Consolidated Financial Statements of:

BIOREM INC.

Year ended December 31, 2009

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Biorem Technologies Inc. as at December 31, 2009 and 2008 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Waterloo, Canada
March 5, 2010

BIOREM INC.

Consolidated Balance Sheets

December 31, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash and short-term investments	$ 4,030,814	$ 2,199,287
Accounts receivable (note 3)	2,897,842	5,419,027
Unbilled revenue (note 1)	3,448,529	3,809,711
Inventory (note 4)	649,374	586,972
Prepaid expenses and deposits	65,984	595,654
Investment tax credits recoverable	100,000	176,104
	11,192,543	12,786,755
Plant and equipment (note 5)	1,011,228	937,565
Investment tax credits recoverable (note 8)	250,000	250,000
Technology, patents and other assets (note 6)	1,267,671	1,525,889
Goodwill	1,428,000	1,428,000
	$ 15,149,442	$ 16,928,209
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 3,816,368	$ 4,516,450
Unearned revenue and contract advances (note 1)	287,031	1,335,116
	4,103,399	5,851,566
Long-term debt:		
Debenture (note 7)	2,498,227	2,287,191
Shareholders' equity:		
Common shares (note 9)	13,201,212	13,171,212
Contributed surplus	1,440,605	1,209,403
Deficit	(6,094,001)	(5,591,163)
	8,547,816	8,789,452
Commitments (note 15)		
	$ 15,149,442	$ 16,928,209

See accompanying notes to consolidated financial statements.

Peter Bruijns – President & CEO

Robert B. Nally - Chairman

BIOREM INC.

Consolidated Statements of Operations and Comprehensive Loss

Years ended December 31, 2009 and 2008

		2009		2008
Revenue	$	18,878,218	$	14,400,071
Cost of goods sold		11,290,303		8,631,394
		7,587,915		5,768,677
Expenses (income):				
Sales and marketing		3,620,060		3,323,177
Research and development (note 11)		1,191,540		1,032,714
Government assistance (note 11)		(995,397)		(458,262)
General and administration		2,153,917		1,878,411
Stock option compensation (note 10)		231,202		279,724
Total operating expenses		6,201,322		6,055,764
Earnings (loss) before the following		1,386,593		(287,087)
Amortization of plant and equipment		218,121		297,096
Amortization of technology, patents and other assets		258,218		246,593
Accretion of deferred financing costs		91,768		13,816
Accretion of warrant costs		119,268		17,787
Loss (gain) on foreign exchange		808,829		(506,769)
Interest - short -term		10,727		10,168
Interest - long-term		382,500		63,750
Total other expenses		1,889,431		142,441
Loss before income taxes		(502,838)		(429,528)
Current income tax expense (note 8)		-		2,708
Loss and comprehensive loss	$	(502,838)	$	(432,236)
Earnings per share: (note 12)				
Basic	$	(0.04)	$	(0.04)
Diluted		(0.04)		(0.04)

See accompanying notes to consolidated financial statements.

BIOREM INC.

Consolidated Statements of Shareholders' Equity

Years ended December 31, 2009 and 2008

	Share Capital	Contributed Surplus	Deficit	Total
Balance as at January 1, 2008	$ 13,171,212	$ 506,218	$ (5,158,927)	$ 8,518,503
Loss for the year ended December 31, 2008	-	-	(432,236)	(432,236)
Stock option compensation	-	279,724	-	279,724
Warrants issued	-	423,461	-	423,461
Balance as at December 31, 2008	13,171,212	1,209,403	(5,591,163)	8,789,452
Loss for the year ended December 31, 2009	-	-	(502,838)	(502,838)
Stock option compensation (note 10)	-	231,202	-	231,202
Issuance of common shares (note 9)	30,000	-	-	30,000
Balance as at December 31, 2009	$ 13,201,212	$ 1,440,605	$ (6,094,001)	$ 8,547,816

See accompanying notes to consolidated financial statements.

BIOREM INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2009 and 2008

		2009		2008
Cash provided by (used in):				
Operations:				
Loss for the year	$	(502,838)	$	(432,236)
Items not involving cash:				
Amortization of plant and equipment		218,121		297,096
Amortization of technology, patents and other assets		258,218		246,593
Accretion of deferred financing costs		91,768		13,816
Accretion of warrant costs		119,268		17,787
Transfer of equipment to cost of goods sold		-		52,876
Stock option compensation		231,202		279,724
Issuance of common shares		30,000		-
		445,739		475,656
Net changes in operating assets and liabilities (note 13)		1,677,572		(3,133,430)
Investing:				
Purchase of plant and equipment		(291,784)		(83,123)
Financing:				
Proceeds of long-term debt		-		3,000,000
Financing costs		-		(320,951)
		-		2,679,049
Increase (decrease) in cash		1,831,527		(61,848)
Cash and short-term investments, beginning of year		2,199,287		2,261,135
Cash and short-term investments, end of year	$	4,030,814	$	2,199,287

See accompanying notes to consolidated financial statements.

BIOREM Inc. was incorporated on December 18, 2003 as a Capital Pool Company of the TSX Venture Exchange Inc. (“Exchange”) under the laws of the Province of Ontario. BIOREM Technologies Inc. is incorporated under the laws of the Province of Ontario and BIOREM Environmental Inc. is incorporated under the laws of the State of Delaware. BIOREM Inc. and its subsidiaries (collectively the "Company") design and manufacture a comprehensive line of high efficiency air pollution control systems that are used to eliminate odorous and harmful contaminants.

1. Significant accounting policies:

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries BIOREM Technologies Inc. and BIOREM Environmental Inc.

(b) Cash and short-term investments:

The Company considers deposits in banks and short-term investments with original maturities of three months or less as cash and cash equivalents.

(c) Inventory

Inventory is stated at the lower of cost and net realizable value. Cost is determined on a weighted average basis.

(d) Plant and equipment:

Plant and equipment is recorded at acquisition cost less any applicable government assistance or investment tax credits. Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Research equipment	Declining balance	20%
Production equipment	Declining balance	20%
Office furniture	Declining balance	20%
Computer hardware	Straight-line	3 years
Computer software	Straight-line	3 years
Leasehold improvements	Straight-line	10 years

A half year's amortization is charged in the year of acquisition.

1. Significant accounting policies (continued):

(e) Technology, patents and other assets:

Technology, patents and other assets are recorded at acquisition cost. Amortization is provided using the following method and annual rates:

Asset	Basis	Rate
Technology	Straight-line	10 years
Patents	Straight-line	10 years
Trademarks	Straight-line	10 years
Customer lists	Straight-line	10 years

(f) Goodwill:

Goodwill represents the excess of the purchase price consideration over the fair value of net assets of the acquired business. Goodwill is not subject to amortization but is subject to an annual assessment for impairment by applying a fair-value test. Any impairment in the value of goodwill would be charged to income.

(g) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(h) Foreign currency translation:

The Canadian dollar is the Company's functional and reporting currency. Monetary assets and liabilities denominated in foreign currency are translated using the exchange rate in effect at the balance sheet date, non-monetary assets and liabilities denominated in foreign currency are translated using the historical exchange rate and revenues and expenses at the rates of exchange prevailing when the transaction occurred.

1. Significant accounting policies (continued):

(h) Foreign currency translation (continued):

The Company's foreign operation, located in the United States is deemed to be an integrated foreign operation and, therefore, its financial statements are translated using the temporal method. Under this method, all asset, liability, revenue and expense items are translated at the exchange rate in effect at the transaction date. At the balance sheet dates, monetary assets and liabilities are adjusted to reflect the year end exchange rate. The gain or loss resulting from translation is included in the determination of income for the current period.

(i) Revenue recognition:

Revenues include the sales of biofilter systems, Biosorbens™ media, service and license fees. For contracts of short duration, revenue is recorded when products are shipped, services are performed or billings rendered, which approximates actual performance.

Certain of the Company's contracts are long-term in nature. The Company recognizes revenue on long-term contracts using the percentage of completion method, based on costs incurred relative to the estimated total contract costs. Contract price and cost estimates are reviewed periodically as the work progresses and adjustments proportionate to the percentage of completion are reflected in the period when such estimates are revised. Current provisions are made for all known or anticipated losses on contracts which have not been completed. When the Company recognizes revenue, it also records a provision for potential warranty claims. It bases the provision on warranty terms and claims experience.

Unbilled revenue represents work that has been recognized as revenue under the percentage-of-completion method but not yet invoiced to clients. Unearned revenue and contract advances represent amounts billed in excess of revenue earned and work-in-process balances.

Service revenues are derived from service agreements commencing after the warranty period expires. Revenue is recognized on these agreements ratably over the term of the agreements. Revenues from other services are recognized when the services are performed.

(j) Research and development:

Research and development costs, other than capital expenditures, are expensed as incurred unless they meet generally accepted accounting principles for deferral. Research and development expenditures are reduced by investment tax credits and related government grants. Investment tax credits for scientific research and experimental development are recognized in the period qualifying expenditures are incurred and there is reasonable assurance that they will be realized.

1. Significant accounting policies (continued):

(k) Stock-based compensation:

The Company has a stock-based compensation plan, which is described in note 10.

The Company has adopted the amended recommendations of the CICA Handbook Section 3870, *"Stock-based Compensation and Other Stock-Based Payments"*. Under the amended standards of this Section, the fair value of all stock-based awards granted is estimated using the Black-Scholes model and are recorded in operations over their vesting periods. Any compensation cost related to share purchase options granted after January 1, 2004 is recorded in operating expenses.

(l) Use of estimates:

The preparation of financial statements in conformity with Canadian 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 financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. Estimates are reviewed on a regular basis and, as adjustments become necessary, they are reported in income in the periods in which they become known. The assets and liabilities which require management to make significant estimates and assumptions in determining carrying values include accounts receivable, inventory, investment tax credits recoverable, plant and equipment, technology, patents and other assets, goodwill, accounts payable and accrued liabilities and future income taxes. In addition, significant estimates are required in determining the percentage of completion and the corresponding recognition of revenue in relation to the Company's long-term contracts and determination of stock option compensation expense.

(m) Transaction costs:

Transaction costs are incremental costs directly related to the acquisition of a financial asset or the issuance of a financial liability. The Company incurs transaction costs primarily through the issuance of debt and classifies these costs with the related debt. These costs are amortized using the effective interest method over the life of the related debt instrument. The Company recognizes as an asset or liability all embedded derivatives that are required to be separated from their host contracts.

(n) Financial instruments:

The Company has classified its financial instruments as follows; cash and cash equivalents are classified as held-for-trading and measured at fair value, accounts receivable and unbilled revenue are classified as loans and receivables and measured at amortized cost, accounts payable and accrued liabilities, unearned revenues and contract advances, and long-term debt are classified as other liabilities and measured at amortized cost.

2. Changes in accounting policies:

Effective January 1, 2009, the Company adopted the new CICA Handbook Section 3064 “Goodwill and Intangible Assets.” Section 3064 states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria. This section also provides further information on the recognition of internally generated intangible assets (including research and development costs). As for subsequent measurement of intangible assets, goodwill, and disclosure, Section 3064 carries forward the requirements of the old Section 3062, “Goodwill and Other Intangible Assets.” There was no impact on the financial statements of the Company.

3. Accounts receivable:

The aging of the trade receivables as at December 31, 2009 was as follows:

	2009		**2008**	
0-30 days	$ 1,350,143	47%	$ 3,131,672	59%
31-60 days	299,718	11%	219,996	4%
61-90 days	6,779	1%	295,714	6%
91-120 days	68,629	2%	137,267	3%
over 120 days	1,081,208	39%	1,505,767	28%
	$ 2,806,477	100%	**$ 5,290,416**	100%

The majority of the amounts over 60 days relate to holdbacks associated with project completion and commissioning.

During 2009 the allowance for doubtful accounts receivable was reduced by $9,000 (2008 - $30,000). The amount of allowance at the beginning of the year was $25,000 (2008 – $55,000) and at the end of the year was $16,000 (2008 - $25,000).

4. Inventory:

Inventory consists of raw materials and manufactured media carried at the lower of cost and net realizable value. The total amount of purchased materials and components included in cost of goods sold for the year was $8,885,000 (2008 - $6,105,000).

5. Plant and equipment:

			2009
	Cost	Accumulated amortization	Net book value
Research equipment	$ 136,512	$ 66,448	$ 70,064
Production equipment	1,120,290	601,914	518,376
Office equipment	507,727	249,873	257,854
Leasehold improvements	353,981	189,047	164,934
	$ 2,118,510	$ 1,107,282	$ 1,011,228

			2008
	Cost	Accumulated amortization	Net book value
Research equipment	$ 116,370	$ 62,218	$ 54,152
Production equipment	991,046	500,789	490,257
Office equipment	369,778	171,572	198,206
Leasehold improvements	349,532	154,582	194,950
	$ 1,826,726	$ 889,161	$ 937,565

Amortization of plant and equipment was $218,121 (2008 - $297,096)

6. Technology, patents and other assets:

2009	Cost	Accumulated amortization	Net book value
Technology	$ 1,426,416	$ 709,416	$ 717,000
Patents	359,528	180,953	178,575
Trademark	61,500	27,418	34,082
Customer lists	615,000	276,986	338,014
	$ 2,462,444	$1,194,773	$ 1,267,671

2008	Cost	Accumulated amortization	Net book value
Technology	$ 1,426,416	$ 566,016	$ 860,400
Patents	359,528	136,591	222,937
Trademark	61,500	21,268	40,232
Customer lists	615,000	212,680	402,320
	$ 2,462,444	$ 936,555	$ 1,525,889

Amortization on technology, patents and other assets was $258,218 (2008 - $246,593).

7. Long-term debt:

	2009	2008
12.75% debenture due October 31, 2011	$ 3,000,000	$ 3,000,000
Less:		
Deferred financing costs	(215,367)	(307,135)
Deferred warrant costs	(286,406)	(405,674)
	$ 2,498,227	$ 2,287,191

On October 31, 2008, the Company secured long-term financing in the form of a $3,000,000 debenture bearing interest at 12.75% per annum payable monthly. On December 31, 2009 the Company entered into an extension agreement whereby the maturity date of the debenture has been extended from the original date of October 31, 2010 to October 31, 2011. Certain other terms contained within the debenture were also amended.

The amended terms include an option to repay the debenture anytime after November 1, 2010 without penalty to the Company. The debenture is secured by a general security agreement covering all assets of the Company and is subject to meeting certain financial covenants each quarter as amended in the extension agreement.

7. Long-term debt (continued):

In relation to the debenture, the Company issued 1,153,846 special warrants which are exercisable into 1,153,846 share purchase warrants, each of which is exercisable to acquire one common share of the Company upon payment of the exercise price of $0.65 per share. The share purchase warrants expire October 31, 2013.

The Company was not in compliance with its bookings covenant for the trailing six months ending June 30, 2009 as required under the terms of the original debenture agreement. The lender agreed in writing to waive its right to take action under the debenture agreement as a result of such non-compliance at June 30, 2009. The lender accepted a $30,000 fee, in the form of 78,947 common shares, as consideration in exchange for the waiver.

Using the Black-Scholes model, the fair value of the warrants was calculated to be $423,461. The fair value of the warrants together with the financing costs of $320,951 related to the loan were deferred and are accreted into income using the effective interest method over 36 months. The offset to the fair value of the warrants was recorded to contributed surplus.

The following were the assumptions used to derive the Black-Scholes model value of $0.367:

Risk-free interest rate	2.8 %
Expected life	5 years
Expected volatility	65 %
Expected dividends	–

8. Income taxes:

Income tax expense differs from the amount that would be computed by applying the federal, state and provincial statutory tax rates of 33.0% (2008 – 33.5%) to earnings before income taxes. The reasons for the differences and related tax effects are as follows:

	2009	2008
Computed tax expense	$ (166,000)	$ (144,000)
Non-deductible expenses for tax purposes	86,000	100,000
Tax rate differential in foreign subsidiary	(17,000)	(11,000)
Change in tax rates	82,000	-
Valuation allowance	15,000	32,000
Write-off of investment tax credits	-	-
Rate differential on losses	-	-
Other	-	25,708
	$ -	$ 2,708

8. Income taxes (continued):

The tax effects of temporary differences that give rise to significant portions of the future tax asset at December 31, 2009 and December 31, 2008 are presented below:

	2009	2008
Future tax assets:		
Loss carry forwards available in future years	$ 655,000	$ 981,000
Scientific research and experimental development expenditures not yet deducted for tax purposes	652,000	305,000
Provisions not yet deducted for tax purposes	180,000	200,000
Share issue costs	123,000	115,000
	1,610,000	1,601,000
Future tax liabilities:		
Capital assets - differences in net book value and undepreciated capital cost	(306,000)	(312,000)
	1,304,000	1,289,000
Less: valuation allowance	(1,304,000)	(1,289,000)
Long-term portion of future tax assets	$ -	$ -

As at December 31, 2009, the Company has income tax losses available to reduce future years' taxable income, which expire as follows:

	Canada	U.S.	Total
2025	$ -	$ 215,000	$ 215,000
2026	-	380,000	380,000
2027	500,000	540,000	1,040,000
2028	-	160,000	160,000
2029	-	110,000	110,000
Indefinite	2,405,000	-	2,405,000
	$ 2,905,000	$ 1,405,000	$ 4,310,000

8. Income taxes (continued):

In addition, the Company has Canadian investment tax credits available to be applied against future income taxes payable in the amount of approximately $1,243,000, which expire as follows:

2013	$ 7,500
2014	142,000
2015	260,500
2026	148,000
2027	205,000
2028	260,000
2029	220,000
	$ 1,243,000

The benefit of $250,000 of these investment tax credits has been recognized in the consolidated financial statements.

9. Share capital

	2009	2008
Authorized:		
Unlimited number of common shares		
Issued:		
12,057,246 common shares (2008 – 11,978,299)	$ 13,201,212	$ 13,171,212

The Company issued 78,947 common shares on August 24, 2009 (note 7)

10. Stock-based compensation

The Company uses a stock option plan to attract and retain key employees, senior executives and directors. Under the terms of the plan, which received shareholder approval, the aggregate number of shares reserved for issuance is fixed at 1,796,745. The maximum number of shares reserved for issuance pursuant to options granted to any one person is limited to 5% of the common shares outstanding at the time of the grant. The stock option exercise price is the closing market price of the Company's common shares on the day prior to the date of the grant. Options granted under the plan may be exercised during a period not exceeding ten years from the date of the grant, subject to termination upon the option ceasing to be a director, senior executive or employee of the Company and have vesting periods of at least three years. Options issued under the plan are non-transferable.

10. Stock-based compensation (continued):

i) The following table illustrates the significant assumptions underlying the Company's accounting policy for stock-based compensation:

	2009	2008
Weighted average fair value of each option	$ 0.31	$ 0.44
Assumptions:		
Expected volatility	50% - 70%	50% - 70%
Risk free interest rate	1.7% - 2.5%	1.7% - 3.2%
Expected life in years	10 years	10 years
Expected dividend yield	0%	0%

ii) The following table summarizes the continuity of options issued under the plan:

	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	1,322,667	$ 1.59	1,083,667	$ 1.95
Options forfeited	(36,334)	2.87	(103,000)	2.31
Granted during the year	152,000	0.45	342,000	0.64
Outstanding, end of year	1,438,333	$ 1.45	1,322,667	$ 1.59
Exercisable, end of year	705,656	$ 1.85	407,821	$ 2.29

Options outstanding and exercisable at December 31, 2009:

Options Outstanding					Options Exercisable	
Number outstanding	Exercise price	Weighted average exercise price	Exercise price as % of year end share price of $0.53	Remaining life in years	Number exercisable	Weighted average exercise price
111,500	$3.27	$ 3.27	617	0.07	111,500	$ 3.27
100,500	2.50 - 3.00	2.75	519	0.92	100,500	2.75
657,333	1.50 - 1.75	1.62	306	8.73	329,662	1.61
227,000	0.80 - 1.11	0.93	175	8.17	100,663	0.97
342,000	0.33 – 0.48	0.45	85	9.25	63,331	0.48
1,438,333		$ 1.45	274	7.51	705,656	$ 1.85

11. Research and development expenses:

	2009	2008
Expenses incurred	$1,191,540	$ 1,032,714
Less:		
Government funding	(780,957)	(348,262)
Investment tax credits	(214,440)	(110,000)
	$ 196,143	$ 574,452

The Company is eligible for Federal investment tax credits at a rate of 20% of qualifying scientific research and experimental development expenditures conducted in Canada, in addition to investment tax credits or deductions available from provincial jurisdictions. Federal investment tax credits are only available to the Company to be applied against future income taxes payable.

The Company has been approved for financial assistance with the Ministry of Research and Innovation – Innovation Demonstration Fund Program in the form of a forgivable loan. The loan bears interest at 3.98% per annum, payable at maturity, and is due December 31, 2014. The loan is secured by a general security agreement over all assets of the company that is subordinate to long-term debt. The principal and interest is to be forgiven pro rata based on certain milestones having been reached. The loan is to support the Company's development and demonstration of a potential long-term solution for sewage treatment plant odour control. The Company receives contributions of 50% of the specified costs of the project to a maximum of $1,189,018. The Company has recorded $542,000 (2008 - $115,000) as an offset to expense and has received $609,000 (2008 - $nil) to December 31, 2009.

The Company has been approved for funding with Natural Resources Canada. The funding is to support the Company's research and development efforts in the automotive sector. The Company receives contributions of 50% of the specified costs of the development project to a maximum of $480,000. The company has received $354,686 (2008 - $354,686) to December 31, 2009 of which $nil (2008 - $74,043) was received in 2009. The Company has agreed to pay royalties to a cumulative value of $480,000 at a rate of 5% of future related product revenues. The royalty period is scheduled to begin on March 31, 2008 and ends March 31, 2018, or when the royalty maximum has been reached, whichever occurs first. No product revenues have been recognized to December 31, 2009.

The Company has been approved for funding through the Industrial Research Assistance Program (IRAP). The funding is to support the Company's research and development efforts for the treatment of volatile organic compounds. The Company receives contributions of 50% of the specified costs to a maximum of $404,120. The Company has recorded $176,995 (2008 - $122,419) as an offset to expense and has received $284,166 (2008 - $70,347) to December 31, 2009 of which $213,819 (2008 - $70,347) was received in 2009.

12. Earnings per share:

The computations for basic and diluted earnings per share are as follows:

	2009	2008
Loss	$ (502,838)	$ (432,236)
Average number of common shares outstanding:		
Basic	12,006,417	11,978,299
Effect of stock options	-	-
Diluted	$ 12,006,417	$ 11,978,299
Earnings per share:		
Basic	$ (0.04)	$ (0. 04)
Diluted	(0.04)	(0. 04)

13. Net change in operating assets and liabilities:

	2009	2008
Cash provided by (applied to):		
Accounts receivable	$ 2,521,185	$ (1,964,581)
Income taxes recoverable	-	67,712
Unbilled revenue	361,182	(3,681,691)
Inventory	(62,402)	182,677
Prepaid expenses	529,670	(559,555)
Investment tax credits recoverable	76,104	(26,208)
Accounts payable and accrued liabilities	(700,082)	1,831,355
Unearned revenue and contract advances	(1,048,085)	1,016,861
	$ 1,677,572	$(3,133,430)

14. Supplemental cash flow information:

	2009	2008
Cash received for:		
Investment tax credits and income taxes	$ 290,544	$ 149,186
Cash paid for:		
Interest	393,227	73,918
Income taxes	-	390

15. Commitments:

The Company is committed under operating leases for the rental of a building, property and computer equipment. The aggregate minimum annual commitments for the next five years are as follows:

2010	$ 179,792
2011	113,559
2012	71,280
2013	71,280
2014	71,280
Total future minimum lease payments	$ 507,191

Operating lease expense in 2009 was $164,513 (2008 - $162,553).

16. Financial instruments:

a) Fair values:

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

b) Foreign exchange risk:

The Company operates internationally, which gives rise to the risk that cash flows may be adversely impacted by exchange rate fluctuations. The Company has not entered into any forward foreign exchange contracts or other derivative financial instruments to mitigate its exposure to changes in foreign exchange.

As at December 31, 2009, accounts receivable include US $1,905,469 (2008 - US $3,138,468) and accounts payable include US $683,205 (2008 - US $1,170,940).

c) Credit risk:

Credit risk arises from the possibility that the Company’s customers may experience difficulty and be unable to fulfill their contractual obligations. In order to manage its risk, the Company has adopted credit policies that include regular review and follow up of outstanding project receivable balances. The majority of the Company's invoicing is for municipal projects. The Company’s accounts receivable are not subject to significant concentration of credit risk and the Company has not incurred any significant bad debts to date.

16. Financial instruments (continued):

(d) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company‘s budget and cash flow forecasts indicate it has and will generate sufficient cash flows to meet its obligations during 2010, taking into consideration cash and cash equivalents available to the Company as at December 31, 2009.

17. Segmented information:

Management has determined that the Company operates in one dominant industry segment, which involves the manufacture and sale of industrial machinery.

The Company’s revenue and capital assets breaks down geographically as follows:

	Revenue		Capital assets [1]	
	2009	2008	2009	2008
Canada	$ 6,548,404	$ 2,110,066	$ 1,421,185	$ 1,427,129
United States	9,543,155	10,051,054	2,285,714	2,464,325
Other	2,786,659	2,238,951	-	-
Total	$ 18,878,218	$ 14,400,071	$ 3,706,899	$ 3,891,454

[1] Includes plant and equipment, goodwill, technology, patents and other assets

In 2009, one customer accounted for 16% of total revenue (2008 – no customer accounted for more than 10% of total revenue). One customer accounted for 16% of accounts receivable as at December 31, 2009 (2008 - one customer accounted for 10%).

18. Capital management:

The policy of the Board of Directors is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors the demographic spread of the shareholders, the return of capital, which the Company defines as total shareholders’ equity, and the level of dividends to ordinary shareholders.

19. Foreign exchange risk:

As at December 31, 2009, the Company’s cash and short-term investments, accounts receivable and unbilled revenue denominated in US$ amounted to $5,532,765. Accounts payable and accrued liabilities and unearned revenue and contract advances denominated in US$ amounted to $1,493,024. A 10% strengthening of the Canadian dollar against the US$ at December 31, 2009 would have decreased equity and net income for the year by $431,000.

20. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.