

The consolidated financial statements of Baden Technologies Inc. ("the Company") as at June 30, 2007 have been compiled by management and approved by the Company's Audit Committee on August 23, 2007

Baden Technologies Inc.
Consolidated Balance Sheets

(Unaudited - Prepared by Management)

	June 30, 2007 \$	December 31, 2006 \$
Assets		
Current assets		
Cash	129,586	100,189
Accounts receivable	724,595	1,113,023
Inventories (Note 4)	1,242,343	1,531,273
Prepaid expenses and deposits	23,860	125,696
	<u>2,120,384</u>	<u>2,870,181</u>
Property, plant and equipment (net)	806,050	794,724
Other assets	40,152	21,016
	<u>2,966,586</u>	<u>3,685,921</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Bank loan (Note 5)	540,321	1,016,614
Accounts payable and accrued liabilities	748,492	1,284,836
Customer deposits	279,240	244,327
Current portion of long term debt	46,594	46,054
Current portion of obligations under capital lease	12,030	13,580
	<u>1,626,677</u>	<u>2,605,411</u>
Long term debt	365	23,708
Obligations under capital lease	7,869	12,969
	<u>1,634,911</u>	<u>2,642,088</u>
Shareholders' equity		
Share capital (Note 6)	1,843,560	1,767,691
Warrants (Note 6)	62,000	74,000
Contributed surplus (Note 6)	71,778	70,114
Deficit	(645,663)	(867,972)
	<u>1,331,675</u>	<u>1,043,833</u>
	<u>2,966,586</u>	<u>3,685,921</u>

Going concern (note 1)

Approved by the Board of Directors

[signed] _____
Dennis Nerland, Director

[signed] _____
Gerald Olson, Director

See accompanying notes.

Baden Technologies Inc.**Consolidated Statements of Income (Loss) and Deficit**

(Unaudited - Prepared by Management)

	Three months ended June 30, 2007 \$	Three months ended June 30, 2006 \$	Six months ended June 30, 2007 \$	Six months ended June 30, 2006 \$
Revenue	3,549,469	2,784,318	7,284,251	4,149,576
Expenses				
Cost of sales	3,074,150	1,727,473	5,830,620	2,645,831
Selling, general and administrative	433,347	572,592	1,041,406	805,238
Amortization	45,607	22,931	85,402	40,746
Foreign exchange loss (gain)	98,591	(3,497)	102,647	(6,125)
Interest on long term debt	533	-	1,176	-
Interest on obligations under capital lease	316	545	691	1,142
Net income (loss) and comprehensive income (loss) for period	(103,075)	464,274	222,309	662,744
Deficit – beginning of period	(542,588)	(1,274,111)	(867,972)	(1,472,581)
Deficit – end of period	(645,663)	(809,837)	(645,663)	(809,837)
Earnings (loss) per share				
Basic	(0.01)	0.03	0.01	0.04
Diluted	(0.01)	0.02	0.01	0.03

See accompanying notes.

Baden Technologies Inc.
Consolidated Statements of Cash Flows

(Unaudited - Prepared by Management)

	Three months ended June 30, 2007 \$	Three months ended June 30, 2006 \$	Six months ended June 30, 2007 \$	Six months ended June 30, 2006 \$
Operating activities				
Net income (loss) for the period	(103,075)	464,274	222,309	662,744
Items not affecting cash				
Gain on sale of asset	–	–	(836)	–
Stock based compensation	–	–	3,033	–
Amortization	45,607	22,931	85,402	40,746
	(57,468)	487,205	309,908	703,490
Change in non-cash working capital (Note 7)	321,816	(1,367,779)	328,591	(1,069,391)
Other assets	(5,368)	892	(19,136)	(723)
	258,980	(879,682)	619,363	(366,624)
Investing activities				
Purchase of property, plant and equipment	(129,762)	(71,848)	(159,456)	(117,151)
Proceeds on sale of property, plant and equipment	–	–	12,736	–
	(129,762)	(71,848)	(146,720)	(117,151)
Financing activities				
Issuance of share capital	62,500	14,000	62,500	99,000
Bank loan - net	(324,950)	534,800	(476,293)	387,894
Repayment of long-term debt	(11,457)	–	(22,803)	–
Repayment of obligations under capital lease	(3,355)	(6,212)	(6,650)	(9,286)
	(277,262)	542,588	(443,246)	477,608
Increase (decrease) in cash	(148,044)	(408,942)	29,397	(6,167)
Cash – beginning of period	277,630	539,970	100,189	137,195
Cash – end of period	129,586	131,028	129,586	131,028
Supplemental information				
Interest paid	18,192	4,607	29,416	13,194

See accompanying notes.

Baden Technologies Inc.
Notes to Consolidated Financial Statements
June 30, 2007

(Unaudited – Prepared by Management)

1. Going concern assumption

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has accumulated losses amounting to \$645,663 (as at December 31, 2006 - \$867,972). Net income (loss) was (\$103,075) and \$222,309 for the three months and six months ended June 30, 2007, respectively, compared to \$464,274 and \$662,744 for the same comparative periods ended June 30, 2006. The Company's ability to continue as a going concern is dependant upon its ability to generate sufficient cash flow to meet its obligations as they come due, to obtain additional financing as may be required, and ultimately to obtain successful operations. However, no assurance can be given at this time as to whether the Company will achieve any of these conditions. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern for a reasonable period of time.

2. Accounting policies

The interim consolidated financial statements for the six months ended June 30, 2007 should be read in conjunction with the audited consolidated financial statements for Baden Technologies Inc. ("Baden" or the "Company") as at December 31, 2006. These interim consolidated financial statements are presented following the same accounting policies and methods of computation that were used in the audited consolidated financial statements of Baden for the year ended December 31, 2006 except for the changes in accounting policies described in note 3. Notes to these interim consolidated financial statements are provided in compliance with regulatory disclosure requirements. Disclosures that are normally required in the notes to the annual consolidated financial statements have been condensed or omitted in the notes to these interim consolidated financial statements.

3. Changes in accounting policies, including initial adoption

During the quarter, the Company adopted the following accounting policies:

Accounting Changes

Effective January 1, 2007, the Company adopted the amended Handbook Section 1506 "Accounting Changes". The changes to this Section particularly affect the following:

- An entity would be permitted to change an accounting policy only when it is required by a primary source of Generally Accepted Accounting Principles ("GAAP"), or when the change results in a more reliable and relevant presentation in the financial statements;
- Changes in accounting policy should be applied retrospectively, except in cases where specific transitional provisions in a primary source of GAAP permit otherwise or where application to comparative information is impractical (the standard provides specific guidance as to what is considered impractical);
- Expanded disclosures about the effects of changes in accounting policy, estimates and errors on the financial statements; and
- Disclosure of new primary sources of GAAP that have been issued but have not yet come into effect and have not yet been adopted by the entity.

The adoption of the amended Section had no affect on the financial statement accounts of the Company.

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3. Changes in accounting policies including initial adoption - continued

Financial Instruments – Recognition and Measurement

Effective January 1, 2007 the Company adopted, on a retroactive without restatement basis, the new Handbook Section 3855 “Financial Instruments Recognition and Measurement” which prescribes that all financial instruments within the scope of this standard, including derivatives, be initially measured at fair value (except for certain related party transactions) and included on a company’s balance sheet. Subsequent measurement of financial instruments should be either at their fair value or, in limited circumstances when fair value may not be considered most relevant, at cost or amortized cost. It also specifies when gains and losses as a result of changes in fair value are to be recognized in the income statement. This standard is effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2006. The adoption of this new requirement did not significantly affect the Company’s consolidated financial statements.

Financial Instruments – Disclosure and Presentation

Effective January 1, 2007, the Company adopted, on a retroactive without restatement basis, reissued Section 3860 of the Handbook as Section 3861, “Financial Instruments - Disclosure and Presentation”, which establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. The adoption of the new requirement did not affect the Company’s consolidated financial statements.

Comprehensive Income

Effective January 1, 2007, the Company adopted, on a retroactive without restatement basis, the new Handbook Section 1530 “Comprehensive Income” which requires that an enterprise present comprehensive income and its components, in a financial statement that is displayed with the same prominence as other financial statements. This Section introduces a new requirement to present certain gains and losses temporarily outside net income. The adoption of the new requirement did not affect the Company’s consolidated financial statements.

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3. Changes in accounting policies including initial adoption - continued

Primary sources of GAAP that have been issued but have not yet come into effect

Effective December 2006, the AcSB issued three new Handbook Sections; Section 3862 “Financial Instruments – Disclosures”; Section 3863 “Financial Instruments – Presentation”; and Section 1535 “Capital Disclosures”. These new Sections carry forward unchanged presentation requirements of Section 3861 “Financial Instruments – Disclosure and Presentation”; and converge with the capital disclosure-related amendments to International Accounting Standards. Section 3862 places an increased emphasis on disclosures about the risks associated with both recognized and unrecognized financial instruments and how these risks are managed and also simplifies the disclosures about concentrations of risk, credit risk, liquidity risk and market risk currently found in Section 3861. Additional requirements include: more extensive disclosures about exposures to liquidity; currency and other price risks and an analysis of the sensitivity of net income for possible changes thereto; more specific disclosures about collateral; and details of liabilities that are in default or in breach of their terms and conditions. Proposed Section 3863 carries forward, without change, the presentation-related requirements of Section 3861. Proposed Section 1535 requires the disclosure of: an entity’s objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance. As required, the Company will adopt these new accounting standards for its interim and annual financial statements beginning on January 1, 2008. The Company is in the process of assessing the full impact of these new Sections on its financial statements.

Effective June 2007, the AcSB issued a new Handbook Section 3031, Inventories, which replaces the former Handbook Section 3030, Inventories and contains requirements on measurement and disclosure of inventories to converge with international financial reporting. This standard is effective for the Company for interim and annual financial statements beginning on January 1, 2008. The Company has not yet determined the impact of the adoption of this standard on its financial statements.

CICA Handbook Section 1400, General Standards on Financial Statement Presentation, has been amended to include requirements to assess and disclose an entity’s ability to continue as a going concern. The changes are effective for the Company for interim and annual financial statements beginning on January 1, 2008. The Company does not expect the adoption of these changes to have an impact on its financial statements.

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards (IFRS) over a transition period expected to end in 2011. The impact of the transition to IFRS on the Company’s financial statements is not yet determinable.

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4. Inventories

	June 30, 2007	December 31, 2006
	\$	\$
Parts and materials	301,742	421,614
Work in progress	940,601	1,109,659
	1,242,343	1,531,273

5. Bank loan

	June 30, 2007	December 31, 2006
	\$	\$
Demand operating loan with HSBC Bank Canada bears interest at prime plus 1.25% (December 31, 2006 – prime plus 1.5%) and is secured by a general security agreement in favour of the bank creating a floating first charge over all present and after acquired property of the Company and an assignment of insurance on the life of the President. The maximum authorized limit for the loan is \$600,000, limited to an amount determined by formula applied to certain assets and liabilities.	540,321	443,913
Project financing loan with HSBC Bank Canada bears interest at prime plus 1.75% (December 31, 2006 – prime plus 1.5%) and is secured by a general security agreement in favour of the bank creating a floating first charge over all present and after acquired property of the Company and an assignment of insurance on the life of the President. The project financing loan is to be used for a specific foreign project and is due at the earlier of the date of receipt of proceeds on the project and demand by the bank. The maximum authorized limit for the loan is \$1,750,000 (December 31, 2006 - \$900,000), limited to an amount determined by a formula applied to certain assets.	–	572,701
	540,321	1,016,614

The Company has a credit facility arrangement with the HSBC Bank which governs the terms of the demand operating loan, project financing loan and letters of credit. A standby letter of credit of \$1,400,000 was issued to the Company on June 1, 2007 to assist with an advance performance guarantee for a specific foreign project. The letter of credit, which is subject to an issuance fee of 1.5% per annum, shall be satisfied by the Company on demand by the Bank and is insured by the Economic Development Corporation of Canada against wrongful call by the beneficiary (client). It is secured under the same terms as the loans described above.

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Notes to Consolidated Financial Statements
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6. Share capital

Authorized:

- Unlimited common shares
- Unlimited preferred shares

Shares issued at June 30, 2007:

	Number	Amount \$
Common shares:		
Balance – December 31, 2006	17,096,051	1,767,691
Issued on exercise of warrants:		
- cash received	600,000	60,000
- amount transferred from warrants		12,000
Issued on exercise of stock options:		
- cash received	25,000	2,500
- amount transferred from contributed surplus		1,369
Balance – June 30, 2007	<u>17,721,051</u>	<u>1,843,560</u>

Warrants:

	Number	Amount \$
Balance – December 31, 2006	3,700,000	74,000
Exercise	(600,000)	(12,000)
Balance – June 30, 2007	<u>3,100,000</u>	<u>62,000</u>

In June 2007, two directors of the Company exercised a total of 600,000 warrants resulting in an increase in share capital of \$72,000. This was comprised of cash received of \$60,000 and the reclassification of \$12,000 from warrants.

Stock options:

The Company maintains a stock option plan (the “Plan”) for directors and certain officers, employees and consultants of the Company. Each option entitles the holder to acquire one share of the Company. The Board of Directors has reserved a total of ten percent (10%) of the issued and outstanding common shares of the Company for issuance of stock options. The options must be issued with an exercise price not less than the fair market value of the shares at the date of grant. Stock options granted under the Plan may not be outstanding for a period of more than five years and the exercise price must be paid in full upon exercise of the option. The Company recorded non-cash stock option compensation costs of \$nil for the three month periods ended June 30, 2007 and June 30, 2006 and \$3,033 for the six month period ended June 30, 2007 (\$nil – June 30, 2006). A corresponding amount equal to the expense was added to contributed surplus during those periods.

In April 2007, 25,000 options were exercised resulting in an increase of share capital of \$3,869, comprised of cash of \$2,500 and reclassification of \$1,369 from contributed surplus.

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6. Share capital - continued

The following is a continuity of stock options outstanding for which shares have been reserved:

	Number of options	Weighted average exercise price \$
Outstanding and exercisable – December 31, 2006	925,000	0.12
Exercised	(25,000)	0.10
Cancelled	(115,000)	0.28
Outstanding and exercisable– June 30, 2007	<u>785,000</u>	<u>0.10</u>

The following summarizes information about stock options outstanding at June 30, 2007:

Exercise price \$	Number outstanding	Weighted average remaining contractual life in years
<u>0.10</u>	<u>785,000</u>	<u>3.21</u>

Contributed surplus:

	Amount \$
Balance – December 31, 2006	<u>70,114</u>
Stock-based compensation	<u>3,033</u>
Reclassification to share capital on exercise of stock options	<u>(1,369)</u>
Balance– June 30, 2007	<u>71,778</u>

7. Change in non-cash working capital

	Three months ended June 30, 2007 \$	Three months ended June 30, 2006 \$	Six months ended June 30, 2007 \$	Six months ended June 30, 2006 \$
Accounts receivable	<u>118,375</u>	(1,249,999)	<u>388,428</u>	(1,677,011)
Inventories	<u>728,643</u>	(508,254)	<u>339,758</u>	(696,705)
Prepaid expenses and deposits	<u>11,548</u>	241,247	<u>101,836</u>	(90,017)
Accounts payable and accrued liabilities	<u>(571,663)</u>	594,165	<u>(536,344)</u>	953,431
Customer deposits	<u>34,913</u>	(444,938)	<u>34,913</u>	440,911
	<u>321,816</u>	<u>(1,367,779)</u>	<u>328,591</u>	<u>(1,069,391)</u>

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8. Related party transactions

During the six month period ended June 30, 2007, the Company purchased office supplies and marketing materials in the amount of \$4,777 (six month period ended June 30, 2006 - \$574) from a company that is controlled by an officer and director of the Company. At June 30, 2007, \$156 was owing to this related party. Legal services in the amount of \$11,176 (six month period ended June 30, 2006 - \$5,040) were purchased from a partnership deemed to be a related party by virtue of a director's ability to exercise significant influence over the partnership. At June 30, 2007, \$3,765 was owing to this related party. These transactions are in the normal course of operations and are measured at their exchange amounts, which in management's opinion approximate fair value.

9. Segmented information

The Company operates in one industry segment and the following geographic segments:

	Three months ended:		Six months ended :	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	\$	\$	\$	\$
Revenue				
Canada	604,703	1,171,034	2,315,145	2,342,950
Russia	2,944,766	1,613,284	4,969,106	1,628,095
Other	-	-	-	178,531
	3,459,469	2,784,318	7,284,251	4,149,576
	June 30, 2007		December 31, 2006	
Property, plant and equipment				
Canada	760,057		785,524	
Russia	45,993		9,200	
	806,050		794,724	

The Company derives significant revenue from large projects and therefore, revenues from individual customers can exceed 10% of total revenues for the period. For the six months ended June 30, 2007, one customer operating in the Canadian segment accounted for \$1,160,340 (16.2%) of consolidated revenue and two customers operating in the Russian segment accounted for \$2,828,222 (39.4%), and \$2,052,142 (28.6%) of consolidated revenues, respectively.

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Notes to Consolidated Financial Statements
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(Unaudited – Prepared by Management)

10. Subsequent Event

Effective July 27, 2007, the Company's credit facilities with HSBC Bank Canada were amended to provide the Company with an additional standby letter of credit of \$233,428 issued on July 27, 2007 to assist with a performance service guarantee for a specific foreign project. The letter of credit, which is subject to an issuance fee of 1.5% per annum, shall be satisfied by the Company on demand by the Bank and is insured by the Economic Development Corporation of Canada against wrongful call by the beneficiary (client). The letter of credit is secured under the same terms as the Company's bank loans as described in note 5.

11. Comparative Consolidated Financial Statements

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current year.