value measurements of its financial instruments using a fair value hierarchy that reflects the significance of inputs used in making the measurements as follows:

Level 1 – Valuation based on quoted prices (unadjusted) in active markets for identical assets of liabilities;

Level 2 – Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest of currency exchange rates; and

Level 3 – Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

As at May 31, 2012, the Company's financial instruments consists of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, amounts due to related parties, and loans payable. Cash and cash equivalents are carried at fair value using a level 1 fair value measurement. The carrying value of accounts receivable, amounts due to related parties, accounts payable and accrued liabilities, sales prepayment and loans payable approximate their fair value because of their nature and respective maturity dates or durations.

Unless otherwise noted, it is management's option that the Company is not exposed to significant credit, liquidity or market risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

a) Credit risk - The Company's largest customer accounts receivable balances represent a sizable percentage of total receivables.

b) Foreign currency risk - The Company's activities that result in exposure to fluctuations in foreign currency exchange rates consist of the sale of products to customers invoiced in foreign currencies and the purchase of services, materials, and property and equipment from suppliers invoiced in foreign currencies. The Company does not use derivative instruments to hedge its currency risk. A majority of the Company's accounts receivable are denominated in U.S. dollars.

d) Market risk - Market risk is the risk that changes in market conditions, such as input parts prices, interest rates, and foreign exchange rates, will affect the Company's cash flows or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company does not utilize financial derivatives or other contracts to manage market risks.

13. FINANCIAL INSTRUMENTS (continued)

e) Liquidity risk - Liquidity risk is the risk that the Company will encounter difficulty in paying obligations as they come due. The Company's financial liabilities consist of accounts payable, related party payables, sales prepayment and loans payable. Accounts payable consists of invoices payable to trade suppliers for capital and operating expenditures and for general corporate expenses. The Company processes invoices within a normal payment period. Loans payable are renegotiated to extend terms and conditions as required. Sales prepayment represents funds advanced as a deposit to secure a special order that has subsequently been cancelled. These funds will be used to defray the development and certification costs related to the project. Related party payables do not bear any interest and are provided on a non-secured basis. The Company prepares funds from operations and capital expenditure budgets, which are regularly monitored and updated.

14. SUBSEQUENT EVENTS

Neodym Technologies Inc. continues to work on business announced April 23, 2012:

- to facilitate a re-organization of the Company, to sell its current gas detection equipment business on terms to be agreed. This transaction will be subject to regulatory and other approvals. The Company wishes to assure customers, suppliers, and service providers that the gas detection equipment business will continue to operate as before under the same name and the existing management team.

- to seek approval for a consolidation of its common shares on a one (new) for two (old) shares basis and a consequent change of name of the Company. Post-consolidation, the Company will have approximately 6,075,960 shares issued and outstanding. These transactions will be subject to regulatory approval.

- a non-brokered private placement of up to 25,000,000 units at a price of $0.06 per unit, each unit consisting of one post-consolidated share of the Company and one warrant to buy one additional post-consolidated share of the Company for $0.10 for a period of one year from the closing of the placement. Proceeds of the private placement will be used to pay off existing debt and to provide the Company with working capital to enable it to move forward and find a new business. The private placement is subject to regulatory approval. Finder’s fees will be paid in accordance with the policies of the Exchange.