D MECATRONICS INC.
Consolidated Balance Sheets (Unaudited)

	December 31, 2010	December 31, 2009
ASSETS		
Current assets		
Cash	$ 421,977	$ 409,733
Accounts receivable	593,763	637,312
Inventory	1,396,823	513,498
Taxes recoverable	128,726	6,022
Security Deposits	17,628	17,987
	2,558,917	1,584,552
Fixed Assets		
Office equipment	8,698	8,698
Shop machinery and equipment	322,538	322,538
Computer equipment and software	273,739	273,739
Accumulated depreciation	(484,807)	(499,072)
	120,168	155,903
	$ 2,679,085	$ 1,740,455
LIABILITIES		
Current liabilities		
Accounts payable	$ 538,960	$ 506,967
Customer deposits	1,498,968	35,991
Warranty provision	12,819	23,875
Payroll liabilities	20,421	35,579
Loan payable, Business Development Bank	-	4,405
Current portion of due to officers/shareholders	59,076	59,076
	2,130,244	665,893
DUE TO OFFICERS/SHAREHOLDERS	51,462	103,266
SHAREHOLDERS' EQUITY		
Authorized:		
250,000,000 common voting stock with a par value of $0.0001 per share		
Issued:		
21,411,000 common shares (December 31, 2009 – 15,811,000 common shares)	2,141	1,581
Additional paid-in capital	1,793,015	1,737,575
Accumulated other comprehensive income (loss)	(47,342)	56,665
Deficit	(1,250,435)	(824,525)
	497,379	971,296
	$ 2,679,085	$ 1,740,455

These consolidated financial statements and notes thereto present fairly, in all material respects, the financial position of the Company and the results of its operations and cash flows for the periods presented, in conformity with accounting principles generally accepted in the United States, consistently applied and hereby certified by Berardino Paolucci, President and Director for D Mecatronics Inc.

The accompanying notes are an integral part of these interim consolidated financial statements.

D MECATRONICS INC.
Consolidated Statements of Operations
For the Years Ended December 31, 2010 and 2009
(Unaudited)

	2010	2009
Revenue	$ 2,097,329	$ 3,169,697
Cost of goods sold	1,693,712	2,049,492
	403,617	1,120,205
Expenses		
Compensation	634,800	455,356
Occupancy	167,499	184,399
Building maintenance and repairs	19,157	11,447
Communications	22,160	22,090
Travel	57,060	86,279
Professional fees	4,561	70,459
Interest and bank charges	2,276	3,252
Insurance and warranty	19,020	93,071
Training	-	13,140
Selling and delivery	39,342	51,258
Depreciation	35,735	(8,511)
Office and general	16,327	12,058
	1,017,937	994,298
Income (loss) before undernoted	(614,320)	125,907
Provision for non recoverable notes receivable	-	(347,750)
R&D tax refund	188,410	-
Net loss	$ (425,910)	$ (221,843)
Basic and diluted loss per common share	$ (0.02)	$ (0.02)
Weighted average number of common shares outstanding	19,544,333	13,838,397

These consolidated financial statements and notes thereto present fairly, in all material respects, the financial position of the Company and the results of its operations and cash flows for the periods presented, in conformity with accounting principles generally accepted in the United States, consistently applied and hereby certified by Berardino Paolucci, President and Director for D Mecatronics Inc.

The accompanying notes are an integral part of these interim consolidated financial statements.

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D MECATRONICS INC.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2010 and 2009
(Unaudited)

	2010	2009
Cash flow from operating activities		
Net loss for the period	$ (425,910)	$ (221,843)
Item not affecting cash:		
Provision for non recoverable notes receivable	-	347,750
Depreciation	35,735	(8,511)
	(390,175)	134,418
Changes in non-cash working capital		
Accounts receivable	43,549	(227,748)
Inventory	(883,325)	(45,181)
Security deposits	359	(2,129)
Accounts payable and payroll liabilities	(39,059)	127,886
Customer deposits	1,462,977	(323,357)
Warranty provision	(11,056)	23,875
Taxes recoverable	(122,704)	1,926
Cash used in operations	60,566	(310,310)
Cash flow from financing activities		
Repayment of debt	(4,405)	(14,452)
Advances from(repayments) to officers/shareholders, net	(51,804)	87,752
Common stock issued	-	150,000
Cash used in financing activities	(56,209)	223,300
Effect of Foreign Exchange Rate Changes	7,887	114,820
Increase in cash	12,244	9,788
Cash, beginning of year	409,733	399,945
Cash, end of year	$ 421,977	$ 409,733
Non monetary transaction:		
Conversion of debt to equity	*$* 55,894	*$* 150,000

These consolidated financial statements and notes thereto present fairly, in all material respects, the financial position of the Company and the results of its operations and cash flows for the periods presented, in conformity with accounting principles generally accepted in the United States, consistently applied and hereby certified by Berardino Paolucci, President and Director for D Mecatronics Inc.

The accompanying notes are an integral part of these interim consolidated financial statements.

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D MECATRONICS INC.
Consolidated Statement of Shareholders' Equity
Period from January 1, 2009 to December 31, 2010
(Unaudited)

	Common Shares				Accumulated Other	
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Comprehensive Income (Loss)	Total
		$	$	$	$	$
Balance, December 31, 2008	811,000	81	1,589,075	(602,682)	(58,155)	928,319
Conversion of debt to equity	15,000,000	1,500	148,500	-	-	150,000
Effect of foreign exchange rates	-	-	-	-	114,820	114,820
Net loss	-	-	-	(221,843)	-	(221,843)
Balance, December 31, 2009	15,811,000	1,581	1,737,575	(824,525)	56,665	971,296
Issuance of shares on debt conversion	5,600,000	560	55,440	-	-	56,000
Effect of foreign exchange rates	-	-	-	-	(104,007)	(104,007)
Net loss	-	-	-	(425,910)	-	(425,910)
Balance, December 31, 2010	21,411,000	2,141	1,793,015	(1,250,435)	(47,342)	497,379

These consolidated financial statements and notes thereto present fairly, in all material respects, the financial position of the Company and the results of its operations and cash flows for the periods presented, in conformity with accounting principles generally accepted in the United States, consistently applied and hereby certified by Berardino Paolucci, President and Director for D Mecatronics Inc.

The accompanying notes are an integral part of these interim consolidated financial statements.

1. Basis of Presentation and Going Concern

D Mecatronics Inc. ("D Mecatronics" or the "Company"), a Delaware corporation, was organized under the name Equity Retirement Savings Distributors Inc. on June 17, 2002. The Company's principle executive office is located at 7669 Kimbel Street, Mississauga, Ontario, Canada. D Mecatronics is a publicly traded company listed on the Pink Sheets under the symbol "DMTA". D Mecatronics began operations in June 2005 through the incorporation of its subsidiary D&R Technology Inc. ("D&R"). On March 3, 2005, the Company changed its name to D Mecatronics Inc. and increased the authorized common shares to 250,000,000 with a par value of $0.0001. On March 10, 2005, a forty-four (44) to one (1) reverse split of the Company's common shares became effective.

On March 28, 2005, D&R and the Company entered into a Letter of Agreement ("Agreement"). Pursuant to the Agreement, D&R tendered to the Company all issued and outstanding shares of common stock of D&R in exchange for the Company issuing 110,000,000 restricted shares of common stock. The 110,000,000 restricted shares of the Company were issued to the shareholders of D&R and the Company continued operations under the name D Megatronics.

In September 2005, the Company incorporated a subsidiary company D&R Tools Inc. which commenced operations in 2006.

In December 2008, the Company affected a reverse stock split at the rate of one (1) new share for each three hundred (300) pre-reverse split shares held.

These consolidated financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of operations. The Company has been generating losses and since inception, has never paid any dividends and is unlikely to pay dividends or generate earnings in the immediate or foreseeable future. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, the ability of the Company to obtain necessary equity financing to continue operations and the attainment of profitable operations. As at December 31, 2010, the Company has accumulated losses of $1,297,777 since inception and has a working capital deficiency of $985,778, net of inventory and security deposits. These factors raise substantial doubt regarding the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The unaudited consolidated financial information furnished herein reflects all adjustments, which, in the opinion of management, are necessary to fairly state the Company's financial position and the results of its operations for the periods presented.

These consolidated financial statements and related notes are presented in accordance with accounting principles generally accepted in the United States and are expressed in US dollars. The Company's fiscal year-end is December 31.

The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

Principles of Consolidation

The consolidated financial statements include the accounts and operations of D Mecatronics Inc. and its wholly owned subsidiary D&R Tools Inc. All inter-company accounts and transactions have been eliminated on consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Uses of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Financial statement items subject to significant judgment include expense accruals, as well as income taxes and loss contingencies. Actual results could differ from those estimates.

Long-lived Assets

In accordance with the Financial Accounting Standards Board ("FASB") SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the carrying value of intangible assets and other long-lived assets is reviewed on a regular basis for the existence of facts or circumstances that may suggest impairment. The Company recognizes impairment when the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Impairment losses, if any, are measured as the excess of the carrying amount of the asset over its estimated fair value.

Regulatory Matters

The Company is subject to a variety of federal, provincial and state regulations governing land use, health, safety and environmental matters. The Company's management believes it has been in substantial compliance with all such regulations

Cash and Cash Equivalents

The Company considers all highly liquid instruments with maturities of three months or less at the time of issuance to be cash equivalents. At December 31, 2010 and December 31, 2009, the Company had no cash equivalents.

Inventory

Inventory, comprised principally of raw materials, is stated at the lower of cost or market using the first-in, first-out ("FIFO") method. This policy requires D Mecatronics to make estimates regarding the market value of our inventory, including an assessment of excess or obsolete inventory. The Company determines excess and obsolete inventory based on an estimate of the future demand and estimated selling prices for its products.

Fixed Assets

Fixed assets are stated at cost. Depreciation is recorded at annual rates reflective of the useful lives of the assets. Expenditures for maintenance and repairs are charged to operations when incurred, while additions and betterments are capitalized. When assets are retired or disposed, the asset's original cost and related accumulated depreciation are eliminated from accounts and any gain or loss is reflected in income.

During the year end December 31, 2009, the Company's subsidiary changed its depreciation policy to the declining balance method from which a one-time adjustment was recorded in the amount of approximately $75,000. Comparative statements have not been amended and reflect depreciation on the straight line method.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign Currency Translation

Gains and losses arising upon settlement of foreign currency denominated transactions or balances are included in the determination of income. The Company's functional currency is the U.S. dollar. Transactions in foreign currency are translated into U.S. dollars in accordance with the SFAS No. 52 as follows:

i. monetary items at the rate prevailing at the balance sheet date;
ii. non-monetary items at the historical exchange rate;
iii. revenue and expenses at the average rate in effect during the applicable accounting period.

Translation adjustments are included in accumulated other comprehensive income (loss), a separate component of stockholders deficiency.

Financial Instruments

The carrying values of the Company's financial instruments, which comprise cash, accounts receivable, accounts payable, payroll liabilities, loan payable, taxes payable and due to officers/shareholders, approximate their fair values due to the immediate or short-term maturity of these instruments. Currently, the Company does not use derivative instruments to reduce its exposure to foreign currency risk.

Income Taxes

Potential benefits of income tax losses are not recognized in the accounts until realization is more likely than not. The Company has adopted SFAS No. 109, "Accounting for Income Taxes," as of its inception. Pursuant to SFAS No. 109, the Company is required to compute tax asset benefits for net operating losses carried forward. The potential benefits of net operating losses have not been recognized in these financial statements because the Company cannot be assured it is more likely than not it will be able to utilize the net operating losses carried forward in future years.

Basic and Diluted Loss Per Share

The Company computes net income (loss) per share in accordance with SFAS No. 128, "Earnings per Share." The standard requires presentation of both basic and diluted earnings per share (EPS) on the face of the income statement. Basic EPS is computed by dividing net income (loss) available to common shareholders by the weighted average number of shares outstanding during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the reporting period using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of convertible debt, stock options or warrants. Diluted EPS excludes all dilutive potential shares if their effect is anti-dilutive. Basic and diluted loss per share is computed using the weighted average number of common shares outstanding. Diluted EPS and the weighted average number of common shares exclude all dilutive potential shares since their effect would be anti-dilutive. At September 30, 2010 and December 31, 2009, the Company has no stock equivalents that were anti-dilutive and excluded from the loss per share calculation.

Stock-based Compensation

Prior to January 1, 2006, the Company accounted for stock-based awards under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," using the intrinsic value method of accounting, under which compensation expense was only recognized if the exercise price of the Company's employee stock options was less than the market price of the underlying common stock on the date of grant. Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R) "Share Based Payments," using the modified retrospective transition method. The Company had not issued any stock options or share based payments prior to January 1, 2006. Accordingly, there was no effect on the Company's reported loss from operations, cash flows or loss per share as a result of adopting SFAS No. 123(R).

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Advertising Costs

Advertising costs are expensed as incurred. No advertising costs have been incurred by the Company to date.

Revenue Recognition

The Company recognizes revenue in accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 101,"Revenue Recognition in Financial Statements" ("SAB 101") as modified by SEC Staff Accounting Bulletin No.104. Under SAB 101, revenue is recognized on a percentage of completions basis and when collection of the resulting receivable is reasonably assured.

The Company provides standard warranties for its product from the date of shipment. Estimated warranty obligations are recorded at the time of sale.

Comprehensive Income

The Company has adopted SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and the display of comprehensive income, its components and accumulated balances. Comprehensive income (loss) is defined to include all changes in equity except those resulting from investments by owners or distributions to owners. Among other disclosures, SFAS No. 130 requires that all items that are required to be recognized under the current accounting standards as a component of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Comprehensive income (loss) is displayed in the statement of shareholders' equity and in the balance sheet as a component of shareholders' equity.

3. DUE TO OFFICERS/SHAREHOLDERS

In November 2009, two shareholders loaned the Company $172,000 ($180,000 CDN) to finance the purchase of inventory. The loan is repayable over 3 years and bears interest at the prescribed rates defined by the Canada Revenue Agency.

4. LOAN PAYABLE, BUSINESS DEVELOPMENT BANK

The loan is repayable monthly with principal payments of $520, bearing interest at a floating rate based on 7.75% plus a maximum variance of 1%. The loan was fully repaid by December 31, 2010.

5. COMMON STOCK TRANSACTION

Conversion of Debt to Equity

On February 17, 2009, the Company issued 5,000,000 common shares to each of its three directors and officers. The shares were issued as partial compensation for accrued wages. In aggregate, $150,000 of accrued wages was satisfied by the issuance of these shares.

On April 21, 2010, the Company issued 5,600,000 common shares in exchange for the conversion of debt in the amount of $55,894.

6. LEASES AND OTHER COMMITMENTS

The Company leases premises totaling 18,000 square feet with monthly lease payments of approximately $12,000.

The Company leases machinery and equipment valued at approximately $60,000 at various lease rates and terms.

7. NOTES RECEIVABLE

In 2009, the Company provided against $347,750 of notes receivable relating to uncollected amounts in respect of common shares issued.

8. COMPARATIVE NUMBERS

Certain comparative figures have been restated to conform with the presentation adopted in the current period.