PyroGenesis Canada Inc.

Financial Statements

December 31, 2010

PyroGenesis Canada Inc.

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Contents

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
PyroGenesis Canada Inc.

We have audited the accompanying financial statements of **PyroGenesis Canada Inc.**, which comprise the balance sheets as at December 31, 2010 and 2009 and the statements of operations and comprehensive income (loss) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the 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 company'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 financial statements.

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

INDEPENDENT AUDITOR'S REPORT - cont'd

Opinion

In our opinion the financial statements presents fairly, in all material respects, the financial position of **PyroGenesis Canada Inc.** as at December 31, 2010 and 2009 and of its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter

We draw attention to Note 1 which describes several adverse conditions and events that cast substantial doubt on the company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Horwath Leebosh Appel, LLP [1]

Montreal, Quebec
June 29, 2011

[1] CA Auditor permit no. 15046

PyroGenesis Canada Inc.

Balance Sheet

At December 31	2010 $	2009 $
Assets		
Current assets		
Cash and cash equivalents	**237,291**	722,941
Accounts receivable *[note 3]*	**576,551**	868,525
Sales taxes receivable	**114,509**	295,752
Investment tax credits receivable *[note 4]*	**3,800,000**	3,177,000
Prepaid expenses	**49,239**	27,164
	4,777,590	5,091,382
Machinery and equipment *[note 5]*	**1,338,334**	353,201
Licenses *[note 6]*	**463,574**	540,837
	6,579,498	5,985,420
Liabilities		
Current liabilities		
Bank indebtedness *[note 7]*	**3,341,000**	1,190,000
Accounts payable and accrued liabilities *[note 8]*	**1,497,833**	1,041,437
Current portion of obligation under capital lease *[note 10]*	**3,873**	13,315
Billings in excess of costs and profits on uncompleted contracts	**57,413**	2,423,911
	4,900,119	4,668,663
Non-interest bearing loans - company under common control	**-**	100,738
Obligation under capital lease *[note 10]*	**-**	3,873
Loans - other *[note 9]*	**465,423**	465,423
Long-term debt *[note 11]*	**1,000,000**	1,000,000
	6,365,542	6,238,697
Shareholders' equity		
Share capital *[note 12]*	**5,120,388**	2,472,271
Deficit	**(4,906,432)**	(2,725,548)
	213,956	(253,277)
	6,579,498	5,985,420

Commitment, contingency and subsequent events *[notes 21, 22 and 23]*

Approved on behalf of the board:

_______________ *Director*

_______________ *Director*

See accompanying Notes to Financial Statements

PyroGenesis Canada Inc.

Statement of Operations and Comprehensive Income (Loss)

Year ended December 31	**2010** **$**	2009 $
Sales	**7,715,131**	10,428,280
Expenses		
Cost of sales and services *[note 4]*	**6,160,056**	6,834,149
Selling, general and administrative	**3,242,047**	2,796,736
Interest on long-term debt	**292,126**	149,443
Amortization of machinery and equipment	**149,323**	118,834
Amortization of licenses	**77,263**	77,263
	9,920,815	9,976,425
Income (loss) from operations	**(2,205,684)**	451,855
Other income	**24,800**	63,376
Net income (loss) and comprehensive income (loss)	**(2,180,884)**	515,231
Deficit - beginning of year	**(2,725,548)**	(3,240,779)
Deficit - end of year	**(4,906,432)**	(2,725,548)

See accompanying Notes to Financial Statements

PyroGenesis Canada Inc.

Statement of Cash Flows

Year ended December 31	2010 $	2009 $
Cash flows provided (used) by		
Operating activities		
Net income (loss) and comprehensive income (loss)	**(2,180,884)**	515,231
Items not requiring an outlay of cash:		
Amortization of machinery and equipment	**149,323**	118,834
Amortization of licenses	**77,263**	77,263
	(1,954,298)	711,328
Net change in non-cash operating working capital items *[note 15]*	**(2,081,960)**	(2,233,858)
	(4,036,258)	(1,522,530)
Investing activities		
Purchase of machinery and equipment	**(40,656)**	(149,463)
Financing activities		
Increase in bank indebtedness	**2,151,000**	1,190,000
Loans - other	**-**	(19,159)
Proceeds from obligation under capital lease	**-**	25,859
Repayment of obligation under capital lease	**(13,315)**	(8,671)
(Repayment) proceeds from non-interest bearing loan - company under common control	**(100,738)**	100,738
Repayment of interest bearing loans - other	**-**	(99,922)
Repayment of long-term debt	**-**	(312,500)
Proceeds from issuance of subscription receipts	**1,750,000**	-
Costs related to equity issues	**(195,683)**	-
	3,591,264	876,345
Decrease in cash	**(485,650)**	(795,648)
Cash and cash equivalents - beginning of year	**722,941**	1,518,589
Cash and cash equivalents - end of year	**237,291**	722,941

See accompanying Notes to Financial Statements

1. Nature of operations and going concern disclosure

(a) Nature of operations

The company was incorporated on June 5, 2006. The company is a non-exclusive licensee of advanced waste treatment systems technology owned by persons related to the controlling shareholders. The company's viability is dependent on having continuing rights conferred by these licenses.

(b) Going concern disclosure

These financial statements have been prepared using Canadian generally accepted accounting principles (Canadian GAAP) applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

Several adverse conditions and events cast substantial doubt upon the validity of this assumption. the company has a history of operating losses and negative cash flows and its ability to continue as a going concern is uncertain and is dependant on its ability to fund its working capital, complete the development of its product, and eventually to generate positive cash flows from the product that it has developed. Management plans to explore all alternatives possible, including equity financing.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

2. Significant accounting policies

The Canadian Institute of Chartered Accountants has amended section 1400, "General Standards of Financial statement Presentation", which is effective for interim periods beginning on or after October 1, 2008, to include requirements to assess and disclose the Company's ability to continue as a going concern.

The financial statements of the company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant areas requiring the use of management estimates include estimates related to revenue recognition, amortization of machinery and equipment, amortization and impairment of licenses and other intangibles, future income taxes, billings in excess of costs and profits on uncompleted contracts, research and development tax credits and provision for bad debts. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies summarized below:

(a) Revenue recognition

Revenues relating to research and equipment contracts are recognized on the percentage-of-completion basis. The degree of completion is assessed based on the proportion of labour costs incurred to date, in relation to performance, compared to total labour costs anticipated to provide the service and other deliverables required under the entire contract. Provisions are made for the entire amount of expected losses, if any, in the period in which they are first determinable. The percentage-of-completion method requires the use of estimates to determine the recorded amount of revenues and work-in-progress. Given this estimation process, it is possible that changes in future conditions could cause a material change in the recognized amount of revenues and unbilled work-in-progress and accrued expenses.

2. Significant accounting policies - cont'd

(b) Foreign currency translation

Transactions in foreign currencies are accounted for in accordance with the temporal method. Foreign currency balances are translated at year-end exchange rates for monetary items and at historical rates for non-monetary items. Revenues and expenses are translated using average exchange rates prevailing at the time of the transaction. Translation gains or losses are included in the determination of earnings for the year.

(c) Machinery and equipment

Machinery and equipment are recorded at cost. Annual depreciation rates and methods adopted by the company are:

On the declining-balance method:

Computer hardware	45%
Computer software	50%
Machinery	20%
Computer hardware under capital lease	45%

(d) Research and development costs

Research costs are charged to earnings in the year they are incurred, net of related investment tax credits. Development costs are charged to earnings in the year they are incurred net of related investment tax credits unless they meet specific criteria related to technical, market and financial feasibility in order to be capitalized.

(e) Cash and cash equivalents

Cash and cash equivalents include short term investments with maturities of 90 days or less when acquired.

(f) Licenses and other intangibles

Licenses and other intangibles are amortized to operations on a straight-line basis over ten years and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

(g) Government assistance

Investment tax credits are comprised of scientific research and experimental development tax credits. Government assistance and investment tax credits are recognized when there is reasonable assurance of their recovery using the cost reduction method. Investment tax credits are subject to the customary approvals by the pertinent tax authorities. Adjustments required, if any, are reflected in the year when such assessments are received.

(h) Income taxes

Income taxes are calculated using the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

2. Significant accounting policies - cont'd

(i) Impairment of long-lived assets

Long-lived assets or asset groups are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the assets may not be recoverable, as measured by comparing their carrying amounts to the estimated undiscounted future cash flows generated by their use and eventual disposal. Impairment, if any, is measured as the excess of the carrying amount of the asset or asset group over its fair value.

(j) Comprehensive income

Comprehensive income is the change in shareholder's equity during a period arising from transactions and other events and circumstances from non-owner sources. In accordance with this standard, the Company reports a statement of comprehensive loss and a new category, accumulated other comprehensive income has been added to the shareholder's equity section of the balance sheet. The components of this category include unrealized gains and losses on financial assets classified as available-for-sale and the effective portion of cash flow hedges, if any.

(k) Financial Instruments – Disclosure and Presentation

This section establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

(l) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets and financial liabilities are recognized on the balance sheet when the Company becomes a party to contractual provisions of the instrument. On initial recognition, all financial instruments must be measured at fair value which 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. Subsequent to initial recognition, the fair value of financial instruments is dependent on the purpose for which the financial assets were acquired or issued, their characteristics and the Company's designation of such instruments.

At each reporting date the carrying amounts of financial assets, other than those to be measured at fair value through profit or loss, are assessed to determine whether there is objective, significant evidence of impairment (e.g. a debtor is facing serious financial difficulties, or there is a substantial change in the technological, economic, legal or market environment of the debtor). For equity instruments, a significant or prolonged decline in fair value is objective evidence for a possible impairment. The Company has defined criteria for the significance and duration of a decline in fair value as discussed in the categories below.

The standards require that all financial assets be classified as held-for-trading ("HFT"); held-to-maturity ("HTM"); available-for-sale ("AFS") or loans and receivables ("L&R"). Financial liabilities should be classified as HFT or other than HFT liabilities.

Financial Assets:

Held-for-trading: Financial assets required to be classified as HFT are measured at fair value, with gains, losses and transaction costs recorded in net income for the period in which they arise. A financial instrument is designated as HFT on initial recognition if reliable fair values are available, even if that instrument would not otherwise satisfy the definition of HFT ("fair value option"). Held-for-trading securities are usually held for a short term and are actively traded.

2. Significant accounting policies - cont'd

Held-to-maturity: Financial assets that are purchased and have a fixed maturity date and which management has the intention and the ability to hold to maturity are classified as held-to-maturity. These instruments are accounted for at amortized cost using the effective interest rate method and charged to income in the period of amortization. The company currently does not hold any of these assets.

Available-for-sale: Financial assets classified as AFS are measured at fair value, except for investments in equity instruments that do not have a quoted market price in an active market, which are measured at cost. Unrealized gains and losses, including the effect of changes in foreign exchange rates, are recognized directly in Other Comprehensive Income, except for impairment losses, which are recognized in net income. Upon de-recognition of the financial asset, the cumulative gains or losses, previously recognized in Accumulated Other Comprehensive Income ("AOCI") are reclassified to net income. Transaction costs are added to the carrying amount of the financial instruments.

If an available-for-sale financial asset is impaired, the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the income statement, is reclassified from direct recognition in equity to the income statement. Reversals with respect to equity instruments classified as available-for-sale are not recognized in the income statement. A reversal of an impairment loss on a debt instrument is reversed through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss is recognized in income.

Loans and receivables: L&R financial assets are measured at amortized cost using the effective interest rate method. Interest income calculated using the effective interest rate method is recorded in financing income in the period in which it arises. Transaction costs are added to the carrying amount of the financial asset.

The amount of the impairment loss on loans and receivables is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding expected future credit losses that have not been incurred), discounted at the original effective interest rate of the financial asset. The amount of the impairment loss is recognized in profit or loss. If, in a subsequent reporting period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and recognized in profit or loss. The impairment loss on loans and receivables is recorded using allowance accounts. The decision to account for credit risks using an allowance account or by directly reducing the receivable depends on the estimated probability of the loss of receivables. When receivables are assessed as uncollectible the impaired asset is derecognized.

Financial Liabilities:

HFT liabilities: Financial liabilities are measured at fair value. Gains and losses on liabilities held-for-trading are recognized in earnings.

Other than HFT liabilities: Financial liabilities classified as other than HFT are measured at amortized cost using the effective interest method. Interest expense is recorded in financing expense in the period. Transaction costs are added to the carrying amount of the financial liability.

2. Significant accounting policies - cont'd

As a result, the following classifications were determined:

(i) Cash and cash equivalents and bank indebtedness are classified as held-for-trading;

(ii) Accounts receivable, sales tax receivable and investment tax credits are classfied as loans and receivables;

(iii)Accounts payable and accrued liabilities, loans and long-term debt, including interest payable, as well as capital lease obligations are classified as other financial liabilities, all of which are measured at amortized cost using the effective interest rate method.

(m) Hedges

This section establishes standards for when and how hedge accounting may be applied. Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of earnings in the same period. The company did not use any hedging in 2010.

(n) EIC 173 – Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company is continually evaluating its counterparties and their credit risks.

(o) Goodwill and Intangible assets

Section 3064 Goodwill and Intangible Assets replaces Section 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development Costs. As permitted by Section 3064, the Corporation has early adopted the new standards in the current fiscal year. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The objectives of Section 3064 are to:

- Remove material that may be interpreted as permitting the recognition of assets that would not otherwise meet the definition of an asset or the recognition criteria;
- Include guidance to clarify the distinction between assets and expenses;
- Include guidance on the definition of an intangible asset and the recognition of internally generated intangible assets; and
- Withdraw Section 3450 Research and Development Costs, as assets developed as a result of research and development activities would now be included within the scope of Section 3064.

3. Accounts receivable

Accounts receivable are carried on the balance sheet net of an allowance for doubtful accounts. This provision is established based on the company's best estimates regarding the ultimate recovery of balances for which collection is uncertain. Uncertainty of ultimate collection may become apparent from various indicators, such as a deterioration of the credit situation of a given client and delay in collection beyond the contractually agreed upon payment terms. Management regularly reviews accounts receivable, monitors past due balances and assesses the appropriateness of the allowance for doubtful accounts. The provision for 2010 was nil (2009 - nil).

Details of accounts receivable were as follows:

	2010 **$**	2009 $
Past due trade receivables		
1 - 30 days	**410,293**	560,756
30 - 60 days	**29,182**	203,534
61 - 90 days	**-**	7,381
Greater than 90 days	**137,076**	94,769
Total	**576,551**	866,440
Other receivables	**-**	2,085
Total accounts receivable	**576,551**	868,525

4. Government assistance

Research and development tax credits in the amount of $1,877,508 (2009 - $1,800,000) have been included as a reduction of $2,719,321 (2009 - $3,035,381) of related research and development expenses during the year.

Government assistance in the amount of $45,557 (2009 - $109,907) have been included as a reduction of related expenses.

5. Machinery and equipment

	2010		
	Cost **$**	**Accumulated Depreciation** **$**	**Net book value** **$**
Computer hardware	**113,765**	**68,904**	**44,861**
Computer software	**139,497**	**91,466**	**48,031**
Machinery	**1,538,931**	**304,512**	**1,234,419**
Computer hardware under capital lease	**25,859**	**14,836**	**11,023**
	1,818,052	**479,718**	**1,338,334**

	2009		
	Cost $	Accumulated Depreciation $	Net book value $
Computer hardware	104,342	36,054	68,288
Computer software	112,737	56,815	55,922
Machinery	440,659	231,709	208,950
Computer hardware under capital lease	25,859	5,818	20,041
	683,597	330,396	353,201

Annual impairment assessments was done in 2010 and 2009. No impairment charge was required in any of these years.

6. Licenses

Intangible assets are made up of licenses as follows:

	Cost **$**	**Accumulated Depreciation** **$**	**Net book value** **$**
2010	**772,625**	**309,051**	**463,574**
2009	**772,625**	**231,788**	**540,837**

The annual amortization expense for the licenses is expected to be $77,263 for the years 2011 through 2016.

An annual impairment assessment was done for the licenses in 2010 and 2009. No impairment charge was required in either of these years.

7. Bank indebtedness

The company has available, the following investment tax credit demand facilities:

(i) Based on the 2009 claim, $1,861,000 which bears interest at prime rate plus 1.4%
(ii) Based on the 2010 claim, $500,000 which bears interest at prime rate plus 2.2%

These loans are secured by a first ranking moveable hypothec of $1,861,000 and $500,000 respectively on all present and future investment tax credits.

The company also has available a revolving demand loan facility of $1,500,000 (2009 - $1,500,000) which bears interest at the bank's prime rate plus 2.25%. The loan is secured by a first rank moveable hypothec in the amount of $1,500,000 on accounts receivable, inventory and work-in-process.

The company is required to meet a tangible net worth covenant which has been waived by the lender pending the closing of the transactions referred to in Note 23 and the release of funds held in escrow pursuant to the private placement at which time the covenant will be satisfied.

8. Accounts payable and accrued liabilities

	2010 **$**	2009 $
Accounts payable trade	**495,357**	739,420
Accrued liabilities	**532,348**	258,550
Accounts payable to a company under common control	**167,132**	-
Accounts payable - shareholder	**150,000**	-
Accounts payable - trust beneficiary owned by the shareholder	**152,996**	43,465
	1,497,833	1,041,435

9. Loans - other

Loans - other consists of:

	2010 **$**	2009 $
Loans bearing interest at 6%, unsecured and having no specific terms of repayment. These loans are subordinated to the bank		
Loans from shareholder	**185,340**	185,340
Loan from a trust beneficially owned by the shareholder of the company	**280,083**	280,083
	465,423	465,423

10. Obligation under capital lease

Future minimum lease payments with respect to a capital lease expiring March 2011, are as follows:

	$
2011	3,975
Total minimum lease payments	3,975
Amount representing interest at approximately 23% per annum, compounded monthly	102
Balance of the obligation	3,873
Current portion	3,873
	-

11. Long-term debt

A loan in the amount of $1,000,000 (2009 - $1,000,000) plus fees interest and other costs nil (2009 - $312,500). The loan is due June 30, 2012 with interest paid monthly at 15% per annum compounded monthly.

The loan is secured by a second rank hypothec on the building which is beneficially owned by a person related to the controlling shareholders, an additional hypothec of $75,000, and personal guarantees by the shareholders (see Note 23b).

12. Share capital

The company was incorporated under the Canada Business Corporation Act on June 5, 2006. The more significant rights and privileges and limitations attached to the authorised capital stock of the company are as follows:

Subject to prior rights of all the preferred shares, the voting class A, class B, class C, class D and class E common shares rank pari passu, except the class E common shares are non-participating and are entitled to the return of the consideration for which they were issued before all other classes of shares.

Dividends may be paid at the discretion of the directors on any class of shares without regard to the payment of dividends on any other class.

With respect to the preferred shares:

a) all classes of preferred are entitled to non-cumulative dividend ranging between 0.5% and 5% per annum when declared;

b) the class F, class G, class H, class I and class J preferred shares may be purchased for cancellation, are redeemable by the company and are redeemable on demand of the holder, for an amount not exceeding the amount paid thereon, in all cases. Furthermore, class I shares and class J shares can be unilaterally redeemed by the corporation at the redemption value. Class J shares are redeemable by the holder at a price of one dollar;

12. Share capital - cont'd

c) in the event of dissolution, the preferred shares are entitled to the return of the consideration for which they were issued before any amount is paid to the class A, class B, class C and class D common shares, but after class E shares, and in the following order of priority; class F, class G, class H, class I and class J.

		2010 $	2009 $
Issued and fully paid:			
46,325,071	Class A shares (2009 - 2,247,219)	**2,472,271**	2,472,271
1,093,800	Class F preferred shares (2009 - nil)	**1,093,800**	-
2,187,500	Subscription receipts	**1,750,000**	-
	Costs related to equity issues	**(195,683)**	-
		5,120,388	2,472,271

On November 10, 2010, a shareholer transferred machinery with a fair market value of $1,093,800 in exchange for 1,093,800 Class F shares. The Class F shares are exchangeable for Class A common shares at the discretion of the company. (Note 23a)

On November 26, 2010, a trust that is beneficially owned by a shareholder advanced to the company $1,750,000 in exchange for 2,187,500 subscription receipts.

These subscription receipts were acquired in anticipation of an amalgamation transaction that will make the company a publicly traded company, and in return the trust will be granted 2,187,500 shares of the amalgamated company.

The amalgamation transaction is anticipated to occur on or before October 1, 2011. In the event that it does not occur, the subscription for common shares will remain in force, and the subscription terms will be adjusted on the basis of a pre-investment valuation of the company. This would result in the Trust receiving 4,053,451 shares of the company.

On December 14, 2010, the Class A shares were subdivided on a 20.6144 for 1 basis.

13. Tax loss and other expenses to carry forward

(a) provision for income taxes

The provision for income taxes differs from the combined Canadian federal and provincial statutory rates as follows:

	2010		
	Federal	**Provincial**	**Combined**
	$	**$**	**$**
Income before income taxes	**(2,180,884)**	**(2,180,884)**	**(2,180,884)**
Federal income tax rate	**19.00 %**	**11.90 %**	**30.90 %**
Tax effect	**(414,368)**	**(259,525)**	**(673,893)**
Amortization of machinery and equipment	**(18,087)**	**(11,328)**	**(29,415)**
Amortization of licenses	**8,731**	**5,468**	**14,199**
Non-deductible tax on capital gains	**285**	**179**	**464**
Non-deductible meals	**7,363**	**4,612**	**11,975**
Non-deductible automobile	**703**	**440**	**1,143**
Financing fees	**(8,265)**	**(5,177)**	**(13,442)**
Scientific research and development	**114,678**	**(46,619)**	**68,059**
Donation	**361**	**226**	**587**
Change in valuation allowance	**308,599**	**311,724**	**620,323**
Income taxes	**-**	**-**	**-**

	2009		
	Federal	Provincial	Combined
		$	$$
Loss before income taxes	515,231	515,231	515,231
Federal income tax rate	19.00 %	11.90 %	30.90 %
Tax effect	97,894	61,312	159,206
Amortization of machinery and equipment	(23)	-	(23)
Amortization of licenses	8,283	5,188	13,471
Non-deductible tax on capital gains	(5,846)	(3,661)	(9,507)
Non-deductible meals	7,480	4,685	12,165
Non-deductible auto	684	428	1,112
Financing fees	(8,265)	(5,177)	(13,442)
Scientific research and development	48,676	(57,726)	(9,050)
Application of prior year losses	(148,883)	(5,049)	(153,932)
Income taxes	-	-	-

13. Tax loss and other expenses to carry forward - cont'd

(b) Future income taxes assets and liabilities

The company has operating losses and other costs which are being carried forward and which can reduce the future taxable income. The components of the net future income tax assets (liabilitites) were as follows:

	2010		
	Federal	**Provincial**	**Combined**
	$	**$**	**$**
Share issue costs	**16,530**	**10,353**	**26,883**
Tax cost of property and equipment in excess of carrying value	**(784)**	**(491)**	**(1,275)**
Research and development tax credit carryforward	**(213,750)**	**(133,875)**	**(347,625)**
Non-capital losses carried forward	**712,500**	**746,368**	**1,458,868**
	514,496	**622,355**	**1,136,851**
Valuation allowance for future tax assets	**(514,496)**	**(622,355)**	**(1,136,851)**
	-	**-**	**-**

	2009		
	Federal	Provincial	Combined
	$	$	$
Share issue costs	24,795	15,530	40,325
Tax cost of property and equipment in excess of carrying value	(3,895)	(2,440)	(6,335)
Research and development tax credit carryforward	(180,500)	(113,050)	(293,550)
Non-capital losses carried forward	542,565	521,502	1,064,067
	382,965	421,542	804,507
Valuation allowance for future tax assets	(382,965)	(421,542)	(804,507)
	-	-	-

13. Tax loss and other expenses to carry forward - cont'd

(c) Losses

The company has the following non-capital losses and share issue costs available to reduce future income taxes.

The losses and costs expire as follows:

Expiry date	Federal $	Provincial $
2027	513,000	1,249,000
2028	1,613,000	2,403,000
2030	1,624,000	2,620,000
	3,750,000	6,272,000

$960,000 of the potential tax benefits relating to these losses have been recognized in the financial statements to reduce future income taxes.

14. Risk management and fair values

a) Risk management

The company generates revenues from customers in North America. The company performs credit evaluations of customers and generally does not require collateral. Allowances are maintained for potential losses. It is reasonably possible that the actual amount of loss, if any, incurred on accounts receivable will differ from management's estimate.

One customer makes up 50% (2009 - one customer made up 66%) of the trade accounts receivable balance. Two customers account for 83% (2009 - two customers accounted for 73%) of sales.

b) Fair values

The classification of financial instruments at their carrying and fair values is as follows:

	2010			
	Carrying value			Fair value
	HFT $	AFS $	L&R $	Total $
Cash and cash equivalents	237,291	-	-	237,291
Accounts receivable	-	-	576,551	576,551
Sales tax receivable	-	-	114,509	114,509
Investment tax credits receivable	-	-	3,800,000	3,800,000
	237,291	-	4,491,060	4,728,351

14. Risk management and fair values - cont'd

	HFT $	Other than HFT $	Fair value Total $
Bank indebtedness	**3,341,000**	**-**	**3,341,000**
Accounts payable and accrued liabilities	**-**	**1,497,832**	**1,497,832**
Loans - other	**-**	**1,750,000**	**1,750,000**
Loans - other	**-**	**465,423**	**465,423**
Long-term debt	**-**	**1,000,000**	**1,000,000**
	3,341,000	**4,713,255**	**8,054,255**

	2009			
	Carrying value			Fair value Total $
	HFT $	AFS $	L&R $	
Cash and cash equivalents	722,941	-	-	722,941
Accounts receivable	-	-	868,525	868,525
Sales tax receivable	-	-	295,752	295,752
Investment tax credits receivable	-	-	3,177,000	3,177,000
	722,941	-	4,341,277	5,064,218

	HFT $	Other than HFT $	Fair value Total $
Bank indebtedness	1,190,000	-	1,190,000
Accounts payable and accrued liabilities	-	1,041,437	1,041,437
Non-interest bearing loans related parties	-	100,738	100,738
Loans - other	-	465,423	465,423
Long-term debt	-	1,000,000	1,000,000
	1,190,000	2,607,598	3,797,598

c) Interest rate risk

The company is exposed to interest rate fluctuations on its bank indebtedness, obligation under capital lease, long-term debt and long-term debt - related parties, which bear interest ranging from prime plus 1.4% to 23% per annum.

14. Risk management and fair values - cont'd

d) Foreign exchange risk

Foreign currency risk is the risk to the company's earnings that arise from fluctuations in foreign currency exchange rates, and the degree of volatility of these rates.

The Canadian dollar equivalent of financial instruments denominated in foreign currencies and included in the assets and liabilities in the balance sheets are as follows:

	2010		
	U.S. $	**CHF SF**	**Cdn $**
Cash and cash equivalents	**230,353**	**-**	**230,339**
Accounts receivable	**326,539**	**-**	**326,373**
Accounts payable and accrued liabilities	**174,616**	**13,077**	**188,234**

	2009		
	U.S. $	CHF SF	Cdn $
Cash and cash equivalents	483,874	-	507,965
Accounts receivable	686,516	-	721,528
Accounts payable and accrued liabilities	44,761	-	47,043

e) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its obligations as they become due. The company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuance. The company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. The company has access to sufficient funds to meet its current and foreseeable financial requirements which are due less than thirty (30) days.

15. Supplemental disclosures of expenses and cash flow information

i) Interest paid and received

	2010		2009	
	expense (revenue) $	**cash paid (received) $**	expense (revenue) $	cash paid (received) $
Interest on long-term debt	**292,126**	**252,669**	149,443	119,053
Interest revenue	**(26,301)**	**(26,301)**	(1,842)	(1,842)
Interest - other	**86,829**	**86,829**	38,246	38,246

15. Supplemental disclosures of expenses and cash flow information - cont'd

ii) Net changes in non-cash components of operating working capital

	2010 $	2009 $
Decrease (increase) in:		
Accounts receivable	**291,974**	(424,681)
Sales tax receivable	**181,243**	(253,350)
Investment tax credits receivable	**(623,000)**	(1,800,000)
Prepaid expenses	**(22,075)**	(3,164)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**456,396**	309,973
Billings in excess of costs and profits on uncompleted contracts	**(2,366,498)**	(62,636)
	(2,081,960)	(2,233,858)

iii) Non cash financing activities

On November 10, 2010, a shareholder transferred machinery with a fair market value of $1,093,800 in exchange for 1,093,800 class F shares.

16. Other information

The company is exposed to gains and losses as a result of foreign currency exchange fluctuations. Included in cost of sales and services is a foreign exchange loss of $64,586 (2009 - $148,200).

17. Royalty agreement

Tthe company entered into a non-exclusive license agreement with a company controlled by a shareholder. The company pays a royalty of $25,000 per month plus 1% of net profits.

18. Related party transactions

Rent was charged by a trust that is beneficially owned by the shareholders of the company in the amount of $117,771 (2009 - $115,526). A balance due of $152,996 is included in accounts payable and accrued liabilities (2009 - $43,467).

Interest on long-term debt was charged by a trust that is beneficially owned by the shareholders of the company in the amount of $1,680 (2009 - $17,940) and by a shareholder in the amount of $11,120 (2009 - $12,450). Interest on long-term debt has not been paid and a balance of $69,847 is included in accounts payable and accrued liabilities (2009 - $30,390).

Fees of $55,000 were paid to a director (2009 - $60,000). A balance due of $5,785 (2009 - $5,644) is included in accounts payable and accrued liabilities.

Rent of $440,400 was paid to a company under common control (2009 - $638,000). A balance due of $167,134 (2009 - nil) is included in accounts payable and accrued liabilities.

Royalties of $300,000 were paid to a company controlled by a shareholder (2009 - $317,000). A balance due of $150,000 (2009 -nil) is included in accounts payable and accrued liabilities.

19. Comparative figures

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation adopted in the current year.

20. Capital management

The company's objectives in managing capital are:

a) to ensure sufficient liquidity to support its current operations and execute its business plan; and
b) to provide adequate return to the shareholders

The company's primary uses of capital are to finance increases in non-cash working capital.

The company currently funds these requirements from cash flows from operations and with financing arrangements with its banker, shareholders, directors and other lenders. The company is not subject to any externally imposed capital requirements other than those referred to in Notes 7 and 11.

21. Commitments

a) Premises

This company has entered into a long-term lease for premises. The lease ends January 2012. The minimum lease payments (including taxes and utilities) due over the next three years to a trust beneficially owned by the shareholders of the company are as follows:

	$
2011	**120,426**
2012	**10,035**
	130,461

b) Vehicle

The company has entered into long-term leases for vehicles. The leases end May 2013. The minimum lease payments are as follows:

	$
2011	**25,370**
2012	**25,370**
2013	**10,570**
	61,310

22. Contingency

Government assistance of approximately $800,000 which was received and recorded in prior years is potentially repayable to the government.

The assistance received was granted to assist with the development of a new system of advanced waste treatment systems technology. If the company is able to sell this system to any other customers within the next 10 years, the assistance will be repayable at the rate of 3% of these sales to a maximum of the assistance received.

23. Subsequent events

a) On February 18, 2011, the company signed a letter of intent with Industrial Growth Income Corporation ("IGIC")

The letter of intent was replaced and superseded by an Amalgamation Agreement.

Prior to the amalgamation, the following occurred:

1. On March 21, 2011, the holder of the 1,093,800 class F shares, waived and renounced to any and all rights to receive dividends or redemption on these shares. Furthermore, the holder agreed to grant the company the sole right to demand the exchange of all 1,093,800 class F shares for a total of 1,367,250 Class A shares of the company. It is anticipated that this will take place immediately prior to the amalgamation.

2. On March 22, 2011, the Class A shares of the company were consolidated on a 0.048507 for one basis and on March 29, 2011 the shares were subdivided on a 21.08 for one basis.

3. On March 29, 2011 the company completed a non-brokered private placement for a total of 312,500 Class A shares at a price of $0.80 per share for gross proceeds of $250,000.

4. On March 30, 2011, the company completed a private placement of 5,083,250 Class A shares subscription receipts to acquire Class A shares at a subscription price of $0.80 for proceeds of $4,066,600. Net proceeds were $3,596,375 after paying a cash commission of $296,786 and other professional fees of $173,439. This net amount has been deposited into escrow pending the completion of the amalgamation transaction. On closing, the agents will also receive 355,827 options at a price of $0.80 which can be exercised up until March 30, 2012.

   In accordance with the Black-Scholes pricing model, the company has allocated a value of $0.31 to the broker options for a total cost of $110,306. The following assumptions under the black-Scholes model were used to arrive at this cost:

Risk-free interest rate	1.35%
Expected volatility	100%
Expected dividend yield	nil
Expected life	1 year

5. Immediately prior to the amalgamation, the FIER Croissance Durable ("FCD") debenture will be converted into 1,388,889 Class A shares Note 23(c).

As a result of these transactions, the company will have 57,710,766 shares issued and outstanding.

Pursuant to the Amalgamation Agreement each holder of the company shares will receive one amalgamation share. Each holder of the 4,025,000 IGIC shares will receive 0.3229 amalgamation shares. Upon completion of the transaction, the company will own approximately 97.8% of the Amalgamation shares and IGIC will hold approximately 2.2%.

23. Subsequent events - cont'd

b) On March 19, 2011, an amending agreement was signed between the company and FIER Innovation Durable Société en Commandite ("FIER") which extended the maturity date of the loan for an additional term ending June 30, 2012.

A condition of this amending agreement required the major shareholder to sell for one dollar 112,361 Class A shares, representing 5% on a fully-diluted basis.

Pursuant to the March 22, 2011 amending agreement, the following conditions were added with respect to the above loan.

(i) In the event of no special liquidation event prior to October 1, 2011, the lender will automatically be entitled to a penalty payment equal to the difference between the interest rate and 20% per annum compounded annually.

(ii) From and after October 1, 2011, the lender may elect to convert the outstanding balance owing into shares at the lower of
(a) Price per share at the latest issuance less a discount of 10%
(b) The fair market value of the shares less a 10% discount

c) On March 22, 2011, the FCD provided an additional $1,000,000 in financing and signed a new convertible debenture agreement with the company.

The $1,000,000 convertible debenture is due December 31, 2012 and bears interest at 15% per annum. Interest on the debenture is due as of April 1, 2011. Net proceeds from the debenture were $896,898 after payment of (i) engagement fees - $22,785, (ii) annual follow up fees - $5,696, (iii) signature bonus $45,000 and (iv) legal fees $29,621.

The convertible debenture will convert automatically immediately prior to the qualifying transaction (described in (a) above). The shares will convert at a 10% discount.

If no liquidity event occurs prior to the convertible debenture's maturity date, the company will pay to FCD a risk premium of $200,000, in addition to a premium on the interest payable by the company to FCD under the debenture which would entitle FCD to obtain a return of 20% on its investment. If the event of liquidity occuring prior to the maturity date is an event other than the qualifying transaction, the shares can be converted at a 20% discount.

For conversion after October 1, 2011, the FCD can convert based on a share price determined by the lower of:

(i) the fair market value of the company, to a maximum of $20 million

(ii) the share price of the most recent offering

In the event of loan default the FCD can convert the loan in whole or in part based on a share price determined by the net book value. The number of shares converted cannot exceed 51%.

The subscription above is conditional on:

(i) An investment of $250,000 for shares by the major shareholder

(ii) An investment of $1,750,000 by a trust controlled by the major shareholder (completed in 2010)

(iii) An increase in life insurance, to $2 Million for two key officers

In the event the company fails to complete the qualifying transaction or a private placement (as such terms are defined in the subscription agreement), then:

23. Subsequent events - cont'd

(i) FCD can designate a person to be appointed to the board of directors of the company

(ii) There is a commitment from the company and certain shareholders to approve and submit for approval to the other shareholders of the company the content of a unanimous shareholders agreement, the provisions of which are attached to the subscription agreement.

d) On March 19, 2011, an agreement was signed between the company and a company controlled by a sharesholder. Per the agreement, intellectual property was sold to the company for $14,280,000 from a company controlled by a shareholder and will be payable in equal monthly instalments of $40,000. The payments commence on April 1, 2011 until December 31, 2040. The post amalgamation value of this property is estimated to be $7,636,426.

In the event that the qualifying transaction does not take place by September 1, 2011, the agreement will terminate.