NEODYM TECHNOLOGIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR YEARS ENDED FEBRUARY 28, 2011 AND 2010

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charlton & company
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To: the Shareholders of
Neodym Technologies Inc.

We have audited the accompanying consolidated financial statements of Neodym Technologies Inc., which comprise the consolidated balance sheets as at February 28, 2011 and 2010, and the consolidated statements of operations and comprehensive loss, statement of shareholders' equity and deficit, cash flows and a summary of significant accounting policies and other explanatory information for the years then ended.

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

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Neodym Technologies Inc. as at February 28, 2011 and 2010, and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Noedym Technolgies Inc.'s ability to continue as a going concern.

"Charlton & Company"
CHARTERED ACCOUNTANTS

Vancouver, Canada
June 28, 2011

NEODYM TECHNOLOGIES INC.
CONSOLIDATED BALANCE SHEETS

	February 28 2011	February 28 2010
	$	$
ASSETS		
CURRENT		
Cash and cash equivalents	**14,830**	14,760
Accounts receivable	**23,546**	25,804
Materials inventory	**15,373**	21,812
	53,749	62,376
EQUIPMENT (Note 3)	**1,407**	1,221
DEFERRED PRODUCT DEVELOPMENT COSTS (Note 4)	**10,084**	12,488
PATENT (Note 5)	**1,415**	1,617
	66,655	77,702
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**56,456**	56,675
Related party payables (Note 8)	**930,966**	801,144
Sales prepayment	**63,221**	68,330
Loans payable (Note 6)	**23,000**	24,003
	1,073,643	950,152
SHAREHOLDERS' DEFICIENCY		
SHARE CAPITAL (Note 7)	**1,092,985**	1,092,985
CONTRIBUTED SURPLUS	**24,589**	24,589
ACCUMULATED OTHER COMPREHENSIVE INCOME	**2,270**	3,860
DEFICIT	**(2,126,832)**	(1,993,884)
	(1,006,988)	(872,450)
	66,655	77,702

GOING CONCERN AND NATURE OF OPERATIONS (Note 1)

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

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

	For The Years Ended February 28 2011	February 28 2010
	$	$
REVENUE		
Sales	**185,574**	246,376
Cost of sales	**(64,253)**	(81,170)
Gross Profit	**121,321**	165,206
ADMINISTRATIVE EXPENSES		
Advertising and promotion	**3,931**	3,105
Amortization	**13,393**	14,498
Audit	**16,750**	17,000
Bank charges, interest and exchange	**5,432**	4,650
Customer service and application support	**34,489**	38,406
Management fees	**111,830**	112,491
Marketing	**30,817**	28,486
Office	**1,260**	2,497
Product certification	**-**	(4,318)
Foreign exchange loss (gain)	**(3,854)**	619
Regulatory and stock transfer fees	**12,753**	11,063
Rent	**3,000**	3,000
Research and development	**20,829**	19,267
Telephone	**3,639**	4,040
Write off of accounts receivable	**-**	480
	254,269	255,284
LOSS FOR THE YEAR	**(132,948)**	(90,078)
OTHER COMPREHENSIVE LOSS		
Unrealized gain (loss) on currency revaluation	**(1,590)**	13,346
COMPREHENSIVE LOSS FOR THE YEAR	**(134,538)**	(76,732)
NET LOSS PER SHARE - BASIC AND DILUTED	**(0.01)**	(0.01)
WEIGHTED AVERAGE NUMBER OF 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 SHARHOLDERS' EQUITY AND DEFICIT
FOR THE YEARS ENDED FEBRUARY28, 2011 AND 2010

	SHARE CAPITAL				CONTRIBUTED		ACCUMULATED OTHER COMPREHENSIVE			
	NUMBER		AMOUNT		SURPLUS		INCOME/(LOSS)		DEFICIT		TOTAL
Balance, February 29, 2009	12,151,920	$	1,092,985	$	24,589	$	(9,486)	$	(1,903,806)	$	(795,718)
Net loss for the year	-		-		-		-		(90,078)		(90,078)
Other Comprehensive gain for the year	-		-		-		13,346		-		13,346
Balance, February 28, 2010	12,151,920		1,092,985		24,589		3,860		(1,993,884)		(872,450)
Net loss for the year	-		-		-		-		(132,948)		(132,948)
Other Comprehensive loss for the year	-		-		-		(1,590)		-		(1,590)
Balance, February 28, 2011	**12,151,920**	**$**	**1,092,985**	**$**	**24,589**	**$**	**2,270**	**$**	**(2,126,832)**	**$**	**(1,006,988)**

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

NEODYM TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Years Ended	
	February 28 2011	February 28 2010
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	**(132,948)**	(90,078)
Unrealized currency revaluation	**(1,590)**	13,346
Adjust for items not requiring an outlay of cash:		
Amortization	**13,393**	14,498
Write off of accounts receivable	**-**	480
Foreign exchange loss (gain)	**(3,854)**	619
	(124,999)	(61,135)
Change in non cash working capital items:		
Accrued Interest payable	**(1,003)**	1,000
Accounts receivable	**1,003**	9,085
Materials inventory	**6,439**	1,505
Accounts payable and accrued liabilities	**(219)**	(11,230)
Sales prepayment	**-**	(14,345)
	(118,779)	(75,120)
CASH FLOWS FROM INVESTING ACTIVITIES		
Equipment	**(641)**	(747)
Product development	**(10,332)**	(9,587)
	(10,973)	(10,334)
CASH FLOWS FROM FINANCING ACTIVITIES		
Related party payable	**129,822**	59,376
INCREASE (DECREASE) IN CASH	**70**	(26,078)
CASH AND CASH EQUIVALENTS – Beginning of year	**14,760**	40,838
CASH AND CASH EQUIVALENTS – End of year	**14,830**	14,760
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	**2,000**	-
Income tax paid	**-**	-

The accompanying notes are an integral part of these 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.

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 net comprehensive losses for the years ended February 28, 2011 and 2010 of $134,538 and $76,732 and had working capital deficiencies of $1,019,894 and $887,776 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) 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.

b) Variable interest entities

The CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities", to provide accounting guidance related to variable interest entities ("VIE"). A VIE is an entity in which equity investors do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinates financial support. When a VIE is determined to exist, the guidance requires the VIE to be consolidated by the primary beneficiary. The Company has determined that it does not have a primary beneficiary interest in a VIE.

c) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles 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.

d) Financial instruments

The Company designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities, due to related parties, sales prepayment and loans payable are classified as other financial liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Financial instruments (continued)

The Company has adopted the amendments to CICA Handbook Section 3862, Financial Instruments – Disclosures. It was amended to include disclosures about fair value measurements of financial instruments and to enhance liquidity risk disclosure. The additional fair value measurement disclosures include classification of financial instrument fair values in a fair value hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements, described as follows:

Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or 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 or 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.

e) 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 February 28, 2011, there is $Nil (2010 - $Nil) included as cash equivalents.

f) Foreign currency translation

Currency transactions and balances are translated into the Canadian dollar reporting currency using the temporal method as follows:

i) Monetary items are translated at the rates prevailing at the balance sheet date;
ii) Non-monetary items are translated at historical rates;
iii) Revenues and expenses are translated at the average rates in effect during applicable accounting periods, except amortization, which is translated at historical rates;
iv) Gains and losses on foreign currency translation are reflected in the consolidated statements of operations and comprehensive loss.

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 TSX.V on the date of the agreement to issue shares as determined by the Board of Directors.

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

g) Share capital (continued)

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 amortization, which is recorded over the useful lives of the assets on the declining balance basis at the following rates:

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

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.

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

j) 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.

k) Patent

The patent was recorded at cost and is being amortized over its twenty year life on a straight-line basis.

l) Research and development

The Company expenses the costs of its product development activity until such time as:

- A product is clearly defined and costs relating thereto can be identified;
- Technical feasibility has been established;
- A future market is clearly defined/usefulness has been established;
- The Company intends to produce and market, or use, the product; and
- Resources exist, or can be made available, to effectively commercialize the product.

Product maintenance and service costs, minor costs for enhancements and customization, and research costs are charged to expense as incurred.

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.

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

Income taxes are calculated using the liability method of accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. The future income tax liabilities or assets are measured using tax rates and laws expected to apply in the periods that the temporary differences are expected to reverse. Valuation allowances are provided where (net) future income tax assets are not more likely than not to be realized.

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

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.

p) Future accounting pronouncements

The following accounting pronouncements are applicable to future reporting periods. The Company is currently evaluating the effects of adopting these standards:

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the CICA adopted Sections 1582 - Business Combinations, 1601 - Consolidated Financial Statements, and 1602 - Non-Controlling Interests which superseded current Sections 1581 - Business Combinations and 1600 - Consolidated Financial Statement.

These new sections replace existing guidance on business combinations and consolidated financial statements to harmonize Canadian accounting for business combinations with International Financial Reporting Standards. These sections will be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Earlier adoption is permitted. If the Corporation applies these sections before January 1, 2011, it is required to disclose that fact and apply each of the new sections concurrently. The Corporation is currently evaluating the impact of the adoption of these changes on its consolidated financial statements.

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of March 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended February 28, 2011. The Company has begun an internal diagnostic review to understand, identify and assess the overall effort required to produce financial information under IFRS, however, at this time, the financial reporting impact of the transition to IFRS cannot be reasonably estimated.

3. **EQUIPMENT**

	February 28, 2011		
	Cost	**Accumulated Amortization**	**Net Book Value**
Communication equipment	**$ 557**	**$ 514**	**$ 43**
Computers	**14,844**	**13,503**	**1,341**
Machinery and equipment	**572**	**549**	**23**
	$ 15,973	**$ 14,566**	**$ 1,407**

	February 28, 2010		
	Cost	Accumulated Amortization	Net Book Value
Communication equipment	$ 557	$ 503	$ 54
Computers	14,203	13,065	1,138
Machinery and equipment	572	543	29
	$ 15,332	$ 14,111	$ 1,221

4. **DEFERRED PRODUCT DEVELOPMENT COSTS**

Deferred product development costs represent wages, design fees, and material costs directly attributable to the development of the Company's gas leak sensing and detection equipment as follows:

	February 28, 2011	February 28, 2010
Product development costs	**$ 910,851**	$ 900,519
Less: Amortization	**900,767**	888,031
	$ 10,084	$ 12,488

5. **PATENT**

	February 28, 2011	February 28, 2010
Patent costs	**$ 20,037**	$ 20,037
Less: Amortization	**6,468**	6,266
Less: Provision for impairment	**12,154**	12,154
	$ 1,415	$ 1,617

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

The patent is not used in any of the products and there is a significant doubt that the Company will be able to generate future economic benefits from this patent. Therefore, impairment to the value of $12,154 was provided in prior years.

6. LOANS PAYABLE

	February 28, 2011	February 28, 2010
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	**3,000**	4,003
	$ 23,000	$ 24,003

7. SHARE CAPITAL

a) Authorized

Unlimited common shares without par value

b) Share purchase warrants

No share purchase warrants were outstanding as at February 28, 2011.

c) Share purchase option

The Company has a stock option plan that provides for the issuance of options to its directors, officers and employees. The maximum number of outstanding options must be no more than 10% of the issued and outstanding shares at any point in time, and the term of the options can be up to 5 years.

No stock options were outstanding as at February 28, 2011.

d) Performance shares

2,000,000 common shares are restricted and can be released on the basis of cumulative cash flow with one share released for each $0.087 per share of cumulative cash flow generated before May 2011. 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 February 28, 2011, 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.

8. RELATED PARTY TRANSACTIONS

a) Pursuant to a management agreement, the Company was charged $30,000 (2010: $30,000) for office, accounting and administrative support by a private company controlled by a former director. The contract is on a monthly basis and can be terminated by either party with 30 days notice. Pursuant to an employment services agreement, the Company was charged $124,297 (2010: $124,237) for management and product development services provided by a private company controlled by a director. The same company also charged $12,075 (2010: $15,274) for assembly and manufacturing services and $3,000 (2010: $3,000) for office rent. The Company was charged $54,000 (2010: $54,000) for marketing and product development services by a director.

b) Related party payables of $930,966 (2010: $801,144) are owed to companies which have certain current or former directors in common, of which $911,161 (2010: $781,816) relates to the agreements disclosed in Note 8(a). 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.

9. INCOME TAXES

A reconciliation of the expected income tax expense (benefit) to the actual income tax expense (benefit) for the years ended February 2011 and 2010 is as follows:

		February 28, 2011		February 28, 2010
Statutory rates		**28.75 %**		29.75 %
Income tax recovery at statutory rate	$	**(40,000)**	$	(23,000)
Expiry of non-capital losses		**-**		47,000
Net adjustments for deductible and non-deductible items		**-**		(4,000)
Effect of change in tax rate		**(45,000)**		280,000
Change in valuation allowance		**85,000**		(300,000)
Income tax provision	$	**-**	$	-

The components of future income taxes are:

		February 28, 2011		February 28, 2010
Non-capital losses carryforwards	$	**336,000**	$	300,000
Scientific research and experimental development		**16,000**		16,000
Resource deductions		**733,000**		733,000
Equipment		**129,000**		129,000
Total future income tax assets		**1,214,000**		1,178,000
Valuation allowance		**(1,214,000)**		(1,178,000)
Net future income tax asset	$	**-**	$	-

9. **INCOME TAXES** (continued)

The Company has available tax losses as follows which may be offset against future Canadian taxable income:

Expiry date	
2014	228,000
2015	274,000
2016	237,000
2027	115,000
2028	141,000
2029	115,000
2030	96,000
2031	139,000
	$ 1,345,000

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. **FINANCIAL INSTRUMENTS**

The Company has exposure to credit, foreign currency, market and liquidity risks from its use of financial instruments. This note provides information about the Company's exposure to each of these risks, and the Company's objectives, policies and processes for measuring and managing such risks. The board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework

a) Fair values

The Company's financial instruments at February 28, 2011 consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, amounts due to related parties, sales prepayment 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.

b) Credit risk

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

c) 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.

12. **FINANCIAL INSTRUMENTS** (continued)

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.

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.

13. **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.