

The consolidated financial statements of Baden Technologies Inc. ("the Company") as at June 30, 2008 have been compiled by management and approved by the Company's Audit Committee on August 28, 2008.

## Balance Sheet

(Unaudited - Prepared by Management)

	June 30, 2008 \$	December 31, 2007 \$
<b>Assets</b>		
Current assets		
Cash	61,162	2,293,779
Accounts receivable	933,016	852,987
Inventories (note 4)	681,309	362,938
Prepaid expenses and deposits	108,726	117,574
	<b>1,784,213</b>	<b>3,627,278</b>
Due from officers (note 11)	84,309	-
Property, plant and equipment (net)	901,481	812,359
Other assets	10,656	15,681
	<b>2,780,659</b>	<b>4,455,318</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Bank loan (note 5)	763,999	1,237,687
Accounts payable and accrued liabilities	1,055,837	2,068,601
Customer deposits	167,921	247,512
Current portion of long term debt	-	23,708
Current portion of obligations under capital lease	6,486	8,385
	<b>1,994,243</b>	<b>3,585,893</b>
Obligations under capital lease	1,081	4,324
	<b>1,995,324</b>	<b>3,590,217</b>
Shareholders' equity		
Share capital (note 6)	2,240,319	2,215,560
Contributed surplus (note 6)	63,019	71,778
Deficit	(1,518,003)	(1,422,237)
	<b>785,335</b>	<b>865,101</b>
	<b>2,780,659</b>	<b>4,455,318</b>

Going concern (note 1)

Approved by the Board of Directors

"signed"  
Dennis Nerland, Director

"signed"  
Bob Spiller, Director

See accompanying notes.

## Statement of Operations and Deficit

(Unaudited - Prepared by Management)

	Three months ended June 30, 2008 \$	Three months ended June 30, 2007 \$	Six months ended June 30, 2008 \$	Six months ended June 30, 2007 \$
<b>Revenue</b>	<b>877,020</b>	3,549,469	<b>2,158,785</b>	7,284,251
Expenses				
Cost of sales	<b>644,099</b>	2,754,305	<b>1,379,622</b>	5,249,782
Selling, general and administrative	<b>495,699</b>	791,785	<b>849,765</b>	1,693,772
Amortization	<b>6,830</b>	7,014	<b>13,545</b>	13,874
Foreign exchange loss (gain)	<b>(4,109)</b>	98,591	<b>11,207</b>	102,647
Interest on long term debt	<b>77</b>	533	<b>270</b>	1,176
Interest on obligations under capital lease	<b>12</b>	316	<b>142</b>	691
	<b>1,142,608</b>	3,652,544	<b>2,254,551</b>	7,061,942
<b>Net income (loss) and comprehensive income (loss) for period</b>	<b>(265,588)</b>	(103,075)	<b>(95,766)</b>	222,309
Deficit – beginning of period	<b>(1,252,415)</b>	(542,588)	<b>(1,422,237)</b>	(867,972)
<b>Deficit – end of period</b>	<b>(1,518,003)</b>	(645,663)	<b>(1,518,003)</b>	(645,663)
<b>Earnings (loss) per share</b>				
Basic	<b>(0.01)</b>	(0.01)	<b>0.00</b>	0.01
Diluted	<b>(0.01)</b>	(0.01)	<b>0.00</b>	0.01

See accompanying notes.

## Statement of Cash Flows

(Unaudited - Prepared by Management)

	Three months ended June 30, 2008 \$	Three months ended June 30, 2007 \$	Six months ended June 30, 2008 \$	Six months ended June 30, 2007 \$
<b>Operating activities</b>				
Net income (loss) for the period	(265,588)	(103,075)	(95,766)	222,309
Items not affecting cash				
Gain on sale of asset	-	-	-	(836)
Stock based compensation	-	-	-	3,033
Amortization	38,054	45,607	79,834	85,402
	(227,534)	(57,468)	(15,932)	309,908
Change in non-cash working capital (Note 5)	93,122	321,816	(1,475,361)	328,591
Other assets	2,512	(5,368)	5,025	(19,136)
	(131,900)	258,980	(1,486,268)	619,363
<b>Investing activities</b>				
Advances to related parties (note 11)	(13,939)	-	(84,309)	-
Purchase of property, plant and equipment	(173,562)	(129,762)	(175,502)	(159,456)
Proceeds on sale of property, plant and equipment	-	-	-	12,736
	(187,501)	(129,762)	(259,811)	(146,720)
<b>Financing activities</b>				
Issuance of share capital	-	62,500	-	62,500
Proceeds received on exercises of stock option plan (Note 11)	16,000	-	16,000	-
Bank loan - net	243,441	(324,950)	(473,688)	(476,293)
Repayment of long-term debt	(11,912)	(11,457)	(23,708)	(22,803)
Repayment of obligations under capital lease	(1,601)	(3,355)	(5,142)	(6,650)
	245,928	(277,262)	(486,538)	(443,246)
<b>Increase (decrease) in cash</b>	<b>(73,473)</b>	<b>(148,044)</b>	<b>(2,232,617)</b>	<b>29,397</b>
<b>Cash – beginning of period</b>	<b>134,635</b>	<b>277,630</b>	<b>2,293,779</b>	<b>100,189</b>
<b>Cash – end of period</b>	<b>61,162</b>	<b>129,586</b>	<b>61,162</b>	<b>129,586</b>
<b>Supplemental information</b>				
Interest paid	11,095	18,192	21,728	29,416

See accompanying notes.

## Notes to Financial Statements

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(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 \$1,518,003 (as at December 31, 2007 - \$1,422,237). Net income (loss) was (\$265,588) and (\$95,766) for the three months and six months ended June 30, 2008, respectively, compared to (\$103,075) and \$222,309 for the same comparative periods ended June 30, 2007. 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, 2008 should be read in conjunction with the audited consolidated financial statements for Baden Technologies Inc. ("Baden" or the "Company") as at December 31, 2007. 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, 2007 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

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

#### ***General Standards on Financial Statement Presentation***

Effective January 1, 2008, the Company adopted CICA Handbook Section 1400, General Standards on Financial Statement Presentation, which was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The adoption of this standard did not have an effect on presentation in its financial statements.

#### ***Capital disclosures***

Effective January 1, 2008, the Company adopted CICA Handbook Section 1535, "Capital disclosures," which requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. The adoption of this standard resulted in the additional disclosures as outlined in note 9.

## Notes to Financial Statements

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(Unaudited – Prepared by Management)

### 3. Changes in Accounting Policies - continued

#### ***Financial Instruments Disclosures***

Effective January 1, 2008, the Company adopted CICA Handbook Section 3862, Financial Instruments – Disclosures, which requires increased disclosures to enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. The adoption of this policy did not affect the consolidated financial statements of the Company, other than the requirement of additional disclosures as outlined in notes 7 & 8.

#### ***Financial Instruments Presentation***

Effective January 1, 2008, the Company adopted CICA Handbook Section 3863, Financial Instruments – Presentation, which replaced existing requirements on presentation of financial instruments which have been carried forward unchanged to this new section. The adoption of this standard did not have a material impact on presentation in its financial statements.

#### ***Inventories***

Effective January 1, 2008, the Company adopted CICA 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 standards. The new section, among other things, establishes standards on the definition of 'cost' to include all costs of purchase (net of supplier payment discounts), costs of conversion and other costs incurred in bringing the inventories to their present location and condition. As a result, companies are required to systematically allocate variable and fixed production overhead costs that are incurred in converting materials into finished goods. The allocation of fixed production overheads is based on normal production capacity of the production facilities. In addition, the standard requires companies to assess the recoverability of inventory costs in comparison to net realizable value. Declines in replacement cost below carrying values for raw material inventories do not require write downs if the finished goods in which they will be utilized are expected to be sold at or above cost. The standard requires disclosing, in the current period, the amount recognized as an expense and the amount recognized as a reversal of previous write-downs.

As a result of adopting these new recommendations as of January 1, 2008, the Company had no changes to its existing financial assets and liabilities, no changes to retained earnings, beginning of year and no accumulated other comprehensive income.

## Notes to Financial Statements

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(Unaudited – Prepared by Management)

### 3. Changes in Accounting Policies - continued

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

#### *International Financial Reporting Standards (IFRS)*

The CICA plans to converge Canadian GAAP with IFRS effective January 1, 2011. The impact of the transition to IFRS on the Company's financial statements is not yet determinable.

### 4. Inventories

	June 30, 2008 \$	December 31, 2007 \$
Parts and materials	405,643	316,497
Work in progress	275,666	46,441
	<b>681,309</b>	<b>362,938</b>

### 5. Bank loan

	June 30, 2008 \$	December 31, 2007 \$
Demand operating loan with HSBC Bank Canada bears interest at prime plus 1.25% (2007 – prime plus 1.5%) on Canadian dollar advances and U.S. base rate plus 1.25% on US dollar advances (2007 – base rate plus 1.75%). The maximum authorized limit for the loan is \$1,000,000 (2007 - \$600,000), limited to an amount determined by formula applied to certain assets and liabilities:		
Canadian dollar advances	525,709	–
US dollar advances (US \$233,686)	238,290	–
Project financing loan with HSBC Bank Canada beared interest at prime plus 1.75%. The project financing loan was used for a specific foreign project and was repaid and terminated upon receipt of proceeds on the project this year. The maximum authorized limit for the loan in 2007 was \$1,750,000, limited to an amount determined by a formula applied to certain assets.		
	–	1,237,687
	<b>763,999</b>	<b>1,237,687</b>

The Company has a credit facility arrangement with the HSBC Bank which governs the terms of the above-mentioned demand operating loan, a foreign exchange loan, letters of credit and a new project financing loan. The new project financing loan is for a specific foreign project and has the following terms: bears interest at prime plus 1.75%; has an authorized limit of EUR3,141,640, limited to an amount determined by formula applied to certain assets; and is due the earlier of the date of receipt of

## Notes to Financial Statements

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(Unaudited – Prepared by Management)

### 5. Bank loan - continued

proceeds on the project, December 31, 2008 and demand by the bank. No amount is outstanding under this loan as of June 30, 2008 and December 31, 2007.

The credit granted under the arrangement 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. The carrying amount of financial assets pledged as collateral in respect of the credit agreement is \$2,841,620, including inventory of \$681,309.

The aforementioned foreign exchange loan bears interest at U.S. base rate plus 1.75%. The demand loan is be used for the purchase of foreign forward exchange contracts up to an aggregate of US \$4,200,000 (2007 - US \$1,500,000), with a maximum maturity of six months (2007 - three months), in order to hedge against currency fluctuations in connection with imports purchased by the Company. The maximum authorized limit for the loan is US \$500,000 (2007 - US \$135,000), limited by formula applied to outstanding forward foreign exchange contracts. No amounts are outstanding under this loan as of June 30, 2008 and December 31, 2007.

As at June 30, 2008, the Company has outstanding standby letters of credit totaling US \$194,233 (December 31, 2007 – US \$1,361,658) to assist with performance guarantees for specific foreign projects. 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).

#### **Covenants**

The Company has undertaken to maintain covenants on a monthly basis in respect of the bank loans described above. The Company was in breach with certain covenants at June 30, 2008 but has received a waiver for this breach from the lender.

### 6. Share capital

Authorized:

Unlimited common shares  
Unlimited preferred shares

Shares issued at June 30, 2008:

	Number	Amount \$
<b>Common shares:</b>		
Balance – December 31, 2007	20,821,501	2,215,560
Issued on exercise of stock options:		
- cash received	160,000	16,000
- amount transferred from contributed surplus		8,759
Balance – June 30, 2007	<u>20,981,501</u>	<u>2,240,319</u>

## Notes to Financial Statements

(Unaudited – Prepared by Management)

### 6. Share capital – continued

#### 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. 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. In June 2008, 160,000 options were exercised resulting in an increase of share capital of \$24,759, comprised of cash of \$16,000 and reclassification of \$8,759 from contributed surplus.

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, 2007	785,000	0.10
Exercised	(160,000)	0.10
Outstanding and exercisable– June 30, 2008	<u>625,000</u>	<u>0.10</u>

The following summarizes information about stock options outstanding at June 30, 2008:

	Number of options	Exercise price	Weighted average remaining contractual life in years
Outstanding and exercisable, beginning and end of period	<u>625,000</u>	<u>\$0.10</u>	<u>2.20</u>

At December 31, 2007, the weighted average remaining contractual life of the 785,000 outstanding options was 2.70 years.

#### Contributed surplus:

	Amount \$
Balance – December 31, 2007	<u>71,778</u>
Reclassification to share capital on exercise of stock options	<u>(8,759)</u>
Balance – June 30, 2008	<u>63,019</u>

## Notes to Financial Statements

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(Unaudited – Prepared by Management)

### 7. Financial Instruments

The classification, carrying value and fair value of the Company's financial instruments as at June 30, 2008 are as follows:

<b>Financial Instrument Classification</b>	<b>Carrying Value</b>	<b>Fair value</b>
	<b>\$</b>	<b>\$</b>
<b>Assets held for trading:</b>		
Cash	61,162	61,162
<b>Loans and receivables:</b>		
Accounts receivable	933,016	933,016
Due from officers	145,270	n/a
<b>Other financial liabilities:</b>		
Bank loan	763,999	763,999
Accounts payable and accrued liabilities	1,055,837	1,055,837
Obligations under capital lease	7,567	7,567

#### ***Fair values***

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. Independent quoted market prices in active markets, if they exist, are the best evidence of fair value. In the absence of an active market, the Company estimates fair value using valuation techniques such as discounted cash flow analysis, making maximum use of market-based inputs including interest rates, and foreign exchange rates, and makes assumptions about the amount and timing of estimated future cash flows. Fair value estimates are made at a point in time and may not be reflective of future fair values.

Accounts receivable, bank loan, and accounts payable and accrued liabilities are all short term in nature and as such, their carrying values approximate fair values. As the amounts due from officers originated from related party transactions and are classified as receivables, which have no fixed terms of repayment, fair value has not been provided. The fair values of long term debt and obligations under capital lease are based on discounted cash flow analysis and approximate their carrying values as management believes that the fixed interest rates are representative of current market rates. While this valuation technique is based on assumptions that are not supported by observable market prices or rates, the changing of any such assumption to a reasonably possible alternative would not result in a significantly different fair value. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

## Notes to Financial Statements

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(Unaudited – Prepared by Management)

### 8. Financial risk management

The Company's activities result in exposure to a variety of financial risks, including risks related to currency fluctuation, credit, liquidity and interest rates.

#### *Foreign Currency Risk*

The Company enters into significant sales and purchase agreements with companies outside of Canada. This creates foreign currency risk, which is the risk that a variation in exchange rates between the Canadian dollar and foreign currencies will create volatility in the Company's recorded cash flows, assets, revenues and expenses. Additional earnings variability arises from the translation of monetary assets and liabilities denominated in foreign currencies at the rates of exchange at each balance sheet date, the impact of which is reported as a foreign exchange gain or loss in the statement of income.

The following tables provide an indication of the Company's significant foreign currency exposures in respect of foreign-denominated monetary assets and liabilities at June 30, 2008:

<b>Balance sheet – asset (liability)</b>	<b>US \$</b>	<b>Euro €</b>	<b>Percentage of account balance</b>
Cash	1,017	10,488	2%
Accounts receivable	161,525	–	17%
Bank loan	(233,686)	–	31%
Accounts payable	(149,410)	–	14%
Balance sheet exposure	(220,554)	10,488	
Increase (decrease) in earnings*	CDN (\$2,247)	CDN \$168	

\*Assumes 1% strengthening of the Canadian dollar at the balance sheet date, holding all other variables constant. Conversely, a hypothetical 1% decrease in the Canadian dollar relative to the foreign currency would have an equal but opposite effect as shown above.

Over the past couple of years, due to the variability of timing of receipts from foreign customers, the Company found it impractical to enter into forward currency purchase contracts that would remain effective. To help manage foreign exchange risk going forward, effective 2008, the Company, to the extent possible, will negotiate foreign contracts in Canadian dollars. For the remaining sales and purchase contracts denominated in foreign currencies, the Company will assess the outstanding sales and purchase contracts in relation to one another, and on a case-by-case basis, to determine whether it will enter into forward currency purchase contracts to manage fluctuations in exchange rates.

## Notes to Financial Statements

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(Unaudited – Prepared by Management)

### 8. Financial risk management - continued

#### ***Credit Risk***

The Company is exposed to credit risk on the accounts receivable from its customers and is concentrated, as many of its sales are in respect of large projects. As of June 30, 2008, of customers representing over 10% of trade accounts receivable, one operated in the Canadian segment and one in the Russian segment and comprised 13.6% and 18.7%, respectively, of trade accounts receivable.

To reduce its exposure to credit risk, the Company requires bank letters of credit on all foreign sales. The Company's extension of credit to customers involves considerable judgment. With respect to domestic sales, the Company has established various internal controls designed to mitigate credit risk, including senior management's review of a customer's credit limit and payment terms before commencement of a major product or delivery of a significant order. Where available, the Company periodically reviews external ratings and customer financial statements, and in some cases obtains bank and other references. New customers are subject to a specific vetting and pre-approval process. While these credit controls and processes have resulted in no or insignificant credit losses in the past, these controls cannot eliminate credit risk and there can be no assurance that these controls will continue to be effective, or that the Company's low credit loss experience will continue. In the event of a future credit loss relating to any one of its top 12 customers, which comprise 85.9% of trade accounts receivable, the Company could be required to record a material charge to income.

The Company evaluates the collectibility of its trade receivables on a customer-by-customer basis, and considers the aging of the account and any available information indicating that a customer could be experiencing liquidity or going concern problems. Trade receivables that are greater than 60 days are considered past due but not impaired. Based on the Company's credit loss history and current status of trade accounts receivable, no allowance for doubtful accounts has been recorded as of June 30, 2008.

The following table outlines the Company's exposure to credit risk for trade receivables by geographic area and the aging of the accounts as of June 30, 2008:

<b>Aging of trade accounts receivable</b>	<b>Geographic Segment</b>		<b>Total</b>
	<b>Canada</b>	<b>Russia</b>	
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Current - 60 days and under	529,190	163,647	692,837
Over 60 days	184,350	–	184,350
Total trade accounts receivable	713,540	163,647	877,187
Other receivables – all current	55,829	–	55,829
Total accounts receivable	769,369	163,647	933,016

## Notes to Financial Statements

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(Unaudited – Prepared by Management)

### **8. Financial risk management - continued**

In addition, the Company is exposed to credit risk in respect of the amounts due from officers of \$84,309. This amount represents loans to officers of the Company as further described in Note 11 and are non-interest bearing, unsecured and have no fixed repayment terms. Accordingly, this balance is not considered past due. The risk on these loans is mitigated, as the advances are to officers with a long tenure with the Company.

The Company is also exposed to credit risk in respect of deposits with vendors on inventory not yet delivered in the amount of \$52,000 at June 30, 2008. The Company mitigates its risks by dealing with reputable suppliers and maintaining strong relationships with its suppliers.

#### ***Liquidity Risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when as they fall due. The Company manages this risk through management of its cash flow from operations and its capital structure. Based on senior management's and the Board of Director's review of ongoing operations, the Company may revise timing of capital expenditures, acquire additional bank loans, including project specific loans, or issue equity or a combination thereof. The Company has determined that its demand operating loan of \$1,000,000, project financing loan of EUR3,141,640 and foreign exchange loan of US \$500,000 (for the purposes of entering into foreign forward exchange contracts), are adequate. Of the total bank loan facilities, \$2,546,001 plus US \$500,000 was unused as at June 30, 2008.

The Company's financial liabilities consisting of bank loans of \$763,999, accounts payable and accrued liabilities of \$1,055,837, and lease obligations under capital lease of \$7,567 are payable within one year, with the exception of \$1,081 of the lease obligation, which is due by August 2009. The Company enters into contractual obligations in the normal course of business operations. As at June 30, 2008, these obligations have not changed significantly from the amounts reported in the Company's 2007 Annual Report. Management believes the Company's requirements for capital expenditures, working capital and ongoing commitments (including long-term debt and lease obligations) in 2008 can be financed from cash flow provided by operating activities, existing bank loans and by acquiring new project loans.

## Notes to Financial Statements

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(Unaudited – Prepared by Management)

### 8. Financial risk management – continued

#### *Interest rate risk*

The Company is exposed to interest rate risk due to the floating rate of the bank loan. Based on the bank loans outstanding at June 30, 2008, a 1% increase/decrease in floating interest rate would decrease/increase annual income by \$7,634.

### 9. Capital Management

The Company's objective when managing capital is to ensure sufficient liquidity to pursue future development and growth strategies to provide maximum returns to its shareholders and to provide benefits for other stakeholders, while at the same time taking a conservative approach towards financial leverage and management of financial risk.

The Company's capital resources consist of bank loans, long-term debt, lease obligations and shareholders' equity as follows:

	June 30, 2008	December 31, 2007
	\$	\$
Bank loan	763,999	1,237,687
Long term debt	–	23,708
Obligations under capital lease	7,567	12,709
Shareholders' equity	785,335	865,101
<b>Total capital</b>	<b>1,556,901</b>	<b>2,139,205</b>

The primary uses of capital are to finance increases in non-cash working capital and capital expenditures. When internally-generated cash flows are not sufficient to fund these activities, the Company may issue new shares, draw on its operating facilities or seek new project loan financing to maintain or adjust its capital structure. Capital decreased during the period primarily due to repayment of the Company's project loan during the quarter.

The Company is not subject to any externally imposed capital requirements other than covenants on its bank loan with its lender to maintain the following ratios: 1) debt to tangible net worth not to exceed 3.0:1.0; and 2) current assets to current liabilities not to be less than 1.25:1.0. Business performance is closely monitored and the most cost-effective methods for raising capital are considered to evaluate compliance with covenants. At June 30, 2008, the Company was in breach of certain covenants but has received a waiver for this breach from the lender.

There were no changes to the Corporation's approach to capital management during the six months ended June 30, 2008.

## Notes to Financial Statements

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(Unaudited – Prepared by Management)

### 10. Change in non-cash working capital

	<b>Three months ended June 30, 2008</b>	Three months ended June 30, 2007	<b>Six months ended June 30, 2008</b>	Six months ended June 30, 2007
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Accounts receivable	<b>237,129</b>	118,375	<b>(80,029)</b>	388,428
Inventories	<b>(114,225)</b>	728,643	<b>(311,825)</b>	339,758
Prepaid expenses and deposits	<b>1,202</b>	11,548	<b>8,848</b>	101,836
Accounts payable and accrued liabilities	<b>(29,864)</b>	(571,663)	<b>(1,012,764)</b>	(536,344)
Customer deposits	<b>(1,120)</b>	34,913	<b>(79,591)</b>	34,913
	<b>93,122</b>	321,816	<b>(1,475,361)</b>	328,591

### 11. Related party transactions

During the six months ended June 30, 2008, the Company advanced to three officers of the Company, two of whom are directors, a total of \$84,309. At June 30, 2008, the amounts advanced remain outstanding (December 31, 2007 - \$nil). These loans are non-interest bearing, unsecured and have no fixed repayment terms.

During the six month period ended June 30, 2008, the Company purchased office supplies and marketing materials in the amount of \$1,955 (six month period ended June 30, 2007 - \$4,777) from a company that is controlled by an officer and director of the Company. At June 30, 2008 \$405 was owing to this related party (December 31, 2007 - \$nil). Legal services in the amount of \$13,375 (six month period ended June 30, 2007 - \$11,176) 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, 2008, \$12,923 was owing to this related party (December 31, 2007 - \$2,598).

During the six month period ended June 30, 2008, financial advisory services in an amount of \$5,000 (three month period ended March 31, 2007 - \$14,250) were purchased from a company controlled by a director of the Company. At June 30, 2008 and December 31, 2007, no balance was owing to or due from this related party.

These transactions are in the normal course of operations and are measured at their exchange amounts.

## Notes to Financial Statements

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(Unaudited – Prepared by Management)

### 12. Segmented information

The Company operates in two geographic segments within one industry segment. The Company designs and constructs fluid treatment, processing and handling systems for general industrial purposes in Canada and Russia. The amounts related to each segment are as follows:

	<b>Three months ended:</b>		<b>Six months ended :</b>	
	<b>June 30, 2008</b>	June 30, 2007	<b>June 30, 2008</b>	June 30, 2007
	\$	\$	\$	\$
Revenue				
Canada	<b>834,519</b>	604,703	<b>1,887,533</b>	2,315,145
Russia	<b>42,501</b>	2,944,766	<b>271,252</b>	4,969,106
	<b>877,020</b>	3,459,469	<b>2,158,785</b>	7,284,251
	<b>June 30, 2008</b>		<b>December 31, 2007</b>	
	\$		\$	
Property, plant and equipment				
Canada	<b>825,280</b>		728,714	
Russia	<b>76,201</b>		83,645	
	<b>901,481</b>		812,359	

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, 2008, two customers operating in the Canadian segment and one customer operating in the Russian segment accounted for \$437,368 (20.3%), \$374,912 (17.4%) and \$271,252 (12.6%) of consolidated revenues, respectively.

### 13. Comparative Consolidated Financial Statements

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

**Form 51-102F1  
MANAGEMENT'S DISCUSSION & ANALYSIS**

<b>Issuer Details</b>	<b>For Six Months Ended</b>	<b>Date of Report</b>
<b>Name of Issuer:</b> Baden Technologies Inc. 4535 - 8A Street NE Calgary, Alberta T2E 4J6 Contact Name: Ian Ball Contact Email: ian.ball@baden.ca	June 30, 2008  Fax: (403) 230-3106 Position: CFO	August 28, 2008  Phone: (403) 571-4230
Director's Signature "Signed"	Bob Spiller	Date Signed August 28, 2008
Director's Signature "Signed"	Dennis L. Nerland	Date Signed August 28, 2008

- Through its subsidiary FSI International Services Ltd., Baden's core business is the development, marketing, manufacture, production, and installation of filtration and filtration-related products for the petrochemical, utilities and environmental industries. FSI currently markets its product group in Canada and in international markets such as Russia. FSI has been in the oil and gas services industry since 1987.
- Financial data has been prepared in accordance with Canadian Generally Acceptable Accounting Principles ("GAAP"). All figures are stated in Canadian dollars, unless explicitly identified as otherwise.

*This management discussion and analysis focuses on key statistics from the consolidated interim financial statements and pertains to known risks and uncertainties relating to Baden Technologies Inc.. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. This discussion also includes various forward-looking statements regarding Baden Technologies. and its future activities and financial results. These statements are based on certain assumptions that are considered reasonable by management. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties and actual results could differ materially from those indicated by such forward-looking statements. This discussion and analysis of the financial condition and results of operations for the six and three-month periods ended June 30, 2008 should be read in conjunction with the unaudited June 30, 2008 consolidated financial statements of Baden Technologies Inc..*

# 1. Overall Performance and Results of Operation

## Summary of Operating Results

	Three months ended June 30,				Six months ended June 30,			
	2008 \$	2007 \$	Increase (Decrease)	% Change	2008 \$	2007 \$	Increase (Decrease)	% Change
<b>Revenue by geographic segment:</b>								
Canada	834,519	604,703	229,816	38%	1,887,533	2,315,145	(427,612)	(18%)
Russia	42,501	2,944,766	(2,902,265)	(99%)	271,252	4,969,106	(4,697,854)	(95%)
	<b>877,020</b>	<b>3,549,469</b>	<b>(2,672,449)</b>	<b>(75%)</b>	<b>2,158,785</b>	<b>7,284,251</b>	<b>(5,125,466)</b>	<b>(70%)</b>
<b>Expenses</b>								
Cost of sales	644,099	2,754,305	(2110,206)	(77%)	1,379,622	5,249,782	(3,870,160)	(74%)
Selling, general and administrative	495,699	791,785	(296,086)	(37%)	849,765	1,693,772	(844,007)	(50%)
Amortization	6,830	7,014	(184)	(3%)	13,545	13,874	(329)	(2%)
Foreign exchange loss (gain)	(4,109)	98,591	102,700	104%	11,207	102,647	(91,440)	(89%)
Interest on long term debt and obligations under capital lease	89	849	(760)	(90%)	412	1,867	(1,455)	(78%)
<b>Net income (loss)</b>	<b>(265,588)</b>	<b>(103,075)</b>	<b>(162,514)</b>	<b>(158%)</b>	<b>(95,766)</b>	<b>222,309</b>	<b>(318,076)</b>	<b>(143%)</b>
<b>Earnings (loss) per share -</b>								
Basic	(0.01)	(0.01)	0.00	0%	0.00	0.01	(0.01)	(100%)
Diluted	(0.01)	(0.01)	0.00	0%	0.00	0.01	(0.01)	(100%)
<b>EBITDA<sup>1</sup></b>	<b>(216,439)</b>	<b>(39,276)</b>	<b>(177,163)</b>	<b>(451%)</b>	<b>5,796</b>	<b>337,127</b>	<b>(331,331)</b>	<b>(98%)</b>

<sup>1</sup> EBITDA does not have a standard definition prescribed by GAAP and therefore may not be comparable to similar measures disclosed by other companies. The Company utilizes these measures in making operating decisions and assessing the Company's financial performance and as an indicator of its ability to service its liabilities. This non-GAAP measure has not been presented as an alternative to net income (loss) or any other measure of performance or liquidity prescribed by GAAP. EBITDA is calculated as follows:

June 30,	Three months ended		Six months ended	
	2008 \$	2007 \$	2008 \$	2007 \$
<b>Net income (loss)</b>	<b>(265,588)</b>	<b>(103,075)</b>	<b>(95,766)</b>	<b>222,309</b>
Addback:				
Interest on bank loans included in selling, general and administrative expense	11,006	17,343	21,316	27,549
Interest on long term debt and obligations under capital lease	89	849	412	1,867
Amortization included in cost of sales	31,224	38,593	66,289	71,528
Amortization	6,830	7,014	13,545	13,874
<b>EBITDA</b>	<b>(216,439)</b>	<b>(39,276)</b>	<b>5,796</b>	<b>337,127</b>

Due to timing of contracts for major brine and filter projects, the first half of 2008 was a period of low project activity. Accordingly revenue of \$877,020 and \$2,158,785 for the three and six-month periods ended June 30, 2008 decreased 75% and 70%, respectively, over the same periods last year. This resulted in net losses of \$265,588 and \$95,766 for the three and six month periods, respectively, or decreases in net income of 158% and 143% over the same periods last year. Likewise, earnings before interest, taxes, depreciation and amortization ("EBITDA<sup>1</sup>") decreased to negative \$216,439 (2007 – negative \$39,276) and positive \$5,796 (2007 – positive \$337,127) for the three and six months ended, respectively.

There were no deliveries of brine plant projects during the first half of the year compared to two deliveries over the first half of last year. Accordingly, revenue in the geographic segment of Russia was \$42,501 and \$271,252, for the three and six-month periods, respectively, and represented decreases of 99% and 95% over the same periods last year. Domestically, on a year-to-date basis, lower activity for major filtration projects in that segment contributed to an 18% decrease in revenue to \$1,887,533 over the same period last year, while on a quarterly basis, revenue increased over the same quarter last year by 38% to \$834,519.

While overall revenue has decreased over last year, management believes this is more indicative of the timing of major filtration and brine contracts, which due to their large size, are not necessarily seasonal, but are dependent on long and ongoing contract negotiations. Overall, based on ongoing negotiations, management believes demand for the company's brine plants will continue to increase in fiscal 2008 and beyond. The Company recently entered into a contract with a long-time Russian client for the provision of the twenty-second FSI International Brine Plant valued at approximately €3.4 million. Fabrication should be completed by year-end, with full installation and commissioning scheduled for the spring of 2009. Further, the Company is currently completing technical specifications and contract tenders on another brine plant with slightly larger parameters, again for a long-time Russian client. Finally, the Company has been confirmed as the supplier of choice for a third Brine Plant. The client for this project has requested delivery in late 2008 for installation in the first quarter of 2009. Additionally, demand for the Company's filtration and filtration-related products is entering a growth phase, particularly with service projects in the oil sands of northern Alberta and northwest Saskatchewan. Baden has positioned itself as the leading supplier in both the Russian Brine Plant market and the domestic ultra-filtration market.

Corresponding with the decrease in revenue, cost of sales declined by 77% to \$644,099 and by 74% to \$1,379,622, respectively, over the same three and six month periods last year. Cost of sales as a percentage of revenue was 73% for quarter ended June 30, 2008 compared to 78% the same quarter last year and was 64% for the six month period ended June 30, 2008 versus 72% over the same period last year. The improvement in margin of 8% over the six month comparative period is primarily due to increased pricing in fiscal 2008 to absorb increased costs of production over the past year.

Selling, general and administrative costs ("SGA") of \$495,699 and \$849,765 for the three and six month periods, respectively, decreased 37% and 50% over the same periods last year. The decrease was primarily sales related, as the Company incurred lower compensation expense and marketing expenses in relation to the higher costs incurred to service the significant growth in revenue in the same periods last year.

### **Cash flow**

Cash flow from operations before net changes in non-cash working capital and other assets was an outflow of \$227,534 for the second quarter compared to \$57,468 the second quarter last year and for the six month period, was an outflow of \$15,932 compared to an inflow of \$309,908 the same period last year. These decreases were primarily due to reduced net income. Cashflow from operations, after changes in non-cash working capital and other assets, were outflows of \$131,900 and \$1,486,268 for the three and six month periods, respectively, compared to inflows of \$258,980 and \$619,363 over the same periods last year. The further decreases were driven by changes in working capital primarily due to use of inventories over both periods and reduction of payables on a year-to-date basis.

## 2. Summary of Quarterly Results

	Three months ended							
	Jun 30, 2008	Mar 31, 2008	Dec 31, 2007	Sep 30, 2007	Jun 30, 2007	Mar 31, 2007	Dec 31, 2006	Sep 30, 2006
Total Revenues	877,020	1,281,765	5,393,245	1,199,475	3,549,469	3,734,782	1,645,269	2,922,848
Net Income (Loss)	(265,588)	169,822	(497,373)	(279,201)	(103,075)	325,384	(282,862)	224,727
EBITDA <sup>2</sup>	(216,439)	222,235	(432,623)	(214,303)	(39,276)	376,403	(230,742)	276,471
Net Income (Loss) (per share, basic)	(0.01)	0.01	(0.03)	(0.02)	(0.01)	0.02	(0.02)	0.02
Net Income (Loss) (per share, diluted)	(0.01)	0.01	(0.03)	(0.02)	(0.01)	0.02	(0.02)	0.01
Shares outstanding (weighted average, basic)	20,981,501	20,821,501	18,071,501	17,721,501	17,134,138	17,096,501	17,089,979	16,996,501
Shares outstanding (weighted average, diluted)	20,981,501	21,344,834	18,071,501	17,721,501	17,134,138	20,718,376	17,089,979	19,836,049

Revenues and associated income fluctuate greatly due to the typically large scale of export projects and due to foreign exchange fluctuations as a result of entering into significant sales agreements with companies outside of Canada. These projects vary in size between \$1,000,000 and \$ 6,000,000. For this reason, and because revenue is recognized on a project-completion basis, revenue and net income (loss) fluctuate from quarter to quarter, and quarter-over-quarter comparisons are often not useful for performance analysis. Net income of the last three quarters of 2007 was negatively impacted by the weakened US dollar. Additionally, effective January 1, 2008, the Company adopted Section 3031, Inventories as more fully described in Note 3 to the financial statements. The initial adoption of this section did not result in any opening adjustments to inventory or retained earnings, as the work-in-

<sup>2</sup> EBITDA does not have a standard definition prescribed by GAAP and therefore may not be comparable to similar measures disclosed by other companies. The Company utilizes these measures in making operating decisions and assessing the Company's financial performance and as an indicator of its ability to service its liabilities. This non-GAAP measure has not been presented as an alternative to net income (loss) or any other measure of performance or liquidity prescribed by GAAP. EBITDA is calculated as follows:

	Three months ended							
	Jun 30, 2008	Mar 31, 2008	Dec 31, 2007	Sep 30, 2007	Jun 30, 2007	Mar 31, 2007	Dec 31, 2006	Sep 30, 2006
Net Income (Loss)	(265,588)	169,822	(497,373)	(279,201)	(103,075)	325,384	(282,862)	224,727
Interest on bank loan included in selling, general and administrative expenses	11,006	10,310	10,456	9,722	17,343	10,206	957	17,062
Interest on long term debt and obligations under capital lease	89	323	501	676	849	1,018	2,422	116
Amortization included in cost of sales	31,224	35,065	-	-	-	32,935	-	-
Amortization	6,830	6,715	53,793	54,500	45,607	6,860	48,741	34,566
EBITDA	(216,439)	222,235	(432,623)	(214,303)	(39,276)	376,403	(230,742)	276,471

progress inventory at December 31, 2007 was not in a significant manufacturing state. As allowed by the new Section, the Company adopted the policy prospectively January 1, 2008 and did not restate prior periods, accordingly, quarterly net income (loss) prior to March 2008 may not be comparable to the current quarter which reflects full costing of variable and fixed overhead costs.

### 3. Liquidity and capital resources

Working capital, including the current portion of obligations under capital lease, was negative \$210,030 at June 30, 2008, compared to \$41,385 at December 31, 2007. Current ratio (current assets divided by current liabilities) as at June 30, 2008 was 0.89 compared to 1.01 at December 31, 2007. The decrease in working capital is due primarily due to the net loss for the year. The Company currently has minimal long-term obligations of \$1,081 at June 30, 2008 compared to \$4,324 at December 31, 2007.

During the first quarter of 2008, the Company negotiated an increase in its demand operating loan with HSBC Bank Canada ("HSBC") to CAD1,000,000 from CAD600,000 at December 31, 2007, on which it has drawn CAD525,709 and USD233,686 at June 30, 2008. In addition, the Company repaid and settled its project financing loan of \$1,617,862 that was outstanding at December 31, 2007. As in the past, the Company will, and has, renegotiated new project loans on an as-needed basis as major projects arise. Effective June 2008, the Company negotiated a new project financing loan to facilitate a specific foreign project. The loan bears interest at prime plus 1.75% and has an authorized limit of EUR3,141,640, limited to an amount determined by formula applied to certain assets. The loan is due the earlier of the date of receipt of proceeds on the project, December 31, 2008 and demand by the bank. No amount is outstanding under this loan as of June 30, 2008 and December 31, 2007.

Also effective June 30, 2008, the Company increased the availability of its foreign exchange demand loan to USD500,000 from USD135,000, (subject to limits by formula applied to outstanding forward foreign exchange contracts). The loan is to be used for the purchase of foreign forward exchange contracts up to an aggregate of USD4,200,000 (previously USD1,500,000), with a maximum maturity of three months, in order to hedge against currency fluctuations in connection with import purchases by the Company. No amounts are outstanding under this loan as of June 30, 2008 and December 31, 2007. Of the total bank loan facilities, CAD2,546,001 plus USD500,000 were unused as at June 30, 2008.

The Company has undertaken to maintain covenants on a monthly basis in respect of the bank loans described above. At June 30, 2008, the Company was in breach of certain covenants but has received a waiver for this breach from the lender.

The Company anticipates with existing working capital and loan facilities, minimal long term debt and obligations and brine plant contracts negotiation to date, that it will be able to meet both its short-term and foreseeable long-term operating activities, including its future lease commitments. Any growth strategies will be funded on an as-needed, project-financing basis. All domestic sales are conducted on a maximum net-30 payment cycle. The Company currently has no requirements for extended inventories for clients.

At June 30, 2008 the Company had an unsecured customer deposit in the amount of \$167,921 (December 31, 2007 - \$247,512). This deposit relates to a project currently being fabricated, and it is expected that it will be applied against receivables in fiscal 2008.

#### **4. Off-Balance Sheet Arrangements**

The Company does not normally enter into off-balance sheet arrangements; however, it does enter into performance guarantee contracts with certain of its foreign clients. The performance guarantees are secured by the issuance, under the Company's existing credit facilities, of letters of credits in favour of the particular client. The letters of credit, which are subject to an issuance fee of 1.5% per annum, shall be satisfied by the Company on demand by the bank and are insured by the Economic Development Corporation of Canada against wrongful call by the beneficiary (client). The letters of credit are secured under the same terms as the Company's bank loans. As at June 30, 2008, a performance guarantee of US \$194,233 was outstanding. Management believes that the remaining performance guarantee will be satisfied through the delivery of goods and services pursuant to the related contract.

#### **5. Changes in Accounting Policies including Initial Adoption**

The Company adopted new accounting standards effective January 1, 2008. Readers should refer to the note 3 of the unaudited consolidated financial statements at June 30, 2008 for a full description of the accounting policy changes.

#### **6. Transactions with Related Parties**

During the six months ended June 30, 2008, the Company advanced to three officers of the Company, two of whom are directors, a total of \$84,309. At June 30, 2008, the amounts advanced remain outstanding (December 31, 2007 - \$nil). These loans are non-interest bearing, unsecured and have no fixed repayment terms.

During the six month period ended June 30, 2008, the Company purchased office supplies and marketing materials in the amount of \$1,955 (six month period ended June 30, 2007 - \$4,777) from a company that is controlled by an officer and director of the Company. At June 30, 2008 \$405 was owing to this related party (December 31, 2007 - \$nil). Legal services in the amount of \$13,375 (six month period ended June 30, 2007 - \$11,176) 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, 2008, \$12,923 was owing to this related party (December 31, 2007 - \$2,598).

During the six month period ended June 30, 2008, financial advisory services in an amount of \$5,000 (six month period ended June 30, 2007 - \$14,250) were purchased from a company controlled by a director of the Company. At June 30, 2008 and December 31, 2007, no balance was owing to or due from this related party.

These transactions are in the normal course of operations and are measured at their exchange amounts.

**7. Summary of securities as at the end of the reporting period:**

- a. Authorized:  
unlimited common shares, no nominal or par value  
unlimited preferred shares

- b. Issued:

Type of Security	Number of Shares	Amount (Cdn\$)
Common shares	20,981,581	2,240,319
Preferred shares	Nil	Nil

- c. Options, warrants and convertible securities outstanding:

Type of Security	Number	Exercise Price (Cdn\$)	Vesting Date	Expiry Date
Stock options	40,000	0.10	May 11, 2005	May 11, 2010
Stock options	585,000	0.10	September 20, 2005	September 20, 2010
	<u>625,000</u>	<u>0.10</u>		

- d. There are no shares escrowed as June 30, 2008.

**8. List of officers and directors:**

Name	Position
Richard Ball	Director, President and Chief Executive Officer
Ian R. Ball	Director and Chief Financial Officer
Dennis L. Nerland	Director and Secretary
Bob Spiller	Director

**9. Other Information**

Additional information related to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com)