KELSO TECHNOLOGIES INC.

Condensed Interim Consolidated Financial Statements
For the six months ended February 29, 2012
(Unaudited – Prepared by Management)
(Expressed in US Dollars)

Index

Management's Responsibility for Financial Reporting

The accompanying condensed interim consolidated financial statements of Kelso Technologies Inc. have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded, all transactions are authorized and duly recorded and financial records are properly maintained to facilitate the preparation of financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the condensed interim consolidated financial statements with management and the external auditors.

"William Troy" (signed)	*"James R. Bond" (signed)*
William Troy	James R. Bond

Vancouver, British Columbia
April 27, 2012

Kelso Technologies Inc.
Condensed Interim Consolidated Statement of Financial Position
(Unaudited – Prepared by Management)
(Expressed in US Dollars)

	February 29, 2012	August 31, 2011	September 1, 2010
		(Note 15)	(Note 15)
Assets			
Current			
Cash	**$ 415,625**	$ 1,457,934	$ 266,472
Accounts receivable	**182,762**	337,562	133,921
HST receivable	**30,298**	92,551	27,128
Prepaid expenses	**83,318**	45,755	16,586
Inventory (Note 6)	**813,421**	251,171	-
	1,525,424	2,184,973	444,107
Patent (Note 8)	**30,984**	34,557	34,619
Property and equipment (Note 7)	**300,170**	242,743	-
Deferred product costs	**208,613**	81,252	-
Deposit	**15,640**	15,640	-
	$ 2,080,831	$ 2,559,165	$ 478,726
Liabilities			
Current			
Accounts payable and accrued liabilities	**$ 220,004**	$ 251,937	$ 183,179
Due to related parties (Note 10)	**8,770**	17,000	104,396
Note payable (Note 12)	**-**	-	70,320
	228,774	268,937	357,895
Shareholders' Equity			
Capital Stock			
Common shares (Note 9 (a))	**13,895,660**	13,639,786	7,992,984
Subscriptions received	**-**	919	-
Share-based payments reserve (Note 9 (d))	**1,385,456**	1,347,740	634,933
Accumulated other comprehensive loss (Note 2)	**-**	-	(6,478)
Deficit	**(13,429,059)**	(12,698,217)	(8,500,608)
	1,852,057	2,290,228	120,831
	$ 2,080,831	$ 2,559,165	$ 478,726

Commitment (Note 11)
Subsequent Event (Note 14)

Approved on behalf of the Board:

"*William Troy*" (signed)
Director
William Troy

"*James R. Bond*" (signed")
Director
James R. Bond

See notes to condensed interim consolidated financial statements

Kelso Technologies Inc.
Condensed Interim Consolidated Statement of Changes in Equity
For the Six Months Ended February 29, 2012 and 2011
(Unaudited – Prepared by Management)
(Expressed in US Dollars)

	Share Capital		Shares	Share-based	Accumulated other		
	Number of shares	Amount	subscribed amount	Payments Reserve	comprehensive loss	Deficit	Total
Balance, September 1, 2010	21,778,383	$ 7,992,984	$ -	$ 634,933	$ (6,478)	$ (8,500,608)	$ 120,831
Exercise of warrants	1,682,500	305,828	-		-	-	305,828
For warrants	-	-	13,385	-	-	-	13,385
Issued for fees	14,400	3,569	-	-	-	-	3,569
Private placement	6,938,000	1,602,582	-	-	-	-	1,602,582
Share-based payments	-	-	-	92,466	-	-	92,466
Loss for the period	-	-	-	-	-	(409,564)	(409,564)
Translation adjustment for presentation currency	-	-	-	-	6,478	-	6,478
Balance, February 28, 2011	30,413,283	$ 9,904,963	$ 13,385	$ 727,399	$ -	$ (8,910,172)	$ 1,735,575
Balance, September 1, 2011	33,006,283	$ 13,639,786	$ 919	$ 1,347,740	$ -	$ (12,698,217)	$ 2,290,228
Shares issued	5,000	919	(919)	-	-	-	-
Exercise of warrants	735,000	217,989	-	-	-	-	217,989
Exercise of options	100,000	23,619	-	-	-	-	23,619
Exercise of options	-	13,347	-	(13,347)	-	-	-
Share-based payments	-	-	-	51,063	-	-	51,063
Loss for the period	-	-	-	-	-	(730,842)	(730,842)
Balance, February 29, 2012	33,846,283	$ 13,895,660	$ -	$ 1,385,456	$ -	$ (13,429,059)	$ 1,852,057

See notes to condensed interim consolidated financial statements

Kelso Technologies Inc.
Condensed Interim Consolidated Statement of Operations and Comprehensive Loss
For the Six Months Ended February 29, 2012 and 2011
(Unaudited – Prepared by Management)
(Expressed in US Dollars)

	Three months ended February 29, 2012	Three months ended February 28, 2011	**Six months ended February 29, 2012**	Six months ended February 28, 2011
Revenues	$ 240,918	$ 382,984	**$ 421,158**	$ 496,472
Cost of goods sold	158,512	268,433	**290,756**	347,476
Gross Profit	82,406	114,551	**130,402**	148,996
Expenses				
Share-based payments (Note 9 (b))	3,680	51,096	**51,062**	92,466
Management fees (Note 10)	88,215	45,124	**176,784**	89,516
Administrative salaries	51,691	61,952	**96,612**	105,054
Consulting and investor relations	47,187	52,534	**106,973**	57,523
Accounting and legal	22,187	38,946	**43,241**	62,469
Office and general	32,087	25,649	**67,573**	42,862
Research (Note 10)	26,993	27,141	**68,749**	85,286
Travel	25,588	15,005	**41,951**	23,612
Rent	32,001	13,261	**56,503**	17,428
Marketing	29,704	-	**67,235**	-
License fees	4,391	10,485	**4,391**	13,178
Automobile	6,535	3,394	**11,471**	9,831
Bank charges	3,123	3,689	**5,590**	5,315
Insurance	(232)	15,781	**5,191**	15,781
Telephone	4,469	-	**8,242**	-
Foreign exchange (gain)	(9,698)	(48,986)	**52,057**	(41,686)
Amortization of equipment and patent	8,803	4,034	**16,685**	4,787
	376,724	319,105	**880,310**	583,422
Loss before the following	(294,318)	(204,554)	**(749,908)**	(434,426)
Gain on settlement of debt	-	24,862	**14,764**	24,862
Interest income	3,462	-	**4,302**	-
Net Loss and Comprehensive Loss for the Period	$ (290,856)	$ (179,692)	**$ (730,842)**	$ (409,564)
Basic and Diluted Loss Per Share	$ (0.01)	$ (0.01)	**$ (0.02)**	$ (0.02)
Weighted Average Number of Common Shares Outstanding	33,186,780	24,054,174	**33,186,780**	24,054,174

See notes to condensed interim consolidated financial statements

Kelso Technologies Inc.
Condensed Interim Consolidated Statement of Cash Flows
For the Six Months Ended February 29, 2012 and 2011
(Unaudited – Prepared by Management)
(Expressed in US Dollars)

	Six months ended February 29, 2012	Six months ended February 28, 2011
Operating Activities		
Net loss	**$ (730,842)**	$ (409,564)
Items not involving cash		
Amortization of equipment and patent	**16,685**	4,787
Stock-based compensation	**51,062**	92,466
	(663,095)	(312,311)
Changes in non-cash working capital		
Accounts receivable	**154,800**	(141,976)
HST receivable	**62,253**	(27,721)
Prepaid expenses and deposit	**(37,563)**	(177,026)
Inventory	**(562,250)**	-
Accounts payable and accrued liabilities	**(31,933)**	87,045
Due to related parties	**(8,230)**	(89,445)
Deferred revenue	**-**	263,494
	(422,923)	(85,629)
Cash Provided by (Used in) Operating Activities	**(1,086,018)**	(397,940)
Investing Activities		
Deferred product costs	**(127,361)**	(11,859)
Equipment and patent	**(70,539)**	(127,218)
Cash Used in Investing Activities	**(197,900)**	(139,077)
Financing Activities		
Issue of and subscription for common shares, net of share issue costs	**242,528**	1,912,898
Shares subscribed	**(919)**	13,385
Note payable	**-**	(70,320)
Cash Provided by Financing Activities	**241,609**	1,855,963
Inflow (Outflow) of Cash	**(1,042,309)**	1,318,946
Cash, Beginning of Period	**1,457,934**	266,472
Cash, End of Period	**$ 415,625**	$ 1,585,418

Supplemental Cash Flow Information (Note 13)

See notes to condensed interim consolidated financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

Kelso Technologies Inc. (the "Company") designs, engineers, markets, produces and distributes various proprietary pressure relief valves and manway securement systems designed to reduce the risk of environmental harm due to non-accidental events in the transportation of hazardous commodities via railroad tank cars. The Company trades on the TSX Venture Exchange ("TSX-V") under the symbol "KLS" and on the OTCQX International ("OTCQX") under the symbol "KEOSF".

These condensed interim consolidated financial statements have been prepared on the basis of the going concern assumption meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company has experienced significant operating losses (February 29, 2012 - $730,842; February 28, 2011 - $409,564) and as at February 29, 2012 has an accumulated deficit of $13,429,059 (August 31, 2011 - $12,698,217) and working capital of $1,296,650 (August 31, 2011 - $1,916,036).

The Company plans to generate the necessary resources to finance operations by way of a combination of sales of its products, the issuance of equity securities through private placements and the exercise of warrants and options.

The condensed interim consolidated financial statements do not reflect adjustments to the amounts and classifications of assets and liabilities that would be necessary if the going concern assumption were not appropriate.

2. BASIS OF PREPARATION

These condensed interim consolidated financial statements of the Company have been prepared by management and are the Company's first International Financial Reporting Standards ("IFRS") condensed consolidated interim financial statements for the first quarter of the period covered by the first IFRS consolidated annual financial statements to be prepared in accordance with IFRS as issued by the International Accounting Standards Board and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The impact of the transition from Canadian generally accepted accounting principles ("GAAP") to IFRS is explained in Note 15. These condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* and do not include all of the disclosures required for a complete set of annual financial statements.

Basis of measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as fair value through profit or loss or available-for-sale, which are stated at their fair values. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

2. BASIS OF PREPARATION (Continued)

Functional and presentation currency

Effective August 31, 2011, the Company changed its functional currency for all its operations to the United States dollar (USD) from Canadian dollar (CAD). This is a result of the Company's increased exposure to the USD through increased operational activity and sales in the US. As a result, the Company has determined that the functional currency effective August 31, 2011 is the USD. This change also resulted in a different presentation and functional currency for the September 1, 2010 statement of financial position.

Prior to August 31, 2011, the Company reported its annual and quarterly consolidated financial statements with notes in CAD, which also was used as the unit of measure of all its foreign and Canadian operations. In making the change in reporting and functional currency, the Company follows the recommendations of IAS 21 *Foreign Exchange*.

In accordance with IAS 21, the Company is required to translate all amounts for the August 31, 2011 statement of financial position into the new functional currency using the exchange rate in effect at the date of the change. For the presentation currency change affecting the September 1, 2010 statement of financial position, IAS 21 requires that all amounts be presented for comparative purposes into US dollars using the current rate method whereby all revenues, expenses and cash flows are translated at average rates that were in effect during these periods and all assets and liabilities are translated at the closing rate in effect at the end of these periods. Equity transactions have been translated at historic rates. The exchange difference resulting from the translation is included in accumulated other comprehensive income (loss) presented in shareholders' equity.

The change in reporting currency resulted in the following impact on the September 1, 2010 opening consolidated statement of financial position with $6,478 foreign exchange loss on consolidation charged to accumulated other comprehensive loss in equity:

	Reported at September 1, 2010, in CAD	Presentation currency change	Reported at September 1, 2010 in US dollar presentation currency
Total current assets	473,664	(29,557)	444,107
Total assets	510,587	(31,861)	478,726
Total current liabilities	381,714	(23,819)	357,895
Total liabilities	381,714	(23,819)	357,895
Equity	128,873	(8,042)	120,831

2. BASIS OF PREPARATION (Continued)

The change in functional currency resulted in the following impact on the August 31, 2011 consolidated statement of financial position:

	Reported at August 31, 2011, in CAD	Functional currency change	Reported at August 31, 2011 in US dollar functional currency
Total current assets	2,140,032	44,941	2,184,973
Total assets	2,506,527	52,637	2,559,164
Total current liabilities	263,404	5,531	268,935
Total liabilities	263,404	5,531	268,935
Equity	2,243,123	47,106	2,290,229

Use of estimates and judgements

The preparation of these condensed interim consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and 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 during the reporting period. Actual results could differ from these estimates. Significant areas requiring the use of management estimates include:

(i) The determination of the fair value of stock options and warrants using stock pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions could materially affect the fair value estimate; therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company’s stock options and warrants.

(ii) The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax carry-forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore do not necessarily provide certainty as to their recorded values.

(iii) The assessment of the Company's ability to continue as a going concern involves judgment regarding future funding available for its product development and working capital requirements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these condensed interim consolidated financial statements and in preparing the opening IFRS statement of financial position at September 1, 2010 for the purposes of the transition to IFRS.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of presentation and consolidation

The condensed interim consolidated financial statements include the accounts of the Company and its integrated wholly-owned subsidiary, Kelso Technologies (USA) Inc., a Nevada, USA, corporation. Intercompany transactions and balances have been eliminated.

(b) Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is calculated over the estimated useful life of the property and equipment on a declining-balance basis at the following rates:

Building	– 4%
Office equipment	– 20%
Plant equipment	– 20%

Leasehold improvements are amortized on a straight-line basis over the lease term. In the year of acquisition, amortization is recorded based on one-half of annual amortization.

(c) Research and development

Research costs are expensed as incurred. Product and technology development costs, which meet the criteria for deferral and are expected to provide future benefits with reasonable certainty, are deferred and amortized over the estimated life of the products or technology. In 2011 the Company commenced deferring development costs associated with the manway securement systems. In the year of deferral of product costs, the Company does not record amortization.

(d) Patent costs

Patents are capitalized and amortized on a straight-line basis over their 13-year protective term. The patents are tested for impairment on an annual basis or when events occur that may indicate impairment. If there are indications of impairment, the unamortized balance is charged to operations in the period.

(e) Revenue recognition

Revenues are recognized when the risks and rewards of ownership have passed to the customer based on the terms of the sale, collection of the relevant receivable is probable, evidence of an arrangement exists and the sales price is fixed or determinable. Risk and rewards of ownership pass to the customer upon shipment or upon invoicing depending on the agreement with the customer. Provisions for sales discounts, returns and miscellaneous claims from customers are made at the time of sale.

Interest income is recognized at the stated rate over the term of the instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Inventory

Inventory components include raw materials and supplies used to assemble valves and finished valves. All inventories are recorded at the lower of cost and net realizable value on a first-in first-out basis. The stated value of all inventories includes raw materials and supplies purchase and assembly costs, and attributable overhead and amortization. A regular review is undertaken to determine the extent of any provision for obsolescence.

(g) Deferred income taxes

The Company accounts for and measures deferred tax assets and liabilities in accordance with the assets and liability method. Under this method, deferred 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 basis, and losses carried forward. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to be realized, a valuation allowance in the amount of the future benefit is taken and no asset is recognized.

(h) Foreign currency translation

The accounts of foreign operations are translated into USD as follows:

(i) Monetary assets and liabilities, at the rate of exchange in effect at the statement of financial position date;

(ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and

(iii) Revenue and expense items (excluding amortization, which is translated at the same rate as the related asset), at the rate of exchange prevailing at the transaction date.

Gains and losses arising from translation of foreign currency are included in the determination of net loss.

(i) Basic and diluted loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Basic and diluted loss per share (Continued)

Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

(j) Share-based payments

The Company uses the fair value method for accounting for share-based awards to employees (including directors). Under the fair value method, compensation expenses attributed to the direct award of stock to employees are measured at the fair value at the grant date using an option pricing model and are usually recognized over the vesting period of the award. When the stock options are exercised, the cash proceeds received and the applicable amounts previously recorded in contributed surplus are credited to capital stock.

(k) Issue of equity units

The Company uses the residual value method with respect to the measurement of common shares and share purchase warrants issued as private placement units. The proceeds from the issue of units is allocated between common shares and share purchase warrants on a residual value basis, wherein the fair value of the common shares is based on the market value on the date of the announcement of the placement and the balance, if any, is allocated to the attached warrants. Share issue costs are netted against share proceeds.

(l) Cash and cash equivalents

Cash and cash equivalents consists of cash at banks and at hand and short-term deposits with an original maturity of three months or less.

(m) Financial instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable, due to related parties and notes payable.

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale financial instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Financial instruments (Continued)

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as held-to-maturity, loans and receivables, or other financial liabilities are included in the initial carrying value of such instruments and amortized using the effective interest method. Transaction costs for financial instruments classified as held-for-trading are expensed when incurred, while those classified as available-for-sale are included in the initial carrying value.

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – 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 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

4. CAPITAL MANAGEMENT

The Company considers its capital under management to be all components of shareholders' equity. The Company's objectives in managing its capital are to maintain its ability to continue as a going concern and to further develop its business. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to meet its strategic goals.

The Company funds it operations by way of a combination of sales of its products, the issuance of equity securities through private placements and the exercise of warrants and options. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company is not subject to externally imposed capital requirements.

There were no changes in the Company's approach to capital management during the year

5. FINANCIAL INSTRUMENTS

The Company has designated its cash as held-for-trading; accounts receivable as loans and receivables; and accounts payable, due to related parties and notes payable as other liabilities.

(a) Fair value

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices, without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis or other valuation models.

5. FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to forecast cash flows from operations and anticipated investing and financing activities. At February 29, 2012, the Company has $415,625 (August 31, 2011 - $1,457,934) of cash to settle current liabilities with the following due dates: accounts payable of $220,004 (August 31, 2011 - $247,078) are due within three months and; due to related party balances of $8,770 (August 31, 2011 - $16,650) are due on demand.

(c) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Cash is placed with a major Canadian financial institution. With respect to its accounts receivable, the Company assesses the credit rating of all customers and maintains provisions for potential credit losses, and any such losses to date have been within management's expectations. The Company's concentration of credit risk and maximum exposure thereto is $415,625 (August 31, 2011 - $1,457,934) in cash and $182,762 (August 31, 2011 - $337,562) in accounts receivable.

(d) Market risk

The significant market risks to which the Company is exposed are interest rate risk and currency risk.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in market interest rates. The Company's cash consists of cash held in bank accounts that earn interest at variable rates. Included in cash is a cashable guaranteed investment certificate, which accrues interest at prime minus 1.80% and matures on August 2, 2012. Due to the short-term nature of this financial instrument, fluctuations in market rates of interest do not have a significant impact on the estimated fair value or future cash flows as of February 29,2012.

(ii) Currency risk

The Company is exposed to currency risk to the extent expenditures incurred or funds received and balances maintained by the Company are denominated in CAD. The Company does not manage currency risk through hedging or other currency management tools.

As at February 29, 2012 and August 31, 2011, the Company's net exposure to foreign currency risk is as follows (in CAD):

	February 29, 2012	August 2011
Cash	$ 411,625	$ 1,422,305

(Expressed in US Dollars)

5. FINANCIAL INSTRUMENTS (Continued)

(d) Market risk (Continued)

(ii) Currency risk (Continued)

Based on the above, assuming all other variables remain constant, a 1.5% weakening or strengthening of the USD against the CAD would result in an approximate $6,200 (August 31, 2011 - $4,000) foreign exchange loss or gain in the statements of operations.

(iii) Other price risk

Other price risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or currency risk. The Company is not exposed to any other price risk.

6. INVENTORY

	February 29, 2012	August 31, 2011
Finished goods	$ 347,135	$ 210,375
Raw materials and supplies	466,286	40,796
	$ 813,421	$ 251,171

7. PROPERTY AND EQUIPMENT

	February 29, 2012			August 31, 2011		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	$ 12,558	$ -	$ 12,558	$ 12,401	$ -	$ 12,401
Building	163,092	5,669	157,423	118,757	2,374	116,383
Leasehold improvements	25,643	4,872	20,771	26,182	2,618	23,564
Production equipment	128,873	19,455	109,418	100,440	10,045	90,395
	$ 330,166	$ 29,996	$ 300,170	$ 257,780	$ 15,037	$ 242,743

8. PATENT AND ROYALTY OBLIGATION

	February 29, 2012			August 31, 2011		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Patent	$ 38,720	$ 7,736	$ 30,984	$ 40,840	$ 6,283	$ 34,557

The Company is obligated to pay a 5% royalty from sales of their manway securement systems. During the six months ended February 29, 2012, there were no revenues from sales of the manway securement systems. The Company also holds a number of other patents, which have been fully amortized as at February 29, 2012.

(Expressed in US Dollars)

9. CAPITAL STOCK

Authorized:

Unlimited Class A non-cumulative, preference shares without par value, of which 5,000,000 are designated Class A, convertible, voting, preference shares

Unlimited common shares without par value

Issued:

(a) Common shares

	Number of Shares	Amount
Balance, September 1, 2010	21,778,383	$ 7,992,984
Issued during the year		
Private placements for cash	8,952,400	2,795,600
Share issue costs	-	(209,690)
Exercise of share purchase options	18,000	4,411
Fair value of options exercised	-	2,910
Exercise of share purchase warrants at		
CAD 0.18	1,952,500	358,830
CAD 0.25	80,000	20,420
CAD 0.35	225,000	80,403
Translation adjustment for change in functional currency	-	2,593,918
Balance, August 31, 2011	33,006,283	13,639,786
Exercise of share purchase options at CAD 0.24	100,000	23,619
Fair value of share purchase options exercised	-	13,347
Exercise of share purchase warrants at		
CAD 0.18	217,500	38,523
CAD 0.25	15,000	3,690
CAD 0.35	507,500	176,695
Balance, February 29, 2012	33,846,283	$13,895,660

Private placements – August 31, 2011

(i) On December 22, 2010, the Company completed a private placement of 6,938,000 units at a price of CAD0.25 per unit for gross proceeds of $1,770,925. Each unit consists of one common share and one-half of one share purchase warrant. One whole warrant entitles the holder to purchase one additional common share at CAD0.35 until December 22, 2012. The Company issued 14,400 shares valued at CAD0.25 per share for a fair value of $3,675 and paid $116,985 in finder's fees.

(Expressed in US Dollars)

9. CAPITAL STOCK (Continued)

(a) Common shares (Continued)

(ii) On July 25, 2011, the Company completed a private placement of 2,000,000 units at a price of CAD0.50 per unit for gross proceeds of $1,024,675. Each unit consists of one common share and one-half of one share purchase warrant. One whole warrant entitles the holder to purchase one additional common share at CAD0.70 until July 25, 2013. The Company paid $89,031 in finder's fees.

(b) Stock options

The Company has a stock option plan (the "Plan") available to employees, directors, officers and consultants with grants under the Plan approved from time to time by the board of directors. Under the Plan, the Company is authorized to issue options to purchase an aggregate of up to 10% of the Company's issued and outstanding common shares. Each option can be exercised to acquire one common share of the Company. The exercise price for an option granted under the Plan may not be less than the market price at the date of grant less a specified discount dependent on the market price.

Options to purchase common shares have been granted to directors, employees and consultants as follows:

Exercise Price (CAD)	Expiry Date	February 29, 2012 Outstanding	February 29, 2012 Exercisable	August 31, 2011 Outstanding	August 31, 2011 Exercisable
$0.24	October 4, 2012	554,000	402,000	554,000	259,000
$0.70	November 8, 2012	58,213	58,213	58,213	58,213
$0.70	May 26, 2013	10,929	10,929	10,929	10,929
$0.24	December 7, 2013	250,000	187,500	250,000	125,000
$0.55	February 9, 2014	150,000	112,500	150,000	75,000
$0.65	November 25, 2014	450,000	112,500	-	-
$0.24	June 2, 2015	600,000	600,000	600,000	450,000
$0.25	June 14, 2015	-	-	300,000	225,000
$0.58	July 22, 2016	420,000	420,000	420,000	420,000
$0.58	August 25, 2016	100,000	100,000	100,000	100,000
$0.70	October 7, 2019	28,571	28,571	28,571	28,571
		2,621,713	2,032,213	2,471,713	1,751,713

(Expressed in US Dollars)

9. CAPITAL STOCK (Continued)

(b) Stock options (Continued)

A summary of the Company's stock options as at February 29, 2012 and August 31, 2011 and changes for the periods then ended are as follows:

	Number	Weighted Average Exercise Price (CAD)
Outstanding, August 31, 2010	1,411,999	$0.31
Granted	1,935,000	$0.40
Cancelled	(300,000)	$0.24
Expired	(18,000)	$0.24
Outstanding, August 31, 2011	3,028,999	$0.38
Granted	450,000	$0.65
Expired/Cancelled	(757,286)	$0.42
Exercised	(100,000)	$0.24
Outstanding, February 29, 2012	2,621,713	$0.41

During the six months ended February 29, 2012, the Company granted 450,000 stock options to consultants. Of the options granted, 112,500 vested during the period and the remaining 337,500 will vest in tranches every six months from the grant date.

The weighted average contractual life for the remaining options at February 29, 2012 is 2.4 (August 31, 2011 – 3.3) years

Share-based payments

The grant date fair value of options issued in the six months ended February 29, 2012 was $118,419. Stock-based compensation of $51,062 (2011 - $92,466) was recognized in the six months ended February 29, 2012.

The fair value of stock options is determined by the Black-Scholes option pricing model with assumptions as follows:

	February 29, 2012	August 31, 2011
Risk-free interest rate (average)	1.01%	1.85%
Estimated volatility (average)	182%	123%
Expected life	2.7 years	3.7 years
Expected dividend yield	-	-
Grant date fair value per option	$0.57	$0.31

(Expressed in US Dollars)

9. CAPITAL STOCK (Continued)

(b) Stock options (Continued)

Share-based compensation (Continued)

Option pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates.

(c) Share purchase warrants

As at February 29, 2012 and August 31, 2011, the Company has share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Exercise Price (CAD)	Expiry Date	Outstanding August 31, 2011	Issued	Exercised	Expired	Outstanding February 29, 2012
$1.05**	October 31, 2014	1,059,029	-	-	-	1,059,029
$0.18	May 25, 2012	2,182,500	-	217,500	-	1,965,000
$0.25	August 31, 2012	496,800	-	15,000	-	481,800
$0.35	December 22, 2012	3,244,000	-	507,500	-	2,736,500
$0.70	July 25, 2013	1,000,000	-	-	-	1,000,000
		7,982,329	-	740,000	-	7,242,329

Exercise Price	Expiry Date	Outstanding August 31, 2010	Issued	Exercised	Expired	Outstanding August 31, 2011
$0.70	September 17, 2010	671,710	-	-	671,710	-
$0.70	July 2, 2011	1,535,154	-	-	1,535,154	-
$0.70	October 31, 2014	1,059,029	-	-	-	1,059,029
$0.18	May 25, 2012	4,135,000	-	1,952,500	-	2,182,500
$0.25	August 31, 2012	576,800	-	80,000	-	496,800
$0.35	December 22, 2012	-	3,469,000	225,000	-	3,244,000
$0.70	July 25, 2013	-	1,000,000	-	-	1,000,000
		7,977,693	4,469,000	2,257,500	2,206,864	7,982,329

** Exercisable at $0.35 until October 30, 2010, at $0.70 from October 31, 2010 until October 30, 2011, at $1.05 from October 31, 2011 until October 30, 2012, at $2.10 from October 31, 2012 until October 30, 2013 and at $5.25 from October 31, 2013 until October 30, 2014.

(Expressed in US Dollars)

9. CAPITAL STOCK (Continued)

(d) Share-based payments

	February 29, 2012	August 31, 2011
Balance, beginning of period	$ 1,347,740	$ 634,933
Translation adjustment for change in functional currency	-	98,865
Stock-based compensation	51,063	616,852
Fair value of options exercised	(13,347)	(2,910)
Balance, end of period	$ 1,385,456	$ 1,347,740

10. RELATED PARTY TRANSACTIONS

Related parties are directors and officers, companies controlled by the directors and officers, a company controlled by a former officer and a company whose principal is an officer of the Company.

Related party transactions not otherwise described in these financial statements are shown below. These amounts are included in the amounts shown on the statements of operations:

	2012	2011
Management fees	$ 176,784	$ 89,516
Research and development costs	$ -	$ 30,259

These transactions are in the normal course of operations and are measured at their fair value.

As at February 29, 2012, amounts due to related parties, which are unsecured and have no interest or specified terms of payments, are $8,770 (2011 - $14,951) for reimbursement of expenses to a director of the Company.

11. COMMITMENT

The Company is committed to making the following payments for base rent on its lab in Lisle, Illinois.

	2012	2013	2014	Total
Lab rental cost	$ 20,051	$ 41,874	$ 10,532	$ 72,457

12. NOTE PAYABLE

The $70,320 note payable was to a former officer of the Company. The note was unsecured and non-interest-bearing with repayment terms of a minimum rate of $4,688 per month beginning April 16, 2010, or as soon thereafter as funds are available to the Company, and the same amount every month thereafter or sooner if funds permit. The full amount was repaid during the year ended August 31, 2011.

(Expressed in US Dollars)

13. SUPPLEMENTAL CASH FLOW INFORMATION

	February 29, 2012	August 31, 2011
Supplementary Cash Flow Information		
Non-cash financing activities	$ -	$ 2,397
Amortization of property and equipment allocated to cost of sales	-	167
Amortization of property and equipment allocated to inventory	-	-
Interest paid	-	-
Income taxes paid	-	-

14. SUBSEQUENT EVENT

The Company raised $174,825 pursuant to the exercise of 771,500 share purchase warrants.

15. FIRST TIME ADOPTION OF IFRS

The Company's financial statements for the year ending August 31, 2012 will be the first annual financial statements that will be prepared in accordance with IFRS. IFRS 1 requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was September 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be August 31, 2012. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adoption. Prior to transition to IFRS, the Company prepared its financial statements in accordance with pre-changeover Canadian GAAP.

In preparing the Company's opening IFRS financial statements, the Company has adjusted amounts reported previously in the financial statements prepared in accordance with pre-changeover Canadian GAAP.

Optional Exemptions

The IFRS 1 applicable exemptions and exceptions applied in the conversion from pre-changeover Canadian GAAP to IFRS is as follows:

Share-based payment transactions

The Company has elected not to retrospectively apply IFRS 2 to equity instruments that were granted and had vested before the Transition Date. As a result of applying this exemption, the Company will apply the provision of IFRS 2 only to all outstanding equity instruments that are unvested as at the Transition Date to IFRS. The Company did not have any unvested outstanding equity instruments as of the Transition Date.

(Expressed in US Dollars)

15. FIRST TIME ADOPTION OF IFRS (Continued)

Mandatory Exceptions

Estimates

The estimates previously made by the Company under pre-changeover Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result the Company has not used hindsight to revise estimates.

As part of the Company's transition to IFRS, the Corporation is required to restate comparative information that was previously reported under Canadian GAAP in accordance with IFRS. In addition, the Company is required to reconcile certain balances reported under Canadian GAAP to those reported under IFRS. The specific reconciliations required are:

(i) Shareholders' equity as at:
- September 1, 2010;
- February 28, 2011; and
- August 31, 2011.

(ii) Comprehensive loss or income for:
- the six months ended February 28, 2011;
- the year ended August 31, 2011.

IFRS reconciliation to Canadian GAAP:

Total Equity Reconciliation	August 31, 2011	February 28, 2011	September 1, 2010
Total equity per Canadian GAAP	$2,006,614	$1,735,575	$ 120,831
Total equity per IFRS	$2,006,614	$1,735,575	$ 120,831

Total Comprehensive Loss or Income Reconciliation	Year ended August 31, 2011	Six months ended February 28, 2011
Comprehensive loss per Canadian GAAP	$(1,513,314)	$ (409,564)
Comprehensive loss per IFRS	$(1,513,314)	$ (409,564)

Management has determined that the adoption of IFRS has not resulted in any adjustments to these balances as reported previously under Canadian GAAP. There are no significant differences between IFRS and Canadian GAAP in connection with the Company's statement of cash flows for the period ended February 28, 2011 or the year ended August 31, 2011.