Consolidated Financial Statements of

# Biorem Inc.

December 31, 2012 and 2011

# Biorem Inc.
## December 31, 2012 and 2011

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# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Biorem Inc.

We have audited the accompanying consolidated financial statements of Biorem Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, the consolidated statements of operations, comprehensive loss, changes in equity and cash flows for the years ended December 31, 2012 and December 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's responsibility for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Biorem Inc. as at December 31, 2012 and December 31, 2011 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

Without modifying our opinion, we draw attention to Note 2 in the financial statements which indicates that Biorem Inc. has experienced significant losses in the current and prior periods and has a deficit as at December 31, 2012. These conditions indicate the existence of a material uncertainty that may cast significant doubt about Biorem Inc.'s ability to continue as a going concern.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

April 22, 2013

Waterloo, Canada

# Biorem Inc.

## Consolidated statements of financial position
## December 31, 2012 and 2011

| In Canadian dollars | Note | 2012 | 2011 |
|---|---|---|---|
| | | $ | $ |
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | **10** | 1,901,236 | 924,032 |
| Restricted cash and equivalents | **10** | 597,276 | 1,152,381 |
| Accounts receivable | **11** | 3,631,327 | 4,627,245 |
| Unbilled revenue | | 1,308,001 | 1,114,690 |
| Inventories | **12** | 1,120,592 | 780,224 |
| Prepaid expenses and deposits | | 59,676 | 84,870 |
| Investment tax credits recoverable | | 160,000 | 150,000 |
| | | 8,778,108 | 8,833,442 |
| Non-current assets | | | |
| Plant and equipment | **13** | 562,542 | 866,252 |
| Intangible assets | **14** | 439,773 | 668,066 |
| **Total assets** | | 9,780,423 | 10,367,760 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Accounts payable | | 2,916,624 | 2,984,040 |
| Accrued liabilities and provision | **15** | 1,024,184 | 1,907,231 |
| Provisions | **15** | 393,568 | 585,322 |
| Unearned revenue | | 1,803,391 | 1,863,466 |
| Short-term debt | **16** | - | 648,591 |
| Current portion long term debt | **17** | 1,220,000 | 1,750,000 |
| | | 7,357,767 | 9,738,650 |
| Non-current liabilities | | | |
| Long term debt | **17** | 2,368,029 | - |
| **Shareholders' equity** | | | |
| Common shares | **18** | 13,352,462 | 13,277,462 |
| Share purchase warrants | | 491,184 | 423,861 |
| Contributed surplus | | 1,529,151 | 1,360,867 |
| Accumulated other comprehensive loss | | (117,339) | (62,241) |
| Deficit | | (15,200,831) | (14,370,839) |
| **Total shareholders' equity** | | 54,627 | 629,110 |
| Going concern | **2** | | |
| Commitments | **22** | | |
| **Total liabilities and shareholders' equity** | | 9,780,423 | 10,367,760 |

See accompanying notes to consolidated financial statements.

# Biorem Inc.

## Consolidated statements of operations
## Years ended December 31, 2012 and 2011

| In Canadian dollars | Note | 2012 | 2011 |
|---|---|---|---|
| | | $ | $ |
| Revenue | **4** | 15,418,320 | 12,045,195 |
| Cost of goods sold | **12** | 11,691,949 | 9,175,906 |
| Gross profit | | 3,726,371 | 2,869,289 |
| Expenses (income) | | | |
| Sales and marketing | | 1,602,116 | 2,616,715 |
| Research and development | **6** | 770,556 | 1,071,652 |
| General and administration | | 2,002,684 | 2,847,635 |
| Other income | **6** | (276,387) | (799,905) |
| Total operating expenses | | 4,098,969 | 5,736,097 |
| Loss from operations | | (372,598) | (2,866,808) |
| Finance costs | **7** | 457,394 | 345,549 |
| Loss on remeasurement of debenture | **17** | - | 157,059 |
| Total finance costs | | 457,394 | 502,608 |
| Net loss | | (829,992) | (3,369,416) |
| Loss per share, basic and diluted | **9** | $ (0.07) | $ (0.28) |

See accompanying notes to consolidated financial statements.

# Biorem Inc.

Consolidated statements of comprehensive loss
Years ended December 31, 2012 and 2011

| In Canadian dollars | Note | 2012 | 2011 |
|---|---|---|---|
| | | $ | $ |
| Net loss | | (829,992) | (3,369,416) |
| **Other comprehensive loss** | | | |
| Foreign currency translation differences on foreign operations | | (55,098) | (58,773) |
| **Total comprehensive loss** | | (885,090) | (3,428,189) |

See accompanying notes to consolidated financial statements.

# Biorem Inc.

## Consolidated statements of changes in shareholders' equity
## Years ended December 31, 2012 and 2011

| In Canadian dollars | Note | Common shares | Share purchase warrants | Contributed surplus | Accumulated other comprehensive income(loss) | Deficit | Total |
|---|---|---|---|---|---|---|---|
| | | $ | | $ | $ | $ | $ |
| **Balance, as at December 31, 2010** | | 13,201,212 | 423,861 | 1,288,595 | (3,468) | (11,001,423) | 3,908,777 |
| Loss for the year | | - | | - | - | (3,369,416) | (3,369,416) |
| Foreign currency translation differences on foreign operations | | - | | - | (58,773) | - | (58,773) |
| **Total comprehensive loss for the year** | | - | - | - | (58,773) | (3,369,416) | (3,428,189) |
| Stock-based compensation | **19** | - | | 72,272 | - | - | 72,272 |
| Shares issued | **18** | 76,250 | | - | - | - | 76,250 |
| **Balance, as at December 31, 2011** | | 13,277,462 | 423,861 | 1,360,867 | (62,241) | (14,370,839) | 629,110 |
| Loss for the year | | - | | - | - | (829,992) | (829,992) |
| Foreign currency translation differences on foreign operations | | - | - | - | (55,098) | - | (55,098) |
| **Total comprehensive loss for the year** | | - | - | - | (55,098) | (829,992) | (885,090) |
| Stock-based compensation | **19** | - | | 33,613 | - | - | 33,613 |
| Shares issued | **18** | 75,000 | | - | - | - | 75,000 |
| Conversion feature of 8% debentures | **18** | | | 134,671 | | | 134,671 |
| Warrants issued | **18** | | 67,323 | | | | 67,323 |
| **Balance, as at December 31, 2012** | | 13,352,462 | 491,184 | 1,529,151 | (117,339) | (15,200,831) | 54,627 |

# Biorem Inc.
## Consolidated statements of cash flows
## Years ended December 31, 2012 and 2011

| In Canadian dollars | Notes | 2012 | 2011 |
|---|---|---|---|
| | | $ | $ |
| **Operating activities** | | | |
| Net loss | | (829,992) | (3,369,416) |
| Items not involving cash: | | | |
| Depreciation and impairment | **13** | 309,211 | 341,079 |
| Amortization of intangible assets | **14** | 213,570 | 215,085 |
| Loss on remeasurement of debenture - non cash portion | **17** | - | 157,059 |
| Finance costs | **7** | 457,394 | 345,549 |
| Stock based compensation | **19** | 33,613 | 72,272 |
| Loss on disposal of equipment | | - | 12,403 |
| Foreign exchange loss (gain) | | 10,856 | (57,116) |
| | | 194,652 | (2,283,085) |
| **Change in non-cash operating working capital** | | | |
| Accounts receivable | | 995,918 | 383,533 |
| Unbilled revenue | | (193,311) | 3,486,825 |
| Inventories | | (340,368) | (11,519) |
| Prepaid expenses and deposits | | 25,194 | 3,057 |
| Investment tax credits recoverable | | (10,000) | - |
| Long-term receivable | | - | 394,000 |
| Accounts payable | | (67,416) | (185,410) |
| Accrued liabilities | | (883,047) | (1,529,516) |
| Provisions | | (191,754) | 219,031 |
| Unearned revenue | | (60,075) | 1,080,724 |
| **Cash provided by (used in) operating activities** | | (530,207) | 1,557,640 |
| **Investing activities** | | | |
| Restricted cash and cash equivalents | | 555,105 | (652,381) |
| Additions to intangible assets | | - | (17,617) |
| Proceeds from disposal of equipment | | - | 500 |
| Purchase of equipment | | (6,012) | (294,620) |
| **Cash provided by (used in) investing activities** | | 549,093 | (964,118) |
| **Financing activities** | | | |
| Repayment of short-term debt | **16** | (648,591) | - |
| Proceeds from issuance of convertible debentures | **17** | 1,775,000 | - |
| Proceeds from issuance of debenture | **17** | 500,000 | - |
| Repayment of debenture | **17** | (240,000) | (250,000) |
| Transaction costs | **17** | (87,727) | - |
| Interest paid | **17** | (288,314) | (261,985) |
| **Cash provided by (used in) financing activities** | | 1,010,368 | (511,985) |
| Foreign exchange (loss), gain on foreign denominated cash and cash equivalent | | (52,050) | 11,152 |
| **Increase in cash and cash equivalents** | | 977,204 | 92,689 |
| Cash and cash equivalents, beginning of year | | 924,032 | 831,343 |
| **Cash and cash equivalents, end of year** | **10** | 1,901,236 | 924,032 |

See accompanying notes to consolidated financial statements.

## 1. General information

BIOREM Inc. ("BIOREM") is a company with its head office domiciled in Canada.

The address of BIOREM's registered office is R.R. # 3, 7496 Wellington Road 34, Guelph, Ontario. The Company's common shares are listed on the Toronto Stock Exchange and trade under the symbol BRM.V. The consolidated financial statements of BIOREM comprise BIOREM and its subsidiaries (together referred to as "the Company"). The Company is primarily involved in the manufacturing of a comprehensive line of high efficiency air pollution control systems that are used to eliminate odorous and harmful contaminants.

## 2. Basis of presentation

### a) Going concern basis of presentation

Financial statements are required to be prepared on a going concern basis unless management either intends to liquidate the Company or cease trading or has no realistic alternative but to do so within the forseeable future. These financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. However, there are material uncertainties related to certain conditions and events that may cast significant doubt about the appropriateness of the use of the going concern assumptions because the Company has experienced significant losses in the current and prior years, has a deficit and has amended the repayment terms of financial covenants of debentures (note 17).

The Company is addressing these conditions through the following actions taken or planned:

- Reduce expenses to be in line with expected revenues;
- Continue to improve the order fulfillment process to improve future working capital;
- Actively seek additional customers, partners and collaborators to generate new revenue streams;

The ability of the Company to continue as a going concern is dependent on the successful completion of the actions taken or planned, some of which are described above, which management believes will mitigate the adverse conditions and events which raise doubt about the validity of the going concern assumption. There is no certainty that any of the aforementioned strategies will enable the Company to continue as a going concern.

If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities and the reported revenues and expenses and the balance sheet classifications used; such adjustments could be material.

### b) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements were approved by the Board of Directors and authorized for issuance on April 22, 2013.

## 2. Basis of presentation (continued)

### c) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis of accounting, with the exception of financial instruments classified as fair value through profit and loss, which are measured at fair value.

### d) Functional and presentation currency

The functional currency of BIOREM and its subsidiaries is the currency of their primary economic environment. These consolidated financial statements are presented in Canadian dollars, which is BIOREM's functional currency. The functional currency of BIOREM's subsidiary located in the United States is the US dollar and the functional currency of BIOREM's subsidiary located in China is the Chinese renminbi.

### e) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in notes 3b, 3e, 3i, and 3k. Significant estimates and assumptions are also used in the determination of the estimated total sales contract costs, and the estimation of useful lives of intangible assets and plant and equipment.

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated. The accounting policies have been consistently applied by the Company's subsidiaries.

### a) Basis of consolidation

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries (which are wholly owned by the Company) are included in the consolidated financial statements from the date that control commences until the date that control ceases. Accordingly, the consolidated financial statements include the accounts of Biorem Technologies Inc., Biorem Environmental Inc., Biorem Hong Kong, and Biorem (Beijing) Environmental Technologies Company Limited in addition to those of BIOREM. All significant inter-company transactions and balances have been eliminated.

### b) Revenue recognition

The Company generates revenues from the sale of goods in the form of standard products, through construction projects for specialized products and services revenue for repairs and maintenance.

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns and trade discounts.

## 3. Significant accounting policies (continued)

### b) Revenue recognition (continued)

*i) Standard products*

Revenue for standard products is recognized when persuasive evidence of an arrangement exists, usually in the form of an executed sales agreement, the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. The timing of the transfers of risks and rewards of ownership varies depending on the individual terms of the contract of sale but are primarily on the delivery to the end user.

*ii) Construction contracts*

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. Contract costs are expensed as incurred. Contract costs include all amounts that relate directly to the specific contract, are attributable to contract activity, and are specifically chargeable to the customer under the terms of the contract.

The stage of completion is assessed by reference to detailed cost estimates of work performed and estimates of work to be completed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in profit or loss.

On an ongoing basis, the estimated total costs for construction projects are revised based on the information available at the end of the reporting period. Changes in estimated total costs are reflected in the percentage of completion calculation of applicable projects in the same period as the change in estimate occurs.

Unbilled revenues represent revenues earned in excess of amounts billed on uncompleted contracts.

Unearned revenue represents the excess of amounts billed to customers over revenue earned on uncompleted contracts.

*iii) Service revenue*

Revenue relating to services rendered is recognized in profit or loss when the service is provided.

### c) Foreign currency

*i) Foreign currency transactions*

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Canadian dollars at rates of exchange in effect at that date. Non-monetary assets and liabilities arising from transactions denominated in foreign currencies are translated at the historical exchange rate. Revenues and expenses denominated in a foreign currency are translated at the monthly average exchange rate which approximates the historical exchange rate on the date of the transaction. Adjustments to the Canadian dollar equivalent of foreign denominated monetary assets and liabilities due to the impact of exchange rate changes are recognized in other income in the statement of operations at each reporting period.

## 3. Significant accounting policies (continued)

### c) Foreign currency (continued)

*ii) Foreign operations*

On consolidation, assets and liabilities of BIOREM's subsidiaries are translated into the Canadian dollar at the exchange rate on the reporting date. The income and expenses of foreign operations are translated to Canadian dollars using average exchange rates for the month during which the transactions occurred. Foreign currency differences arising on the translation of foreign operations are recognized and presented in other comprehensive income (loss) and in accumulated other comprehensive loss.

### d) Financial instruments

The Company aggregates its financial instruments into classes based on their nature and characteristics. The Company has classified its financial instruments as follows:

- Cash and cash equivalents are classified as loans and receivables;
- Restricted cash and cash equivalents are classified as loans and receivables;
- Accounts receivable are classified as loans and receivables;
- Accounts payable and accrued liabilities are classified as other liabilities;
- Long-term and short-term debt are classified as other liabilities; and
- Derivative financial instruments are classified as fair value through profit or loss.

### e) Financial assets and financial liabilities

Financial assets and financial liabilities are initially recognized at fair value plus directly attributable transaction costs, unless the transaction costs relate to financial instruments classified as fair value through profit or loss, in which case they are expensed immediately. Subsequent measurement is determined based on initial classification.

The Company uses trade date accounting for regular-way purchases and sales of financial assets.

*i) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest method less any impairment losses. Allowances for doubtful receivables represent the Company's estimates of losses that could arise from the failure or inability of customers to make payments when due. Loans and receivables are further classified as current or non-current depending on whether these will be realized within twelve months after the balance sheet date or beyond.

*ii) Other liabilities*

Subsequent to initial measurement, other liabilities are measured at amortized cost using the effective interest method.

*iii) Fair value through profit or loss*

A financial instrument is classified as fair value through profit or loss if it is held for trading or is designated as such on initial recognition.

*Derivative financial instruments*

From time to time the Company enters into forward foreign exchange contracts to hedge its exposure to changes in foreign exchange rates. The Company records all of its forward contracts at fair value, with changes in fair value recorded in other income in the statement of operations.

## 3. Significant accounting policies (continued)

### e) Financial assets and financial liabilities (continued)

*iv) Fair value*

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are determined by using valuation techniques that refer to observable market data.

*v) Compound financial instruments*

The financial liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component, representing the holders' option to convert into common shares, is recognized initially at fair value determined as the excess of the face value of the compound financial instrument and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is included within contributed surplus and is not re-measured subsequent to initial recognition.

Interest, as well as any gains and losses relating to the financial liability are recognized in profit or loss.

### f) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. When circumstances which previously caused inventories to be written down to its net realizable value no longer exist, the previous impairment is reversed.

### g) Plant and equipment

Plant and equipment are measured at cost less accumulated depreciation, applicable government assistance or investment tax credits, and any recognized impairment loss.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

## 3. Significant accounting policies (continued)

### g) Plant and equipment (continued)

Depreciation is recognized so as to write off the cost of assets less their residual values over their useful lives on the following bases:

| Asset | Basis | Rate |
|---|---|---|
| Research and production equipment | Declining balance | 20% |
| Office equipment | Straight-line or Declining balance | 3 years or 20% |
| Leasehold improvements | Straight-line | lesser of term of lease and useful life |

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income at the time of disposal.

### h) Intangible assets

*i) Research and development*

Expenditures on research activities are recognized as expenses in the period in which they are incurred.

An internally-generated intangible asset arising from the Company's development is recognized only if all of the following conditions are met:

- an asset is created that can be identified;
- the product or process is technically and commercially feasible;
- it is probable that the asset created will generate future economic benefits;
- the Company intends to and has sufficient resources to complete development and to use or sell the asset; and
- the development cost of the asset can be measured reliably.

To date no development expenditures have been capitalized.

*ii) Other intangible assets*

Patents and trademarks are measured initially at cost and are amortized on a straight-line basis to their estimated residual values. Technology and customer lists represent assets that were acquired by the Company and measured initially at fair value and are amortized on a straight line basis to their estimated residual values. These intangible assets are amortized over their estimated useful lives as follows:

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

Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted, if appropriate.

## 3. Significant accounting policies (continued)

### i) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine if there is any indication of impairment. If such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its related cash generating unit ("CGU") exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU

The Company's corporate assets do not generate separate cash inflows and are utilized by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Assets that suffer an impairment are tested for possible reversal of the impairment at each reporting date.

### j) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

### k) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Provisions are determined by discounting the cash flows estimated to settle the obligation at a pre-tax rate that reflects current market assessment of the time value of money and risks specific to the Company. The unwinding of the discount is recognized as finance cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

### l) Stock options

The grant-date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in contributed surplus, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

## 3. Significant accounting policies (continued)

### m) Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are treated as a reduction of the plant and equipment costs.

Other government grants are recognized as other income over the periods necessary to correspond with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

### n) Finance costs

Finance costs comprise interest expense on borrowings, accretion of provisions and accretion of warrant and transaction costs netted against the Company's debenture, that are not directly attributable to the acquisition, construction or production of a qualifying asset, are recognized in profit or loss using the effective interest method.

### o) Loss per share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding adjusted for the effects of all dilutive potential common shares, which comprise warrants and stock options granted to employees and convertible debentures. The number of additional shares is calculated by assuming that outstanding warrants, share options and convertible debentures were exercised and that proceeds from such exercises along with the unamortized stock based compensation were used to acquire common shares at the average market price during the reporting period.

### p) Income tax

Income tax expense comprises current and deferred tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

### q) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief decision maker is responsible for allocating resources and assessing the performance of the operating segments and has been identified as the Senior Leadership Team that makes strategic decisions. The Company operates and reports its results as one operating segment.

## 3. Significant accounting policies (continued)

### r) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and short-term deposits with original maturities of less than three months.

### s) Statements of cash flows

Cash paid for interest is presented as a financing activity.

### t) Investment tax credits

The Company applies for investment tax credits relating to qualified expenditures under available government incentive programs including the Scientific Research and Experimental Development ("SR&ED") program. The benefit of investment tax credits is recognized when the applicable eligible expenditures generating the investment tax credits are incurred. Investment tax credits related to the acquisition of property and equipment are deducted from the costs of the related assets.

### u) New accounting pronouncements not yet adopted

The International Accounting Standards Board has issued the following Standards, Interpretations and amendments to Standards that are not yet effective and while considered relevant to the Company have not yet been adopted by the Company.

#### Financial instruments

In October 2010, the International Accounting Standards Board (“IASB”) issued IFRS 9*, Financial Instruments* (“IFRS 9”). This standard is effective for annual periods beginning on or after January 1, 2015 and is part of a wider project to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset or liability. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2015. The classification and measurement of the Company’s financial assets and financial liabilities is not expected to change under IFRS 9 because of the nature of the Company’s operations and the types of financial assets and liabilities that it holds.

#### Consolidated financial statements

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements* (“IFRS 10”). This standard is effective for annual periods beginning on or after January 1, 2013 and establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 10 to have a material impact on the financial statements.

#### Joint arrangements

In May 2011, the IASB issued IFRS 11, *Joint Arrangements* (“IFRS 11”). This standard is effective for annual periods beginning on or after January 1, 2013 and establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 requires a party to assess the rights and obligations arising from an arrangement in determining whether an arrangement is either a joint venture or a joint operation. Joint ventures are to be accounted for using the equity method while joint operations will continue to be accounted for using proportionate consolidation.

### 3. Significant accounting policies (continued)

#### u) New accounting pronouncements not yet adopted (continued)

The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 11 to have a material impact on the financial statements.

**Disclosure of interests in other entities**

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"). This standard is effective for annual periods beginning on or after January 1, 2013 and applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 integrates and makes consistent the disclosure requirements for a reporting entity's interest in other entities and presents those requirements in a single standard. The Company intends to adopt IFRS 12 in its financial statements for the annual period beginning on January 1, 2013. When applied, it is expected that IFRS 12 will increase the current level of disclosure of interests in other entities.

**Fair value measurement**

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement* ("IFRS 13"). This standard is effective for annual periods beginning on or after January 1, 2013 and provides additional guidance where IFRS requires fair value to be used. IFRS 13 defines fair value, sets out in a single standard a framework for measuring fair value and establishes the required disclosures about fair value measurements. The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 13 to have a material impact on the financial statements.

**Presentation of other comprehensive income ("OCI")**

In June 2011, the IASB issued an amended version of IAS 1*, Presentation of Financial Statements* ("IAS 1"). This amendment is effective for annual periods beginning on or after July 1, 2012 and requires companies preparing financial statements in accordance with IFRS to group together items within OCI that may be reclassified to the profit or loss section of the statement of earnings. Revised IAS 1 also reaffirms existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. As the amendments only require changes in the presentation of items in other comprehensive income, the Company does not expect the amendments to IAS 1 to have a material impact on the financial statements.

**Amendments to IAS 32 and IFRS 7, Offsetting Financial Assets and Liabilities**

In December 2011 the IASB published Offsetting Financial Assets and Financial Liabilities and issued new disclosure requirements in IFRS 7 Financial Instruments: Disclosures.

The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is annual periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively.

The amendments to IAS 32 clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement.

The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position; or subject to master netting arrangements or similar arrangements.

**3. Significant accounting policies (continued)**

**u) New accounting pronouncements not yet adopted (continued)**

The Company intends to adopt the amendments to IFRS 7 in its financial statements for the annual period beginning on January 1, 2013, and the amendments to IAS 32 in its financial statements for the annual period beginning January 1, 2014. The extent of the impact of adoption of the amendments has not yet been determined.

**Annual Improvements to IFRSs 2009-2011 Cycle – various standards**

The new cycle of improvements contains amendments to the following standards (excluding IFRS 1) with consequential amendments to other standards and interpretations.

- IAS 1 Presentation of Financial Statements
- Comparative information beyond minimum requirements
- Presentation of the opening statement of financial position
- IAS 16 Property, Plant and Equipment
- Classification of servicing equipment
- IAS 32 Financial Instruments: Presentation
- Income tax consequences of distributions
- IAS 34 Interim Financial Reporting
- Segment assets and liabilities

The Company intends to adopt the amendments to the standards in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect the amendments to the standards to have a material impact on the financial statements.

**4. Revenue**

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Sale of goods and services | 647,234 | 1,595,452 |
| Construction contract revenue | 14,771,086 | 10,449,743 |
| | 15,418,320 | 12,045,195 |

At December 31, 2012, aggregate costs incurred under open construction contracts and recognized profits, net of recognized losses amounted to $8,649,841 (2011 - $7,051,097). Progress billings and advances received from customers under open construction contracts amounted to $9,484,323 (2011 - $6,730,013).

## 5. Segmented information

The Company attributes revenues to geographical regions based on the domicile of its customers.

Management has determined that the Company operates in one dominant industry segment, which involves the manufacture and sale of high efficiency air pollution control systems.

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

| | Revenue | | Capital assets (1) | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $ | $ | $ | $ |
| Canada | 3,398,982 | 3,535,730 | 728,495 | 1,141,960 |
| United States | 7,240,143 | 6,902,833 | 217,150 | 325,698 |
| China | 1,062,082 | 335,289 | 56,670 | 66,660 |
| Other | 3,717,113 | 1,271,343 | - | - |
| Total | 15,418,320 | 12,045,195 | 1,002,315 | 1,534,318 |

(1) Includes plant and equipment, and intangible assets

In 2012, two customers accounted for 12 % of total revenue (2011 – one customer accounted for 12% of total revenue). Two customers accounted for 24% of accounts receivable as at December 31, 2012 (2011 - one customer accounted for 13%).

## 6. Other income

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Foreign exchange loss (gain) | 10,856 | (31,742) |
| Government funding | (277,243) | (640,552) |
| Investment tax credits | (10,000) | (127,611) |
| | (276,387) | (799,905) |

*Investment tax credits*

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 and accordingly, no recognition of Federal amounts has been reflected in the statement of financial position.

*Government funding*

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 achieved. 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 eligible costs of the project to a maximum of $1,189,018. The Company recorded $nil (2011 - $125,564) during the year and has received $1,017,000 (2011- $1,017,000) to December 31, 2012. The Company achieved all the conditions under the forgiveness provisions of the loan and the loan was forgiven on September 1, 2011.

## 6. Other income (continued)

The Company has been approved for financial assistance with the Ministry of Research and Innovation – Innovation Demonstration Fund Program in the form of a second forgivable loan. The loan bears interest at 3.97% per annum, payable at maturity, and is due June 30, 2015. The loan is secured by a general security agreement over all assets of the Company that was subordinate to long-term debt. The principal and interest is to be forgiven pro rata based on certain milestones having been achieved. The loan is to support the Company's development and demonstration of a potential long-term solution for the treatment of volatile organic compounds. The Company receives contributions of 50% of the eligible costs of the project to a maximum of $1,226,000. The Company has recorded $136,532 (2011- $382,701) during the year as other income and the cumulative amount received to December 31, is $857,372 (2011- $720,840).

The Company has been approved for funding through the Industrial Research Assistance Program (IRAP). The funding is to support the Company's research into advanced biological technologies for the control of odour and volatile organic compounds. The Company receives contributions of 50% of the eligible costs. The Company has recorded $140,711 as other income during the year (2011- $132,287).

## 7. Finance costs

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Accretion of deferred financing costs and long-term debt | 93,354 | 83,564 |
| Short term interest | 33,903 | 261,985 |
| Long term interest | 330,137 | - |
| | 457,394 | 345,549 |

## 8. Income taxes

a) *Income tax recognized in profit or loss*

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Net loss | (829,992) | (3,369,416) |
| Income tax expense calculated at 26.50% (2011 -28.25 %) | (219,948) | (951,860) |
| Effect of tax rate differential in foreign operations | (115,197) | (56,027) |
| Effect of expenses that are not deductible in determining taxable profit | 12,220 | 90,582 |
| Effect of change in tax rates | (106,012) | - |
| Other | (377,803) | 138,316 |
| Effect of losses carried forward | 806,740 | 778,989 |
| Income tax expense recognized in profit and loss | - | - |

**8. Income taxes (continued)**

*b) Unrecognized deferred tax assets and liabilities*

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| | $ | $ |
| Tax assets | | |
| Benefit of tax losses to be carried forward | 2,300,000 | 1,842,000 |
| Scientific Research and experimental development development expendtitures available in future years | 883,000 | 1,069,000 |
| Provisions not yet deducted for tax | 319,000 | 308,000 |
| Financing costs | - | 37,000 |
| | 3,502,000 | 3,256,000 |
| Tax liabilities | | |
| Capital assets - Difference in accounting book value and undepreciated tax capital cost | 217,000 | (343,000) |
| | 217,000 | (343,000) |
| | 3,719,000 | 2,913,000 |

The Company has unrecognized temporary differences of $1,813,027 (2011 - $352,061), which are deductible for income taxes. Of this amount, $242,762 (2011 - $242,762) expire in 2013, the remainder does not expire.

At December 31, 2012, temporary differences of $4,737,667 (2011 - $3,657,730) relating to investments in subsidiaries were not recognized because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

*c) Income tax losses*

As at December 31, 2012, the Company has income tax losses available to reduce future years' taxable income, which expire as follows:

| | Canada | U.S. | Other | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| 2014 | 5,000 | - | - | 5,000 |
| 2025 | - | 205,000 | - | 205,000 |
| 2026 | 12,000 | 366,000 | - | 378,000 |
| 2027 | 1,192,000 | 520,000 | - | 1,712,000 |
| 2028 | 27,000 | 154,000 | - | 181,000 |
| 2029 | 94,000 | 96,000 | - | 190,000 |
| 2030 | 876,000 | 65,000 | - | 941,000 |
| 2031 | 2,412,000 | 413,000 | - | 2,825,000 |
| 2032 | 87,000 | 1,202,000 | - | 1,289,000 |
| Indefinite | 2,687,000 | - | - | 2,687,000 |
| | 7,392,000 | 3,021,000 | - | 10,413,000 |

**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 $1,444,000, which expire as follows:

| | $ |
|---|---|
| 2024 | 114,000 |
| 2025 | 261,000 |
| 2026 | 148,000 |
| 2027 | 207,000 |
| 2028 | 261,000 |
| 2029 | 161,000 |
| 2030 | 224,000 |
| 2031 | 68,000 |
| | 1,444,000 |

**9. Loss per share**

*Basic and diluted loss per share*

| | | 2012 | | 2011 |
|---|---|---|---|---|
| **Numerator:** | | | | |
| Net loss | $ | 829,992 | $ | 3,369,416 |
| **Denominator:** | | | | |
| Weighted average number of common shares outstanding | | 12,477,699 | | 12,908,913 |
| **Loss per share:** | | | | |
| Basic and diluted | $ | (0.07) | $ | (0.28) |

At December 31, 2012, 1,195,000 stock options (2011 - 1,102,000), 8,076,538 share purchase warrants, and 13,847,702 common shares from the possible conversion of convertible debentures were excluded from the diluted weighted average number of common shares as their effect would have been anti-dilutive.

## 10. Cash and cash equivalents

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Cash and cash equivalents | | |
| Cash | 1,901,236 | 924,032 |
| Short-term investments | - | - |
| | 1,901,236 | 924,032 |
| Restricted cash and cash equivalents | | |
| Cash | 97,276 | 652,381 |
| Short-term investments | 500,000 | 500,000 |
| | 597,276 | 1,152,381 |
| | 2,498,512 | 2,076,413 |

Restricted cash has been deposited as collateral for letters of credit issued to customers for performance security and the restricted short-term investments is related to a performance bond. These cash and short–term investments are not available for general use by the Company.

## 11. Accounts receivable

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

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | $ | | $ | |
| 0-30 days | 1,585,781 | 44% | 2,891,435 | 62% |
| 31-60 days | 728,622 | 20% | 488,072 | 11% |
| 61-90 days | 269,417 | 7% | 117,185 | 3% |
| 91-120 days | 355,699 | 10% | 21,242 | 0% |
| over 120 days | 691,808 | 19% | 1,109,311 | 24% |
| | 3,631,327 | 100% | 4,627,245 | 100% |

Accounts receivable in the amount of $660,277 (2011 - $1,519,267) (net of allowance for doubtful debts) relate to holdbacks associated with project completion and commissioning.

The gross amount due from customers for contracts accounted for as construction contracts at December 31, 2012 is $3,456,257 (2011 - $4,325,958).

## 11. Accounts receivable (continued)

*Movement in the allowance for doubtful debts*

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Balance at beginning of the year | 345,689 | 171,916 |
| Impairment losses recognized | 70,000 | 332,225 |
| Amounts written off during the year as uncollectable | (136) | - |
| Amounts recovered during the year | - | (158,452) |
| Balance at end of the year | 415,553 | 345,689 |

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated.

## 12. Inventories

| | December 31 2012 | December 31 2011 |
|---|---|---|
| | $ | $ |
| Raw materials | 1,026,756 | 563,122 |
| Finished goods | 93,836 | 217,102 |
| | 1,120,592 | 780,224 |

Inventories consist of raw materials and finished goods. The total amount of inventories and components included in cost of goods sold for the year was $7,652,047 (2011 - $6,455,193).

The cost of inventories recognized as an expense includes $50,000 (2011 - $50,000) in respect of write-downs of inventories to net realizable value.

**13. Plant and equipment**

| | Research & production equipment | Office equipment | Leasehold improvements | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Cost | | | | |
| At December 31, 2010 | 1,336,771 | 536,780 | 349,851 | 2,223,402 |
| Additions | 198,345 | 96,275 | - | 294,620 |
| Disposals | (97,372) | - | - | (97,372) |
| Exchange differences | 9,307 | 1,974 | 350 | 11,631 |
| At December 31, 2011 | 1,447,051 | 635,029 | 350,201 | 2,432,281 |
| Additions | 402 | 5,610 | - | 6,012 |
| Exchange differences | (2,155) | (469) | (81) | (2,705) |
| At December 31, 2012 | 1,445,298 | 640,170 | 350,120 | 2,435,588 |
| Accumulated depreciation and impairment | | | | |
| At December 31, 2010 | 746,989 | 337,730 | 217,679 | 1,302,398 |
| Charge for the year | 197,201 | 113,127 | 30,751 | 341,079 |
| Disposals | (84,469) | - | - | (84,469) |
| Exchange differences | 6,357 | 636 | 28 | 7,021 |
| At December 31, 2011 | 866,078 | 451,493 | 248,458 | 1,566,029 |
| Charge for the year | 152,317 | 52,806 | 30,752 | 235,875 |
| Impairment | 73,336 | | | 73,336 |
| Exchange differences | (1,716) | (397) | (81) | (2,194) |
| At December 31, 2012 | 1,090,015 | 503,902 | 279,129 | 1,873,046 |
| Carrying amount | | | | |
| At December 31, 2011 | 580,973 | 183,536 | 101,743 | 866,252 |
| At December 31, 2012 | 355,283 | 136,268 | 70,991 | 562,542 |

Depreciation of $39,823 (2011 - $33,206) has been recognized in cost of goods sold, $189,843 (2011 - $163,913) has been recognized in research and development expenses and $79,545 (2011 - $143,960) has been recognized in general and administration expenses. The impairment of $73,336 recognized during the year has been reflected within research and development expenses.

## 14. Intangible assets

| | Technology | Customer Lists | Patents and trademarks | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Cost | | | | |
| At December 31, 2010 | 1,426,416 | 428,194 | 323,349 | 2,177,959 |
| Additions | - | - | 17,617 | 17,617 |
| Exchange differences | - | 11,200 | 6,720 | 17,920 |
| At December 31, 2011 | 1,426,416 | 439,394 | 347,686 | 2,213,496 |
| Additions | | | | |
| Exchange differences | | (4,787) | (12,922) | (17,709) |
| At December 31, 2012 | 1,426,416 | 434,607 | 334,764 | 2,195,787 |
| Amortization | | | | |
| At December 31, 2010 | 852,816 | 248,050 | 217,752 | 1,318,618 |
| Charge for the year | 143,400 | 43,350 | 28,335 | 215,085 |
| Exchange differences | - | 8,741 | 2,986 | 11,727 |
| At December 31, 2011 | 996,216 | 300,141 | 249,073 | 1,545,430 |
| Charge for the year | 143,400 | 39,485 | 30,685 | 213,570 |
| Exchange differences | | (1,732) | (1,254) | (2,986) |
| At December 31, 2012 | 1,139,616 | 337,894 | 278,504 | 1,756,014 |
| Carrying amount | | | | |
| At December 31, 2011 | 430,200 | 139,253 | 98,613 | 668,066 |
| At December 31, 2012 | 286,800 | 96,713 | 56,260 | 439,773 |

Amortization of $213,570 (2011 - $215,085) has been recognized in general and administration expenses. The remaining amortization period for the intangible assets ranges from two to three years.

## 15. Provisions

*Warranty*

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Balance, beginning of year | 585,322 | 366,292 |
| Provisions used during the year | (231,758) | (156,090) |
| Provisions made during the year | 40,004 | 375,120 |
| Balance, end of year | 393,568 | 585,322 |

*Termination benefits*

The Company has recorded termination benefits relating to certain former employees in accrued liabilities. The Company has recorded its best estimate of the liability based on individual facts and circumstances and on advice from external legal counsel. The Company has not disclosed these amounts as negotiations are in process. Uncertainty associated with the final amount and timing of the payment remains. The final amount eventually paid may differ from the amount that has been accrued by the Company.

**16. Short-term debt**

During 2011, the Company obtained project financing in the form of a promissory note in the amount of US$637,500 having an interest rate of 17.75%, maturing on May 8, 2012. In addition, the Company paid a fee to the lender of US$35,000. The proceeds from the promissory note were used to secure a letter of credit in favour of a supplier. The borrowing costs related to this arrangement were included as a cost of the related revenue project. The amount of the letter of credit was classified as restricted cash. The letter of credit was released on March 6, 2012 at the time that the promissory note was repaid.

During 2012, the Company obtained a revolving standby letter of credit facility from a major Canadian chartered bank. The credit facility has a limit of $350,000 and is to be used for the issuance of letters of credit for project related performance guarantees. The credit facility is guaranteed by Export Development Canada. Fees under the facility are 2% per annum for issued letters of credit. At December 31, 2012, letters of credit totaling $312,180 have been drawn against the facility.

**17. Long-term debt**

| | December 2012 | December 2011 |
|---|---|---|
| | $ | $ |
| 12.75 % debenture (maturity amount - $2,010,000; 2011- $1,750,000) | 1,950,625 | 1,750,000 |
| Current portion | (1,220,000) | (1,750,000) |
| | 730,625 | - |
| 8% Convertible debenture (maturity amount - $1,775,000) | 1,561,678 | - |
| Accrued interest | 75,726 | - |
| | 1,637,404 | - |
| Long-term debt | 2,368,029 | - |

**a) 12.75% Debenture**

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 was 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 included an option to repay the debenture any time after November 1, 2010 without penalty to the Company. In December 2010, the Company made a payment of $1,000,000 against the outstanding principal balance. 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.

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 and none have been exercised to December 31, 2012.

The fair value of the long-term debt at inception was determined to be $2,576,539, using a discount rate of 15%, with the difference of $423,861 allocated to the share purchase warrants within equity. Financing costs of $320,951 were incurred in connection with this transaction were also applied against the debenture. The resulting carrying value of the debenture at inception was $2,255,558 which is accreted to its maturity amount of $3,000,000 over 36 months using the effective interest method.

## 17. Long-term debt (continued)

### a) 12.75% Debenture (continued)

The Company was not in compliance with its sales order bookings covenant for the trailing six months ending June 30, 2011 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, 2011. The lender accepted a $30,000 fee consideration in exchange for the waiver. The Company accounted for the modification as a debt modification without a settlement.

As at September 30, 2011, the Company was not in compliance with certain financial covenants in respect of its debenture. Subsequent to September 30, 2011 the lender agreed in writing to waive its right to take action under the debenture agreement as a result of such noncompliance at September 30, 2011. At September 30, 2011, the Company concluded that the terms of the debenture had been substantially modified and therefore recorded the debenture at fair value at the September 30, 2011 statement of financial position date. As the debenture was due on demand, the fair value was determined to be the face value of the debenture. The difference between the fair value and the previous carrying value of $157,059 was expensed as a loss on remeasurement of debenture

In November 2011, the Company made a payment of $250,000 against the outstanding principal balance of the debenture. As at December 31, 2011, the Company was in violation of the debenture covenants. The Company negotiated an amendment to this agreement subsequent to December 31, 2011.

*2012 activities*

On April 30, 2012, the Company obtained an amendment to the 12.75% debenture agreement amending the repayment terms and the financial covenants. The Company also obtained a waiver of the covenant breaches at both December 31, 2011 and March 31, 2012 effectively waiving the debenture holder's rights under the debenture in respect of any non-compliance with such covenants. The 12.75% debenture is repayable in monthly installments of $60,000 plus interest commencing September 30, 2012 with the balance of $550,000 due on May 5, 2014. The Company must maintain an unrestricted cash balance of $400,000 at the end of each quarter. The Company must maintain a minimum tangible net worth of negative $350,000 at September 30, 2012 and negative $250,000 thereafter. The Company must maintain as at the end of each quarter a sum of unrestricted cash and accounts receivable that is equal to at least twice the outstanding debenture balance. As consideration for the modifications to the terms of the debenture, the Company has issued the lenders $50,000 (454,545 shares) worth of the Company's common shares.

In July 2012, the Company obtained an additional $500,000 in proceeds under this debenture. This additional $500,000 is repayable $100,000 on January 31, 2013 and $60,000 per month thereafter until repaid. As consideration for these additional proceeds and modifications to the terms of the debenture the Company has issued the lenders $25,000 (227,273) shares) worth of the Company's common shares. Under IFRS this modification represented an extinguishment of the existing facility, no gain or loss has been recorded.

## 17. Long-term debt (continued)

### b) 8% Convertible debenture

On May 4, and June 4, 2012, the Company issued 8% convertible secured subordinated debentures (the “Debentures”) for combined proceeds of $659,000. The Debentures have a maturity date of two years from the date of issuance and are convertible into fully paid and non-assessable common shares of the Company at the option of the holder at any time over their term at a price of $0.178 per common share.

The Debentures can be prepaid in full at any time without penalty by the Company upon giving holders 15 days notice of prepayment. Interest on the Debentures accrues at a rate of 8% per annum and is payable at maturity. Due to the conversion feature, the Debentures are accounted for as compound financial instruments.

In conjunction with the issue of the debentures, 1,850,472 common share purchase warrants were issued. Each warrant entitles the holder to purchase one common share at a price of $0.178 per share for a period of two years from issuance.

A discount rate of 15% was used to calculate the fair value of the liability portion of the Debenture with the difference between the fair value and proceeds being ascribed to the share purchase warrants and conversion feature, on a relative fair value basis. The difference between the contractual amount of the debenture and the fair value of the liability portion of the Debentures was calculated to be $74,994 and has been recognized as share purchase warrants and contributed surplus issued within shareholders equity for the amounts of $24,992 and $50,002 relating to the warrants and conversion feature respectively. The difference between the contractual amount of the debentures and the fair value of the liability portion of the Debentures are recognized as a finance cost with a corresponding increase in the carrying amount of the Debentures using the effective interest method over 24 months. Finance costs of $54,983 have been capitalized to the Debenture and will be accreted into income using the effective interest method over 24 months.

On July 25, and August 16, 2012, the Company issued 8% convertible secured subordinated debentures ( the “Debentures”) for combined proceeds of $1,116,000. The Debentures have a maturity date of two years from the date of issuance and are convertible into fully paid and non-assessable common shares of the Company at the option of the holder at any time over their term at a price of $0.11 per common share.
The Debentures can be prepaid in full at any time by the Company upon giving holders 15 days notice of prepayment. Interest on the debentures accrues at a rate of 8% per annum and is payable at maturity. Due to the conversion feature, the Debentures are accounted for as compound financial instruments.

In conjunction with the issue of the debentures, 5,072,220 common share purchase warrants were issued. Each warrant entitles the holder to purchase one common share at a price of $0.11 per share for a period of two years from issuance.

A discount rate of 15% was used to calculate the fair value of the liability portion of the debenture with the difference between the fair value and proceeds being ascribed to the share purchase warrants and conversion feature. The difference between the contractual amount of the debenture and the fair value of the liability portion of the Debenture was calculated to be $127,000 and has been recognized as share purchase warrants and contributed surplus issued within shareholders equity for the amounts of $42,331 and $84,669 relating to the warrants and conversion factor respectively. The difference between the contractual amount of the debentures and the fair value of the liability portion of the Debentures are recognized as a finance cost with a corresponding increase in the carrying amount of the Debentures using the effective interest method over 24 months. Finance costs of $32,744 have been capitalized to the Debenture and will be accreted into income using the effective interest method over 24 months.

## 18. Issued capital

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | # | $ | # | $ |
| Outstanding, beginning of year | 12,307,246 | 13,277,462 | 12,057,244 | 13,201,212 |
| Issued | 681,818 | 75,000 | 250,000 | 76,250 |
| Outstanding, end of year | 12,989,064 | 13,352,462 | 12,307,244 | 13,277,462 |

Common shares do not have a par value and carry one vote per share. There are an unlimited number of common shares authorized for issuance. During 2012 the Company issued 681,818 common shares for proceeds of $75,000 (see note 17). In 2011, the Company issued 250,000 shares for proceeds of $76,250.

*Special warrants*

In connection with the 12.75% 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 and none have been exercised to December 31, 2012.

*Share purchase warrants*

In connection with the May 2012 issue of 8% convertible secured subordinated debentures, the Company issued 1,850,472 share purchase warrants which entitle the holder to purchase one common share at a price of $0.178 per share. These warrants expire on May 4, 2014. .

In July 2012, the Company issued a further 5,072,220 share purchase warrants in connection with a second issue of 8% convertible secured subordinated debentures. These share purchase warrants entitle the holder to purchase one common share at a price of $0.11 per share. The share purchase warrants expire July 24, 2014.

*8% convertible secured subordinated debentures*

$659,000 of 8% convertible secured subordinated debentures were issued in May 2012. These debentures are convertible at the option of the holder to common shares at a conversion price of $0.178 per share prior to the maturity date of the debenture on May 4, 2014.

$1,116,000 of 8% convertible secured subordinated debentures were issued in July 2012. These debentures are convertible at the option of the holder to common shares at a conversion price of $0.11 per share prior to the maturity date of the debenture on July 24, 2014.

## 19. Stock-based compensation

The Company uses an equity settled employee share 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 holder 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.

**19. Stock-based compensation (continued)**

*Share options granted under the employee share option plan*

As at December 31, 2012, executives and employees held options for 1,195,000 commons shares (of which 136,012 were unvested), in aggregate, which expire over the period from May 12, 2013 to June 28, 2022. As at December 31, 2011, executives and employees held options for 1,102,000 common shares, in aggregate, which expire over the period from March 4, 2017 to May 12, 2021. Share options granted under the employee share option plan carry no rights to dividends and no voting rights.

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

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Weighted average fair value of each option | 0.05 | 0.18 |
| Assumptions | | |
| Weighted average share price | 0.13 | 0.39 |
| Weighted average exercise price | 0.13 | 0.39 |
| Expected volatility | 40% | 40% |
| Risk free interest rate | 2.4% | 2.4% |
| Expected life in years | 10 years | 10 years |
| Expected dividend yield | 0% | 0% |

Expected volatility was determined based on historical volatility over the expected life of the options.

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

| | | 2012 | | 2011 |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| | | $ | | $ |
| Outstanding, beginning of year | 1,102,000 | 1.19 | 1,464,335 | 1.19 |
| Options forfeited | - | | (314,667) | 0.41 |
| Options expired | (9,000) | 0.68 | (399,668) | 1.19 |
| Granted | 102,000 | 0.10 | 352,000 | 0.39 |
| Outstanding, end of year | 1,195,000 | 1.19 | 1,102,000 | 1.19 |
| Exercisable, end of year | 1,058,988 | 1.11 | 817,319 | 1.23 |

## 19. Stock-based compensation (continued)

iii) The following table summarizes the continuity of options issued under the plan (continued):

Options outstanding and exercisable at December 31, 2012:

| | | | Options exercisable | |
|---|---|---|---|---|
| Number outstanding | Exercise price | Remaining life in years | Number exercisable | Weighted average exercise price |
| | $ | | | $ |
| 22,000 | 1.75 | 4.2 | 22,000 | 1.75 |
| 500,000 | 1.62 | 4.3 | 500,000 | 1.62 |
| 42,000 | 1.70 | 4.4 | 42,000 | 1.70 |
| 75,000 | 1.11 | 5.0 | 75,000 | 1.11 |
| 42,000 | 0.90 | 5.4 | 42,000 | 0.90 |
| 178,000 | 0.68 | 7.4 | 118,656 | 0.68 |
| 140,000 | 0.48 | 6.0 | 140,000 | 0.48 |
| 42,000 | 0.33 | 6.4 | 42,000 | 0.33 |
| 52,000 | 0.34 | 8.5 | 17,332 | 0.34 |
| 42,000 | 0.11 | 8.5 | - | 0.11 |
| 60,000 | 0.10 | 9.5 | 60,000 | 0.10 |
| 1,195,000 | 1.19 | 5.7 | 1,058,988 | 1.11 |

## 20. Employee benefits

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Wages and salaries | 2,589,751 | 3,474,463 |
| Termination benefits | 55,577 | 131,598 |
| Compulsory social security contributions | 188,256 | 265,517 |
| Contributions to defined contribution plans | 183,975 | 189,059 |
| Stock-based compensation | 33,613 | 72,272 |
| | 3,051,172 | 4,132,909 |

## 21. Related party transactions

*Compensation of key management personnel*

The remuneration of directors and other members of key management, all of which was incurred in the normal course of operations during the year was as follows:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Short-term benefits | 802,426 | 1,163,693 |
| Stock-based compensation | 33,613 | 56,651 |
| Termination benefits | 20,000 | 64,650 |
| | 856,039 | 1,284,994 |

**21. Related party transactions (continued)**

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends. Short-term benefits include salaries, bonuses, and non-monetary benefits such as company vehicles.

**22. Commitments**

The Company is a party to operating leases which relate to leases of a building, property and computer equipment with lease terms of between 1 and 5 years. The Company does not have an option to purchase the leased property at the expiry of the lease periods.

*a) Payments recognized as an expense*

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Minimum lease payments | 158,753 | 162,724 |

*b) Non-cancellable operating lease commitments*

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Not later than 1 year | 158,483 | 196,809 |
| Later than 1 year and not later than 5 years | 108,514 | 214,682 |
| More than 5 years | - | - |
| | 266,997 | 411,491 |

**23. Financial instruments**

***a)* Financial and capital risk management**

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal financial risks to which the Company is exposed are described below.

*i) Credit risk*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Credit risk arises primarily from the Company’s cash and cash equivalents and trade receivables. The Company has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Company’s exposure is continuously monitored.

The Company’s objective of managing credit risk is to mitigate the credit losses incurred. Credit risk is mitigated by entering into contracts with stable, creditworthy parties. The Company measures credit risk by reviewing the aging of its receivables. Credit reviews are conducted as deemed necessary and take into account the third party’s financial position and past payment experience. The Company minimizes the credit risk of cash and cash equivalents and restricted cash by making deposits with only reputable entities that have high credit ratings assigned by national credit rating agencies. The Company’s credit risk and related risk management practice remain unchanged from the prior year.

## 23. Financial instruments (continued)

### a) Financial and capital risk management (continued)

*i) Credit risk (continued)*

The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk. No collateral or credit enhancements are in place.

*i. Market risks*

*Foreign currency risk*

The Company's functional and reporting currency is the Canadian dollar. Foreign currency risk is primarily related to the Company's subsidiary in the US. US operations are conducted primarily in US dollars. For the Company's foreign currency transactions, fluctuations in the respective exchange rates relative to the Canadian dollar will create volatility in the Company's cash flows and the reported amounts of sales, cost of goods sold and general and administrative expenses on a period-to-period basis and compared with operating budgets and forecasts. The Company's sales are primarily in Canadian and US dollars. The Company's objective of managing foreign currency risk is to mitigate or eliminate the losses incurred. There have been no changes to the objective or the related risk exposure from the prior year.

At December 31, 2011 and December 31, 2012 the Company held no forward exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the balance sheet date are as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $ | $ | $ | $ |
| United States dollars | 4,432,167 | 6,404,159 | 2,023,519 | 2,345,699 |
| Chinese renminbi | 442,070 | 338,927 | 202,431 | 74,604 |

The following table details the Company's sensitivity to a 10% increase and decrease in the Canadian dollar against the United States dollar. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the Canadian dollar strengthens 10% against the United States dollar. For a 10% weakening of the Canadian dollar against the United States dollar, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

| | United States dollar impact | |
|---|---|---|
| | 2012 | 2011 |
| | $ | $ |
| Profit or loss | 247,316 | 204,810 |
| Other equity | 100,619 | 200,936 |

## 23. Financial instruments (continued)

### a) Financial and capital risk management (continued)

*ii) Market risks (continued)*

*Interest rate risk*

The Company is not exposed to interest rate risk as the Company has no short term borrowings and the interest rate on the Company's long-term debt is fixed. The Company is currently paying a fixed rate of 12.75% on the debenture and accruing interest at 8% on the convertible debentures. The Company's objective of managing interest rate risk is to mitigate interest rate fluctuations while securing financing with the most favourable terms possible. Interest rate risk is managed by negotiating the most favourable terms possible with the Company's lenders.

The Company's sensitivity to interest rates has remained largely unchanged from the prior year.

iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business including proposals on major investments. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Company's objectives of managing liquidity risk are to forecast the liquidity position as accurately as possible and to maintain sufficient resources to pursue its growth strategy. There have been no changes to the Company's objectives or the related risks exposure during the year. The Company's financial liabilities include accounts payable and accrued liabilities, unearned revenue and contract advances as well as debenture and short term debt.

A maturity analysis as at December 31, 2012 of the Company's financial liabilities based on gross, undiscounted cash flows is presented below. The maturity analysis is based on the earliest date that liabilities may be due although the Company expects some of its liabilities to be paid later than the earliest date on which the Company can be required to pay.

| | Carrying Amount | Contractual Cash Flow | Less than 1 month | 1-3 months | 3 months to 1 year | 1+ years | Total |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| 2012 | | | | | | | |
| Accounts payable | 2,916,624 | 2,916,624 | 2,916,624 | - | - | - | 2,916,624 |
| Accrued liabilities | 1,024,184 | 1,024,184 | 1,024,184 | - | - | - | 1,024,184 |
| Current portion LTD | 1,220,000 | 1,220,000 | - | 380,000 | 840,000 | - | 1,220,000 |
| Long-term debt | 2,368,029 | 3,040,994 | - | 59,500 | 115,706 | 2,865,788 | 3,040,994 |
| | 7,528,837 | 8,201,802 | 3,940,808 | 439,500 | 955,706 | 2,865,788 | 8,201,802 |
| 2011 | | | | | | | |
| Accounts payable | 2,984,040 | 2,984,040 | 2,984,040 | - | - | - | 2,984,040 |
| Accrued liabilities | 1,907,231 | 1,907,231 | 1,907,231 | - | - | - | 1,907,231 |
| Short-term debt | 648,591 | 698,991 | 9,600 | 28,800 | 660,591 | - | 698,991 |
| Current portion LTD | 1,750,000 | 1,750,000 | 1,750,000 | - | - | - | 1,750,000 |
| | 7,289,862 | 7,340,262 | 6,650,871 | 28,800 | 660,591 | - | 7,340,262 |

## 23. Financial instruments (continued)

### a) Financial and capital risk management (continued)

*iii) Capital management risk*

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 capital structure is managed by evaluating shareholders' equity and long-term debt of the Company.

Shareholders' equity and long- term debt at end of the reporting period was as follows:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Shareholders' equity | 54,627 | 629,110 |
| Long-term debt | 2,368,029 | - |
| Total shareholders' equity and long-term debt | 2,422,656 | 629,110 |

### b) Financial Instruments

*Categories and fair value of financial instruments*

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | $ | $ | $ | $ |
| Financial assets | | | | |
| Cash and cash equivalents | 1,901,236 | 1,901,236 | 924,032 | 924,032 |
| Restricted cash and cash equivalents | 597,276 | 597,276 | 1,152,381 | 1,152,381 |
| Accounts receivable | 3,631,327 | 3,631,327 | 4,627,245 | 4,627,245 |
| | 6,129,839 | 6,129,839 | 6,703,658 | 6,703,658 |
| Financial liabilities | | | | |
| Accounts payable and accrued liabilities | 3,940,808 | 3,940,808 | 4,891,271 | 4,891,271 |
| Short-term debt | - | - | 648,591 | 648,591 |
| Long term-debt including current portion | 3,588,029 | 3,707,064 | 1,750,000 | 1,750,000 |
| | 7,528,837 | 7,647,872 | 7,289,862 | 7,289,862 |

The Company has determined that the fair value of its short term financial assets and liabilities approximates their respective carrying because of the short term maturity of those instruments. The fair value of short- term debt has been determined based on current market conditions. The fair value of long-term debt has been determined using a discounted cash flow model using discount rates from 15.0% to 17.5%.