Consolidated Financial Statements of

Biorem Inc.

December 31, 2013 and 2012

Biorem Inc.
December 31, 2013 and 2012

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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, 2013 and December 31, 2012, the consolidated statements of operations, comprehensive earnings (loss), changes in shareholders' equity and cash flows for the years then ended, 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, 2013 and December 31, 2012 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 consolidated financial statements which indicates that Biorem Inc.'s debentures mature in 2014, the Company has experienced significant losses in prior periods, and has a significant deficit as at December 31, 2013. These conditions, along with other matters as set forth in Note 2 in the consolidated financial statements 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 Professional Accountants, Licensed Public Accountants

April 2, 2014
Waterloo, Ontario

Biorem Inc.

Consolidated statements of financial position
December 31, 2013 and 2012

In Canadian dollars	Note	2013	2012
		$	$
Assets			
Current assets			
Cash and cash equivalents	**10**	1,640,192	1,501,236
Restricted cash and cash equivalents	**10**	997,276	997,276
Accounts receivable	**11**	3,472,190	3,631,327
Unbilled revenue	**4**	1,758,587	1,308,001
Inventories	**12**	373,727	1,120,592
Prepaid expenses and deposits		57,959	59,676
Investment tax credits recoverable		-	160,000
		8,299,931	8,778,108
Non-current assets			
Equipment and leasehold improvements	**13**	373,270	562,542
Intangible assets	**14**	237,121	439,773
Total assets		8,910,322	9,780,423
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable		2,377,708	2,916,624
Accrued liabilities and provision	**15**	851,785	1,024,184
Provisions	**15**	401,347	393,568
Unearned revenue	**4**	846,422	1,803,391
Current portion of long-term debt	**17**	3,548,343	1,220,000
		8,025,605	7,357,767
Non-current liabilities			
Long-term debt	**17**	-	2,368,029
Shareholders' equity			
Common shares	**18**	13,352,462	13,352,462
Share purchase warrants	**18**	67,723	491,184
Contributed surplus		1,990,112	1,529,151
Accumulated other comprehensive loss		(42,374)	(117,339)
Deficit		(14,483,206)	(15,200,831)
Total shareholders' equity		884,717	54,627
Going concern	**2a**		
Contingency	**16**		
Commitments	**22**		
Total liabilities and shareholders' equity		8,910,322	9,780,423

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors of Biorem Inc:

Signed */s/ Peter Bruijns* — Signed */s/ Robert Nally*

Director — Director

Biorem Inc.

Consolidated statements of operations
Years ended December 31, 2013 and 2012

In Canadian dollars	Note	2013	2012
		$	$
Revenue	**4**	19,596,418	15,418,320
Cost of goods sold	**12,23**	13,729,972	11,922,949
Gross profit		5,866,446	3,495,371
Expenses (income)			
Sales and marketing		1,845,874	1,602,116
Research and development	**23**	586,561	802,556
General and administration	**23**	2,196,472	1,739,684
Other income	**6**	(67,075)	(276,387)
Total operating expenses		4,561,832	3,867,969
Earnings (loss) from operations		1,304,614	(372,598)
Finance costs	**7**	586,989	457,394
Net earnings (loss)		717,625	(829,992)
Earnings (loss) per share, basic	**9**	$ 0.06	$ (0.07)
Earnings (loss) per share, diluted	**9**	$ 0.03	$ (0.07)

See accompanying notes to consolidated financial statements.

Biorem Inc.
Consolidated statements of comprehensive earnings (loss)
Years ended December 31, 2013 and 2012

In Canadian dollars	Note	2013	2012
		$	$
Net earnings (loss)		717,625	(829,992)
Other comprehensive earnings (loss)			
Item that will be not reclassified into profit or loss:			
Foreign currency translation differences on foreign operations		74,965	(55,098)
Total comprehensive earnings (loss)		792,590	(885,090)

See accompanying notes to consolidated financial statements.

Biorem Inc.

Consolidated statements of changes in shareholders' equity
Years ended December 31, 2013 and 2012

In Canadian dollars	Note	Common shares	Share purchase warrants	Contributed surplus	Accumulated other comprehensive income(loss)	Deficit	Total
		$	$	$	$	$	$
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		-	-	134,671	-	-	134,671
Warrants issued		-	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
Earnings for the year		-	-	-	-	717,625	717,625
Foreign currency translation differences on foreign operations		-	-	-	74,965	-	74,965
Total comprehensive earnings for the year		-	-	-	74,965	717,625	792,590
Stock-based compensation	**19**	-	-	37,500	-	-	37,500
Warrants expired		-	(423,461)	423,461	-	-	-
Balance, as at December 31, 2013		13,352,462	67,723	1,990,112	(42,374)	(14,483,206)	884,717

See accompanying notes to consolidated financial statements.

Biorem Inc.

Consolidated statements of cash flows
Years ended December 31, 2013 and 2012

In Canadian dollars	Notes	2013	2012
		$	$
Operating activities			
Net earnings (loss)		717,625	(829,992)
Items not involving cash:			
Depreciation	**13**	200,472	309,211
Amortization of intangible assets	**14**	207,768	213,570
Finance costs	**7**	586,989	457,394
Stock based compensation	**19**	37,500	33,613
Foreign exchange loss		21,398	10,856
		1,771,752	194,652
Change in non-cash operating working capital			
Accounts receivable		164,463	995,918
Unbilled revenue		(450,586)	(193,311)
Inventories		746,865	(340,368)
Prepaid expenses and deposits		1,717	25,194
Investment tax credits recoverable		160,000	(10,000)
Accounts payable		(538,916)	(67,416)
Accrued liabilities		(172,399)	(883,047)
Provisions		7,779	(191,754)
Unearned revenue		(956,969)	(60,075)
Cash provided by (used in) operating activities		733,706	(530,207)
Investing activities			
Restricted cash and cash equivalents		-	555,105
Proceeds from disposal of equipment		20,000	-
Purchase of equipment	**13**	(25,930)	(6,012)
Cash provided by (used in) investing activities		(5,930)	549,093
Financing activities			
Repayment of short-term debt		-	(648,591)
Proceeds from issuance of convertible debentures	**17**	-	1,775,000
Proceeds from issuance of debenture	**17**	-	500,000
Repayment of debenture	**17**	(380,000)	(240,000)
Transaction costs	**17**	-	(87,727)
Interest paid	**7**	(275,476)	(288,314)
Cash provided by (used in) financing activities		(655,476)	1,010,368
Foreign exchange (loss), gain on foreign denominated cash and cash equivalents		66,656	(52,050)
Increase in cash and cash equivalents		138,956	977,204
Cash and cash equivalents, beginning of year		1,501,236	524,032
Cash and cash equivalents, end of year	**10**	1,640,192	1,501,236

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 TSX Venture 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 foreseeable 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’s 12.75% debenture and 8% convertible debentures mature in 2014 (note 17) and the Company does not have alternative financing in place. In addition, the Company experienced significant losses in prior years, and has a deficit which may negatively impact the Company’s ability to obtain new financing or extend the maturity date of the Company’s debentures at reasonable terms.

The Company is addressing these conditions through the following actions:

- Negotiating revised payment terms and extension of the maturity date of the debentures
- Seeking alternative sources of financing
- Maximizing cash flow from operations

The ability of the Company to continue as a going concern is dependent on the successful completion of the actions and strategies, 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.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary to the carrying amount of assets and liabilities and the reported revenues and expenses and the statement of financial position 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 2, 2014.

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, and share based payments, both of 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 subsidiaries 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.

i) Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effects on the amounts recognized in the consolidated financial statements.

Going concern basis of presentation

As indicated in note 2(a), the application of 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. The application of the going concern basis of presentation requires judgment and considers market opportunities, the Company's abilities and initiatives to operate efficiently, and the Company's ability to finance its working capital. Management has determined the use of the going concern basis of presentation to be appropriate.

Indicators of impairment

IAS 36, *Impairment of assets*, requires management to assess the carrying values of the Company's non-financial assets, excluding inventory, at each reporting period and determine whether indicators of impairment exist. The determination of the existence of indicators of impairment requires judgment. Management also exercises judgment to determine whether there are factors that would indicate a cash generating unit ("CGU") is impaired. Some indicators of impairment that management may consider include changes in the current and expected future use of the asset, external valuations of the asset, and obsolescence or physical damage to the asset.

2. Basis of presentation (continued)

e) Use of estimates and judgments (continued)

ii) Key sources of estimation uncertainty

The following are the key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the consolidated financial statements within the next twelve months.

Estimation of contract costs

The Company recognizes revenue on its construction contracts using the percentage-of-completion method, under which contract revenue is recognized in proportion to the contract costs incurred in relation to the total costs estimated to complete the contract, as indicated in note 3(b). The determination of estimated costs to complete contracts requires management to make estimates regarding future material and labour costs. Differences between actual contract costs incurred and estimated contract costs could materially affect the timing of the recognition of contract revenue.

Determination of recoverable amount of equipment, leasehold improvements and intangible assets

Under IAS 36, *Impairment of Assets,* when indicators of impairment of the Company's non-financial assets, excluding inventory, exist, management is required to estimate the recoverable amount of the asset, as discussed in note 3(i). The determination of the recoverable amount of the asset involves estimates of the future cash flows attributable to the asset, the time-value of money, the life of the asset and/or the fair value of the asset. Differences between the actual amounts of these variables and the estimated amounts could materially affect the consolidated financial statements, both in determining the existence of any impairment and in determining the amount of any impairment.

Determination of useful lives and residual values of long-lived assets

The Company's leasehold improvements, equipment and intangible assets are depreciated or amortized to their residual values over their estimated useful lives. On an annual basis, management assesses the estimated useful lives and the residual values of these long-lived assets to determine whether they are still appropriate. In the determination of useful lives, management may consider changes in the current and expected use of the asset, changes to the asset's physical condition, or the acquisition of new assets which render existing assets obsolete. In the determination of residual values, management may consider changes in the asset's physical condition, its anticipated use, and external valuations of the asset. Differences between these estimates and the actual lives and residual values of the Company's long-lived assets could materially affect both the timing and amounts of depreciation and amortization expense.

Provisions

The Company recognizes provisions relating to warranties and termination benefits. As indicated in note 3(k), the determination of the warranty provision is based on historical warranty data, the time-value of money, as well as management's assessment of specific warranty claims, if any. Termination benefits are measured based on management's assessment of the merits of the claim and ultimate estimated settlement cost. Estimates are also made regarding the timing of the cash outflows relating to any termination benefits and warranty claims. Differences between the timing and amount of estimated expenses relating to these claims could differ materially from the actual expenses incurred.

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, Biorem (Beijing) Environmental Technologies Company Limited and Tianjin Biqing Environmental Technology Co., Ltd 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 standard products, from construction projects for specialized products and from services for repairs and maintenance.

Revenue is measured at the fair value of the consideration received or receivable, net of returns and trade discounts.

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 products can be estimated reliably, there is no continuing management involvement with the products, 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 of the product to the end user.

ii) Construction contracts

The Company derives revenue from construction contracts which require performance over a time span which may extend beyond one or more accounting periods. The Company recognizes revenue on construction contracts using the percentage-of-completion method, based on costs incurred relative to the estimated total contract costs.

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments.. 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 of a contract is determined by reference to actual costs of work performed and estimates of remaining 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 contracts 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 revenue represents revenue 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.

3. Significant accounting policies (continued)

b) Revenue recognition (continued)

iii) Services

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.

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 earnings (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
- 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.

3. Significant accounting policies (continued)

e) Financial assets and financial liabilities (continued)

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.

iv) 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.

v) 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.

vi) 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 as the difference between the proceeds received or receivable from issuance of the instrument, and the amount determined to represent 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, and 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) Equipment and leasehold improvements

Equipment and leasehold improvements 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.

3. Significant accounting policies (continued)

g) Equipment and leasehold improvements (continued)

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

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 & 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
- 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 cost and are amortized on a straight line basis to their estimated residual values. These intangible assets are amortized on a straight line basis over ten years, representing their estimated useful lives.

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

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.

3. Significant accounting policies (continued)

i) Impairment of non-financial assets (continued)

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.

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.

3. Significant accounting policies (continued)

m) Government grants (continued)

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) Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share data for its common shares. Basic earnings (loss) per share is calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the earnings (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.

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.

3. Significant accounting policies (continued)

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 program. The benefit of investment tax credits is recognized when the applicable eligible expenditures generating the investment tax credits are incurred and are recorded as other income. Investment tax credits related to the acquisition of equipment are deducted from the costs of the related assets.

u) New accounting pronouncements adopted during the period

The Company has adopted the following new standards, including any new consequential amendments to other standards with a date of initial application of January 1, 2013.

Fair value measurement

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*. 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 adopted IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The adoption of IFRS 13 did not have a material impact on the financial statements.

Amendments to 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 IFRS 7 is annual periods beginning on or after January 1, 2013.

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.

The Company adopted IFRS 7 prospectively in its financial statements for the annual period beginning on January 1, 2013. The adoption of IFRS 7 did not 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*. 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 subsequently to net profit or loss and items that will not be reclassified subsequently to net profit or loss. 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 adopted the amendments in its financial statements for the annual period beginning on January 1, 2013. As the amendments only required changes in the presentation of items in OCI, the adoption of IAS 1 did not have a material impact on the financial statements.

3. Significant accounting policies (continued)

u) New accounting pronouncements adopted during the period (continued)

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 adopted the amendments to the standards in its financial statements for the annual period beginning on January 1, 2013. The adoption of the amendments to the standards did not have a material impact on the financial statements.

Consolidated financial statements

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*. 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 adoption of IFRS 10 did not 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*. 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 adoption of IFRS 12 did not have a material impact on the financial statements.

v) 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 November 2009, the IASB issued IFRS 9, *Financial Instruments* (IFRS 9 (2009)), and in October 2010, the IASB published amendments to IFRS 9 (IFRS 9 (2010)). In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9 *Financial Instruments* (2013). The new standard removes the January 1, 2015 effective date of IFRS 9.The new IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities. IFRS 9 (2013) includes a new general hedge

3. Significant accounting policies (continued)

v) New accounting pronouncements not yet adopted (continued)

Financial instruments (continued)

accounting standard which will align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

The mandatory effective date is not yet determined, however, early adoption of the new standard is still permitted. Canadian reporting entities cannot early adopt IFRS 9 (2013) until it has been approved by the Canadian Accounting Standards Board.

The Company does not intend to adopt IFRS 9 (2009), IFRS 9 (2010) or IFRS 9 (2013) in its financial statements for the annual period beginning on January 1, 2014.

Amendments to IAS 32, Offsetting Financial Assets and Liabilities

In December 2011, the IASB published amendments to IAS 32, *Offsetting Financial Assets and Financial Liabilities*. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. 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
- 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 Company intends to adopt 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.

IFRIC 21, Levies

This IFRIC provides guidance on accounting for levies in accordance with the requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also notes that levies do not arise from executory contracts or other contractual arrangements. The interpretation also confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs.

The Company intends to adopt IFRIC 21 for the annual period beginning January 1, 2014. The extent of the impact of adoption of the amendments has not yet been determined.

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

In May 2013, the IASB issued *Recoverable Amount Disclosures for Non-Financial Assets* (Amendments to IAS 36).

The amendments apply retrospectively for annual periods beginning on or after January 1, 2014.

The IASB has issued amendments to reverse the unintended requirement in IFRS 13 *Fair Value Measurement* to disclose the recoverable amount of every CGU to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed.

3. Significant accounting policies (continued)

v) New accounting pronouncements not yet adopted (continued)

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) (continued)

The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2014. As the amendments impact certain disclosure requirements only, the Company does not expect the amendments to have a material impact on the financial statements.

Annual Improvements to IFRS (2010 – 2012) and (2011-2013) cycles

In December 2013, the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014; earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply.

Amendments were made to clarify the following in their respective standards:

- IFRS version that a first-time adopter can apply in IFRS 1 *First-time Adoption of International Financial Reporting Standards*
- Definition of “vesting condition” in IFRS 2 *Share-based Payments*
- Classification and measurement of contingent consideration; and scope exclusion for the formation of joint arrangements in IFRS 3 *Business Combinations*
- Disclosures on the aggregation of operating segments in IFRS 8 *Operating Segments*
- Measurement of short-term receivables and payables; and scope of portfolio exception in IFRS 13 *Fair Value Measurement*
- Restatement of accumulated depreciation (amortization) on revaluation in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*
- Definition of “related party” in IAS 24, *Related Party Disclosures*
- Special transitional requirements have been set for amendments to IAS2, IAS 16, IAS 38 and IAS 40.

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

4. Revenue

	2013	2012
	$	$
Standard products and services	788,675	647,234
Construction contracts	18,807,743	14,771,086
	19,596,418	15,418,320

4. Revenue (continued)

a) Costs and estimated earnings on uncompleted contracts

	2013	2012
	$	$
Costs incurred on uncompleted contracts	17,548,611	20,138,942
Estimated earnings on uncompleted contracts, net of recognized losses	11,401,778	12,692,398
	28,950,389	32,831,340
Less: billings to date	(28,038,224)	(33,326,730)
	912,165	(495,390)
Unbilled revenue	1,758,587	1,308,001
Unearned revenue	(846,422)	(1,803,391)
	912,165	(495,390)

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)	
	2013	2012	2013	2012
	$	$	$	$
Canada	7,726,939	3,398,982	415,647	728,495
United States	7,402,539	7,240,143	147,360	217,150
China	977,266	1,062,082	47,385	56,670
Other international	3,489,674	3,717,113	-	-
Total	19,596,418	15,418,320	610,392	1,002,315

(1) Includes equipment and leasehold improvements, and intangible assets

In 2013, eight customers accounted for 50% of total revenue (2012 – two customers accounted for 12% of total revenue). Two customers accounted for 16% of accounts receivable as at December 31, 2013 (2012 - two customers accounted for 24%).

6. Other income

	2013	2012
	$	$
Foreign exchange loss	21,398	10,856
Government funding	(245,039)	(277,243)
Investment tax credits	156,566	(10,000)
	(67,075)	(276,387)

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.

During 2013, the Canada Revenue Agency reassessed the Company's 2009 and 2010 claims for qualifying expenditures for scientific research and experimental development investment tax credits. The reassessment resulted in certain expenditures being disallowed and, as a result, $92,027 of investment tax credits previously recognized as other income was repaid by the Company in 2013. In addition, during the year the Company's 2011 and 2012 claims were processed, and $64,539 of investment tax credits previously recognized as recoverable were reversed as an expense through other income.

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 3.97% 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 was and is subordinate to the 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 $126,271 (2012-

$136,532) during the year as other income and the cumulative amount recognized to December 31, 2013 is $1,095,374 (2012 - $969,103).

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 $102,841 as other income during the year (2012 - $140,711).

7. Finance costs

	2013	2012
	$	$
Short term interest	28,503	33,903
Long-term debt interest	558,486	423,491
	586,989	457,394

8. Income taxes

a) *Income tax recognized in net earnings (loss)*

	2013	2012
	$	$
Net earnings (loss)	717,625	(829,992)
Income tax expense calculated at 26.5% (2012 - 26.5%)	190,171	(219,948)
Effect of tax rate differential in foreign operations	27,373	(115,197)
Effect of expenses that are not deductible in determining taxable profit	10,600	12,220
Effect of change in tax rates	-	(106,012)
Other	-	(377,803)
Effect of losses carried forward	(228,144)	806,740
Income tax expense recognized in net earnings (loss)	-	-

b) *Unrecognized deferred tax assets*

	2013	2012
	$	$
Tax assets		
Benefit of tax losses to be carried forward	1,800,000	2,300,000
Scientific research and experimental development expenditures available in future years	984,000	883,000
Provisions not yet deducted for tax	299,000	319,000
Capital assets - difference in accounting book value and undepreciated tax capital cost	248,000	217,000
	3,331,000	3,719,000

The Company has unrecognized temporary differences of $1,615,906 (2012 - $1,813,027), which are deductible for income taxes.

c) *Income tax losses*

As at December 31, 2013, the Company has income tax losses available to reduce future years' taxable income, which expire as follows:

	Canada	U.S.	Total
	$	$	$
2014	5,000	-	5,000
2025	-	205,000	205,000
2026	12,000	366,000	378,000
2027	20,000	520,000	540,000
2028	27,000	154,000	181,000
2029	94,000	96,000	190,000
2030	133,000	65,000	198,000
2031	2,410,000	413,000	2,823,000
2032	964,000	106,000	1,070,000
2033	97,000	61,000	158,000
Indefinite	3,012,000	-	3,012,000
	6,774,000	1,986,000	8,760,000

8. Income taxes (continued)

c) Income tax losses (continued)

In addition, the Company has Canadian investment tax credits available to be applied against future income taxes payable in the amount of approximately $1,595,000, which expire as follows:

Year	$
2024	133,000
2025	261,000
2026	148,000
2027	207,000
2028	261,000
2029	161,000
2030	224,000
2031	68,000
2032	61,000
2033	71,000
	1,595,000

9. Earnings per share

		2013		2012
Basic earnings (loss) per share	$	0.06	$	(0.07)
Calculated as:				
Net earnings (loss)	$	717,625	$	(829,992)
Weighted average number of shares outstanding		12,989,064		12,477,699
Diluted earnings (loss) per share	$	0.03	$	(0.07)
Calculated as:				
Net earnings (loss)	$	717,625	$	(829,992)
Interest on convertible debentures	$	249,632	$	-
Diluted earnings	$	967,257	$	(829,992)
Reconciliation of weighted average diluted shares outstanding:				
Weighted average common shares outstanding		12,989,064		12,477,699
Share options		64,000		-
Special warrants		3,509,891		-
Dilutive shares on conversion of convertible debentures		14,247,702		-
Weighted average number of shares outstanding used to calculate diluted earnings per share		30,810,657		12,477,699

At December 31, 2013, 972,000 share options were excluded from the diluted weighted average number of common shares as their effect would have been anti-dilutive.

At December 31, 2012, 1,195,000 share options, 8,076,538 share purchase warrants, and 14,247,702 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

	2013	2012
	$	$
Cash and cash equivalents:		
Cash	1,640,192	1,501,236
Restricted cash and cash equivalents:		
Cash	497,276	497,276
Short-term investments	500,000	500,000
	997,276	997,276
	2,637,468	2,498,512

Restricted cash relates to $97,276 (2012 - $97,276) 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. The Company is subject to a debt covenant in connection with its 12.75% debenture, as described in note 17, which requires the Company to maintain an unrestricted cash balance of $400,000 at the end of each quarter. Given this amount is required to be on hand and otherwise unencumbered at each reporting period, the Company has presented this balance within restricted cash.

The restricted 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:

	2013		2012	
	$		$	
0-30 days	697,422	20%	1,585,781	44%
31-60 days	583,887	17%	728,622	20%
61-90 days	643,278	19%	269,417	7%
91-120 days	186,213	5%	355,699	10%
Over 120 days	1,361,390	39%	691,808	19%
	3,472,190	100%	3,631,327	100%

Accounts receivable in the amount of $619,286 (2012 - $660,277) (net of allowance for doubtful debts) relate to holdbacks associated with project completion and commissioning.

The gross amount due from customers for construction contracts at December 31, 2013 is $3,302,612 (2012 - $3,456,257).

	2013	2012
	$	$
Balance at beginning of the year	415,553	345,689
Impairment losses recognized	198,631	70,000
Amounts written off during the year as uncollectible	(153,917)	(136)
Amounts recovered during the year	(196,907)	-
	263,360	415,553

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.

12. Inventories

	2013	2012
	$	$
Raw materials	102,424	1,026,756
Finished goods	271,303	93,836
	373,727	1,120,592

The total amount of inventories included in cost of goods sold for the year was $11,100,109 (2012 - $7,652,047).

The cost of inventories recognized as an expense includes $nil (2012 - $50,000) in respect of write-downs of inventories to net realizable value.

13. Equipment and leasehold improvements

	Research & production equipment	Office equipment	Leasehold improvements	Total
	$	$	$	$
Cost				
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
Additions	1,190	24,740	-	25,930
Disposals	(90,000)	-	-	(90,000)
Exchange differences	27,117	5,891	1,018	34,026
At December 31, 2013	1,383,605	670,801	351,138	2,405,544
Accumulated depreciation				
At December 31, 2011	866,078	451,493	248,458	1,566,029
Charge for the year	225,653	52,806	30,752	309,211
Exchange differences	(1,716)	(397)	(81)	(2,194)
At December 31, 2012	1,090,015	503,902	279,129	1,873,046
Charge for the year	113,566	55,279	31,627	200,472
Disposals	(70,000)	-	-	(70,000)
Exchange differences	22,611	5,127	1,018	28,756
At December 31, 2013	1,156,192	564,308	311,774	2,032,274
Carrying amount				
At December 31, 2012	355,283	136,268	70,991	562,542
At December 31, 2013	227,413	106,493	39,364	373,270

Depreciation of $31,051 (2012 - $39,823) has been recognized in cost of goods sold, $95,800 (2012 - $189,843) has been recognized in research and development expenses and $73,621 (2012 - $79,545) has been recognized in general and administration expenses. In 2012, the Company revised its estimate of the residual values of certain of its research and production equipment which resulted in the recognition of depreciation of $73,336, which has been recognized in research and development expenses.

14. Intangible assets

	Technology	Customer Lists	Patents and trademarks	Total
	$	$	$	$
Cost				
At December 31, 2011	1,426,416	439,394	347,686	2,213,496
Exchange differences	-	(4,787)	(12,922)	(17,709)
At December 31, 2012	1,426,416	434,607	334,764	2,195,787
Exchange differences	-	29,643	17,501	47,144
At December 31, 2013	1,426,416	464,250	352,265	2,242,931
Accumulated amortization				
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
Charge for the year	143,400	39,485	24,883	207,768
Exchange differences	-	24,705	17,323	42,028
At December 31, 2013	1,283,016	402,084	320,710	2,005,810
Carrying amount				
At December 31, 2012	286,800	96,713	56,260	439,773
At December 31, 2013	143,400	62,166	31,555	237,121

Amortization of $207,768 (2012 - $213,570) has been recognized in general and administration expenses. The remaining amortization period for the intangible assets ranges from one to two years.

15. Provisions

Warranty	2013	2012
	$	$
Balance, beginning of year	393,568	585,322
Provisions used during the year	(105,814)	(231,758)
Provisions made during the year	113,593	40,004
	401,347	393,568

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.

16. Contingency

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, 2013, letters of credit totaling $330,911 (2012- $312,180) have been drawn against the facility.

17. Long-term debt

	2013	2012
	$	$
12.75 % debenture (maturity amount - $1,655,000; 2012- $2,010,000)	1,633,125	1,950,625
8% convertible debentures (maturity amount - $2,066,773)	1,915,218	1,637,404
	3,548,343	3,588,029
Less: current portion	(3,548,343)	(1,220,000)
Long-term debt	-	2,368,029

a) 12.75% Debenture

In 2008, the Company issued a debenture which bears interest at 12.75% per annum, payable monthly.

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. In relation to the issuance of 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 expired October 31, 2013 and no warrants had been exercised to that date.

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 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 (see note 10). The Company must maintain a minimum tangible net worth of negative $250,000 and 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, of which $100,000 was repayable in January, 2013, with subsequent payments of $50,000 due monthly, plus interest. 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)

a) 12.75% Debenture (continued)

2013 activities

Prior to April 2013, the Company made principal payments totaling $380,000 on the debenture. In April 2013, the Company obtained an amendment to the 12.75% debenture agreement, amending the repayment terms. Under the revised terms, the Company pays monthly interest on the outstanding balance and the balance is due on May 5, 2014. As consideration for this amendment, the Company agreed to pay the lender an additional $25,000 at maturity. This modification resulted in an increase in the effective rate of interest on the debenture.

The entire amount outstanding of the 12.75% debenture has been classified as a current liability due to its maturity in May 2014. Management expects that this amount will be refinanced through other sources of financing, revised payment terms and an extension of the maturity date of the debenture, or other methods. However, there is no certainty that the amount will be refinanced or refinanced at terms that are acceptable to the Company. See note 2(a).

b) 8% convertible debentures

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 Debentures 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 Debentures 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 recorded with the Debentures and will be recognized as an expense using the effective interest method over 24 months.

On July 25, and August 16, 2012, the Company issued 8% convertible secured subordinated debentures (the "Second Tranche Debentures") for combined proceeds of $1,116,000. The Second Tranche 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.

17. Long-term debt (continued)

b) 8% convertible debentures (continued)

The Second Tranche Debentures can be prepaid in full at any time by the Company upon giving holders 15 days notice of prepayment. Interest on the Second Tranche Debentures accrues at a rate of 8% per annum and is payable at maturity. Due to the conversion feature, the Second Tranche Debentures are accounted for as compound financial instruments.

In conjunction with the issue of the Second Tranche 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 Second Tranche Debentures 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 Second Tranche Debentures and the fair value of the liability portion of the Second Tranche Debentures 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 Second Tranche Debentures and the fair value of the liability portion of the Second Tranche Debentures are recognized as a finance cost with a corresponding increase in the carrying amount of the Second Tranche Debentures using the effective interest method over 24 months. Finance costs of $32,744 have been recorded with the Second Tranche Debentures and will be recognized as an expense using the effective interest method over 24 months.

The outstanding principal amounts plus accrued interest of the convertible debentures have been classified as a current liability due to their maturity in May, June, July and August 2014. The convertible debentures contain an extension clause that allow the Company to extend the maturity date of the convertible debentures by up to five years if holders of not less than 66 2/3% of the outstanding principal amount agree to such an extension. Similarly, the convertible debentures contain a conversion clause that requires all holders to convert their convertible debentures into common shares at the rates set out above, if holders of not less than 66 2/3% of the outstanding principal amount agree to such a conversion. Management expects that the total amount of principal and accrued interesting outstanding will be refinanced through other sources of financing, an extension of the maturity date of the convertible debentures, conversion into common shares, or other methods. However, there is no certainty that the amount will be converted, refinanced or refinanced at terms that are acceptable to the Company. See note 2(a).

18. Issued capital

	2013		2012	
Common shares	#	$	#	$
Balance, beginning of year	12,989,064	13,352,462	12,307,246	13,277,462
Issued	-	-	681,818	75,000
Balance, end of year	12,989,064	13,352,462	12,989,064	13,352,462

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 2013, the Company did not issue any common shares. In 2012, the Company issued 681,818 shares for proceeds of $75,000.

18. Issued capital (continued)

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 expired October 31, 2013 and none were exercised prior to expiry. Upon expiry, amounts attributed to the special warrants were reclassified to contributed surplus.

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 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.

None of the share purchase warrants have been exercised.

8% convertible debentures (note 17)

$659,000 8% convertible 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 8% convertible 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 share 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.

Share options granted under the employee share option plan

As at December 31, 2013, executives and employees held options for 1,096,000 commons shares (of which 64,002 were unvested), in aggregate, which expire over the period from December 18, 2016 to June 26, 2023. As at December 31, 2012, executives and employees held options for 1,195,000 common shares, in aggregate, which expire over the period from May 12, 2013 to June 28, 2022. Share options granted under the employee share option plan carry no rights to dividends and no voting rights.

19. Stock-based compensation (continued)

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

	2013	2012
	$	$
Weighted average fair value of each option	0.17	0.05
Assumptions		
Weighted average share price	0.19	0.13
Weighted average exercise price	0.19	0.13
Expected volatility	100%	40%
Risk free interest rate	2%	2%
Expected life in years	10 years	10 years
Forfeiture rate	18%	18%
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:

	2013		2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		$		$
Outstanding, beginning of year	1,195,000	1.19	1,102,000	1.19
Options forfeited	(40,667)	0.43	-	
Options expired	(90,333)	0.83	(9,000)	0.68
Granted	32,000	0.19	102,000	0.10
Outstanding, end of year	1,096,000	1.13	1,195,000	1.19
Exercisable, end of year	1,031,998	1.19	1,058,988	1.11

19. Stock-based compensation (continued)

iii) Options outstanding and exercisable at December 31, 2013:

Number outstanding	Exercise price	Remaining life in years	Number exercisable	Weighted average exercise price
	$			$
17,500	1.75	3.2	17,500	1.75
500,000	1.62	3.2	500,000	1.62
32,000	1.70	3.4	32,000	1.70
60,000	1.50	3.0	60,000	1.50
50,000	1.11	4.0	50,000	1.11
32,000	0.90	4.4	32,000	0.90
141,500	0.68	6.4	141,500	0.68
75,000	0.48	5.0	75,000	0.48
32,000	0.33	5.4	32,000	0.33
32,000	0.34	7.5	21,332	0.34
32,000	0.19	9.5	-	0.19
32,000	0.11	7.5	10,666	0.11
60,000	0.10	8.5	60,000	0.10
1,096,000	1.13	5.7	1,031,998	1.19

20. Employee benefits

	2013	2012
	$	$
Wages and salaries	2,957,512	2,589,751
Termination benefits	46,000	55,577
Compulsory social security contributions	212,879	188,256
Contributions to defined contribution plans	209,579	183,975
Stock-based compensation	37,500	33,613
	3,463,470	3,051,172

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:

	2013	2012
	$	$
Short-term benefits	987,818	802,426
Stock-based compensation	37,500	33,613
Termination benefits	46,000	20,000
	1,071,318	856,039

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.

21. Related party transactions (continued)

Other related party transactions

In 2012, the Company issued convertible debentures as described in Note 17. Some of these convertible debentures are held by members of management, as well as Directors of the Company.

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.

i) *Payments recognized as an expense*

	2013	2012
	$	$
Minimum lease payments	214,064	158,753

ii) *Non-cancellable operating lease commitments*

	2013	2012
	$	$
Not later than 1 year	124,090	158,483
Later than 1 year and not later than 5 years	34,618	108,514
More than 5 years	-	-
	158,708	266,997

23. Comparative figures

During the year, the Company revised the classification of costs of certain of its laboratory, warehousing and manufacturing facilities. In 2012, these costs had been categorized as general and administrative. This change in classification resulted in an increase in cost of sales of $231,000, an increase in research and development expense of $32,000, and a reduction in general and administrative expense of $263,000.

24. 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

24. Financial instruments (continued)

a) Financial and capital risk management (continued)

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.

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.

ii) 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, 2013 and 2012, the Company held no forward exchange contracts.

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

	Assets		Liabilities	
	2013	2012	2013	2012
	$	$	$	$
United States dollars	3,292,503	4,432,167	1,037,518	2,023,519
Chinese renminbi	690,689	442,070	303,538	202,431

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 comprehensive income 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 comprehensive income, and the balances below would be negative.

	United States dollar impact	
	2013	2012
	$	$
Profit or loss	225,499	247,316
Other comprehensive income	14,484	100,619

24. Financial instruments (continued)

a) Financial and capital risk management (continued)

iii) Interest rate risk

The Company is not exposed to short term fluctuations in interest rates 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 long-term debt is scheduled to mature in 2014, and accordingly the Company is subject to the then-prevailing market rates of interest. As a result, the Company is subject to interest rate risk. 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.

iv) 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 during the year. The Company's financial liabilities include accounts payable and accrued liabilities, unearned revenue and contract advances as well as debentures.

All of the Company's long-term debt is due between May and August 2014. Management expects that the long-term debt will be refinanced through other sources of financing, revised payment terms and extension of the maturity dates of the debt, or other methods. However, there is no certainty that the long-term debt will be refinanced or refinanced at terms that are acceptable to the Company. See note 2(a).

A maturity analysis as at December 31, 2013 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
	$	$	$	$	$	$	$
2013							
Accounts payable	2,377,708	2,377,708	2,377,708	-	-	-	2,377,708
Accrued liabilities	851,785	851,785	851,785	-	-	-	851,785
Current portion LTD	3,548,343	3,833,229	-	51,956	3,781,273	-	3,833,229
	6,777,836	7,062,722	3,229,493	51,956	3,781,273	-	7,062,722
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

24. Financial instruments (continued)

a) Financial and capital risk management (continued)

v) 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:

	2013	2012
	$	$
Shareholders' equity	884,717	54,627
Long-term debt including current portion	3,548,343	2,368,029
Total shareholders' equity and long-term debt	4,433,060	2,422,656

b) Financial instruments

Categories and fair value of financial instruments

	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	$	$	$	$
Financial assets				
Cash and cash equivalents	1,640,192	1,640,192	1,501,236	1,501,236
Restricted cash and cash equivalents	997,276	997,276	997,276	997,276
Accounts receivable	3,472,190	3,472,190	3,631,327	3,631,327
	6,109,658	6,109,658	6,129,839	6,129,839
Financial liabilities				
Accounts payable and accrued liabilities	3,229,493	3,229,493	3,940,808	3,940,808
Long term-debt including current portion	3,548,343	3,647,726	3,588,029	3,707,064
	6,777,836	6,877,219	7,528,837	7,647,872

The Company has determined that the fair value of its short-term financial assets and liabilities approximates their respective carrying amounts because of the short-term maturity of those instruments. The fair value of long-term debt has been determined using a discounted cash flow model based on discount rates ranging from 15.0% to 17.5 %, representing interest rates in effect as at the year-end date available to the Company for the same or similar debt instruments.