PyroGenesis Canada Inc.
Financial Statements
December 31, 2012 and 2011

PyroGenesis Canada Inc.

December 31, 2012 and 2011

Contents

Management's Responsibility

To the Shareholders of PyroGenesis Canada Inc.:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of the financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditor. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditor.

MNP S.E.N.C.R.L., s.r.l., an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditor has full and free access to, and meets periodically and separately with, both the Committee and management to discuss their audit findings.

Date of Audit Report

[Signed by P. Peter Pascali]	*[Signed by Alan Curleigh]*
P. Peter Pascali, Chief Executive Officer	Alan Curleigh , Chief Financial Officer]

Independent Auditors' Report

MNP SENCRL srl

To the Shareholders of PyroGenesis Canada Inc.

We have audited the accompanying financial statements of PyroGenesis Canada Inc. ("the Company"), which comprise the statements of financial position as at December 31, 2012 and December 31, 2011 and the statements of comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended December 31, 2012 and 2011, 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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of these 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 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 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 Auditors' 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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

Emphasis of matter – going concern: Without qualifying our opinion, we draw attention to Note 1(b) to the financial statements, which indicate that the Company incurred a net loss of $5,809,135 during the year ended December 31, 2012 and as of that date has an accumulated deficit of $17,889,720, and the Company's current liabilities exceed its total assets by $1,436,384. The Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable level of operations. These conditions, as described in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Emphasis of matter – restatement: Without qualifying our opinion, we draw attention to Note 24 in the financial statements which explains that certain comparative information for the year ended December 31, 2011 has been restated.

MNP SENCRL, srl [1]

Montréal, Québec

April 30, 2013

[1] CPA Auditor, CA permit no. A111241

PyroGenesis Canada Inc.

Statements of Financial Position

As at December 31	**2012** **$**	2011 $ *[Restated Note 24]*
Assets		
Current assets		
Cash	**2,195,571**	481,396
Accounts receivable *[note 6]*	**157,013**	1,158,850
Sales tax receivable	**118,603**	64,531
Investment tax credits receivable	**254,550**	1,944,518
Prepaid expenses	**69,391**	50,522
Total current assets	**2,795,128**	3,699,817
Non-current assets		
Property and equipment *[note 7]*	**1,852,845**	1,520,669
Intellectual property *[note 8]*	**5,587,896**	6,984,969
Total assets	**10,235,869**	12,205,455
Liabilities		
Current liabilities		
Bank indebtedness	**-**	240,000
Accounts payable and accrued liabilities *[note 9]*	**1,959,309**	2,584,353
Current portion of obligation under finance lease *[note 11]*	**2,763**	-
Billings in excess of costs and profits on uncompleted contracts *[note 12]*	**2,269,440**	725,895
Loans - other - current portion *[note 13]*	**-**	548,050
Long-term debt - current portion *[note 14]*	**-**	976,396
Total current liabilities	**4,231,512**	5,074,694
Non-current liabilities		
Obligation under finance lease *[note 11]*	**8,896**	-
Loans - other *[note 13]*	**8,449,772**	7,762,388
Total liabilities	**12,690,180**	12,837,082
Shareholders' deficiency *[note 15]*		
Common shares	**12,249,527**	10,596,651
Warrants	**1,497,948**	110,306
Contributed surplus	**1,663,090**	711,035
Other equity	**24,844**	30,966
Deficit	**(17,889,720)**	(12,080,585)
	(2,454,311)	(631,627)
	10,235,869	12,205,455

Going concern disclosure, related party transactions, contingent liabilities, comparative figures and restatement of prior year, commitments *[notes 1, 18, 21, 24 and 25]*

These financial statements were approved and authorized for issuance by the Board of Directors on April 30, 2013.

Approved on behalf of the board:

[Signed by P. Peter Pascali] *P. Peter Pascali*

[Signed by Alan Curleigh] *Alan Curleigh*

See accompanying Notes to the Financial Statements

PyroGenesis Canada Inc.

Statements of Comprehensive Loss

Years ended December 31	**2012**	2011
	$	$
		[Restated Note 24]
Revenue	**3,323,236**	4,610,358
Expenses		
Cost of sales and services *[note17]*	**4,841,633**	5,626,263
Selling, general and administrative *[note17]*	**3,832,087**	4,510,809
Financing charges	**468,791**	859,189
	9,142,511	10,996,261
Loss from operations	**(5,819,275)**	(6,385,903)
Other income	**12,147**	51,964
Transaction costs *[note 2d]*	**-**	(694,877)
Loss on settlement of convertible debenture *[note14]*	**(2,007)**	-
Comprehensive loss	**(5,809,135)**	(7,028,816)
Basic and diluted loss per share	**(0.09)**	(0.13)
Weighted average number of common shares outstanding - basic and diluted *[note 19]*	**62,471,907**	55,917,121

See accompanying Notes to the Financial Statements

PyroGenesis Canada Inc.

Statements of Changes in Shareholders' Deficiency

Years ended December 31, 2012 and 2011

	Number of Class A common shares	Class A common shares $	Number of Class F shares	Class F shares $	Warrants $	Contributed surplus $	Other Equity $	Deficit $	Total $
Balance - December 31, 2011, as reported	59,114,094	10,596,651	-	-	110,306	711,035	30,966	(11,850,738)	(401,780)
Restatement of prior year [note 24]	-	-	-	-	-	-	-	(229,847)	(229,847)
Restated balance – December 31, 2011	59,114,094	10,596,651	-	-	110,306	711,035	30,966	(12,080,585)	(631,627)
Issuance of common shares *[note 15(i)]*	4,424,555	3,539,644	-	-	-	-	-	-	3,539,644
Fair value warrants *[note 15(i)]*	-	(1,332,234)	-	-	1,332,234	-	-	-	-
Brokers' fees – cash payment *[note 15(i)]*	-	(234,000)	-	-	-	-	-	-	(234,000)
Additional legal fees *[note 15(i)]*	-	(137,239)	-	-	-	-	-	-	(137,239)
Additional agent fees *[note 15(i)]*	-	(127,887)	-	-	-	-	-	-	(127,887)
Broker warrants *[note 15(i)]*	-	(55,408)	-	-	55,408	-	-	-	-
Share based payment *[note 15(iii)-(iv)]*	-	-	-	-	-	952,055	-	-	952,055
Early repurchase of convertible bond *[note 15(v)]*	-	-	-	-	-	-	(6,122)	-	(6,122)
Comprehensive loss during the year	-	-	-	-	-	-	-	(5,809,135)	(5,809,135)
Balance - December 31, 2012	63,538,649	12,249,527	-	-	1,497,948	1,663,090	24,844	(17,889,720)	(2,454,311)
Balance - December 31, 2010, as reported	47,371,377	4,026,588	1,093,800	1,093,800	-	-	-	(4,906,432)	213,956
Restatement of prior year [note 24]	-	-	-	-	-	-	-	(145,337)	(145,337)
Restated balance – December 31, 2010	47,371,377	4,026,588			-	-	-	(5,051,769)	68,619
Non-brokered private placement *[note 15vii)*	312,500	250,000	-	-	-	-	-	-	250,000
Shares issued for deposit occurring during the prior year	2,187,500	-	-	-	-	-	-	-	-
Conversion of debenture *[note 15(x)]*	1,388,889	1,000,000	-	-	-	-	-	-	1,000,000
Professional fees related to FIER loan	-	(99,620)	-	-	-	-	-	-	(99,620)
Private placement subscription receipts *[note 15(viii)]*	5,083,250	4,066,600	-	-	-	-	-	-	4,066,600
Commissions and fees paid for private placement	-	(734,474)	-	-	-	-	-	-	(734,474)
Agents' warrants	-	(110,306)	-	-	110,306		-	-	-
Purchase of IGIC net assets *[note 2d]*	1,300,000	1,040,000	-	-	-	-	-	-	1,040,000
Stock options exercised *[note 15(xii)]*	103,328	64,063	-	-	-	-	-	-	64,063
Conversion of preferred shares *[note 15(xi)]*	1,367,250	1,093,800	(1,093,800)	(1,093,800)	-	-	-	-	-
Share based payment *[note 15(xii)-(xiii)]*	-	-	-	-	-	711,035	-	-	711,035
Equity portion of convertible debenture *[note 14]*	-	-	-	-	-	-	30,966	-	30,966
Comprehensive loss during the year	-	-	-	-	-	-	-	(7,028,816)	(7,028,816)
Balance - December 31, 2011	59,114,094	10,596,651	-	-	110,306	711,035	30,966	(12,080,585)	(631,627)

See accompanying Notes to the Financial Statements

PyroGenesis Canada Inc.

Statements of Cash Flows

Years ended December 31	**2012** **$**	2011 $ *[Restated Note 24]*
Cash flows provided by (used in)		
Operating activities		
Comprehensive loss	**(5,809,135)**	(7,028,816)
Items not requiring an outlay of cash:		
Transaction costs *[note2d]*	**-**	694,877
Share-based payments *[note 17]*	**952,055**	711,035
Amortization of property and equipment *[note17]*	**258,951**	322,100
Accretion of long-term debt	**15,475**	7,362
Amortization of intellectual property *[note17]*	**1,397,073**	1,115,031
Loss on repurchase of long-term debt *[note14]*	**2,007**	-
	(3,183,574)	(4,178,411)
Net change in non-cash operating working capital items *[note 16]*	**3,537,363**	2,992,498
	353,789	(1,185,913)
Investing activities		
Purchase of property and equipment *[note 7]*	**(591,127)**	(504,435)
Financing activities		
Decrease in bank indebtedness	**(240,000)**	(3,101,000)
Proceeds (repayment) of obligation under finance lease	**11,659**	(3,873)
Increase in loans - other	**152,743**	227,926
Repayment of loans - other	**(13,407)**	(89,184)
Proceeds from long-term debt	**-**	1,000,000
Repayment of long-term debt	**(1,000,000)**	-
Proceeds from issuance of common shares	**3,539,644**	4,380,663
Costs related to equity issues	**(499,126)**	(947,869)
	1,951,513	1,466,663
Increase (decrease) in cash	**1,714,175**	(223,685)
Cash - beginning of year	**481,396**	237,291
Cash acquired as a result of amalgamation *[note 2d]*	**-**	467,790
Cash - end of year	**2,195,571**	481,396

Supplemental disclosure of expenses and cash flow information *[note 16]*

See accompanying Notes to the Financial Statements

1. Nature of operations and going concern disclosure

(a) Nature of operations

PyroGenesis Canada Inc. (the "Company") was formed by the amalgamation of PyroGenesis Canada Inc. with Industrial Growth Income Company ("IGIC") on July 11, 2011 (Note 2). Information prior to this date, presented in these financial statements, represent the operations of PyroGenesis Canada Inc., a private Company, (incorporated on June 5, 2006). The Company owns patents of advanced waste treatment systems technology and provides such systems to its clients. The Company is domiciled at 1744 William Street, Suite 200, Montreal, Quebec. The Company is publicly traded on the TSX Venture Exchange under the Symbol "PYR". These financial statements were approved and authorized for issuance by the Board of Directors on April 30, 2013.

(b) Going concern

These financial statements have been prepared on the going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The Company has incurred substantial recurring losses to date $5,809,135 in 2012 and has an accumulated deficit of $17,889,720 at December 31, 2012. In addition, the Company's current liabilities exceed its current assets as at December 31, 2012 in the amount of $1,436,384.

These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

In the future, it may be necessary for the Company to raise additional capital to fund its operations and continued development and introduction of new products to its family of products. To date, the Company has raised financing through successive issuances of equity. There is no certainty that the Company will continue to raise additional financing or expand its sales to fund its operations.

The financial statements have been prepared on a going concern basis and do not include any adjustments to the amounts and classifications of the assets and liabilities that might be necessary should the Company be unable to achieve its plan and continue in business. If the going concern assumption were not appropriate for these financial statements then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the statements of financial position classifications used. The impact on the financial statements could be material.

2. Basis of preparation

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB").

(b) Functional and Presentation Currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following item in the statements of financial position:

- Financial instruments classified as fair value through profit or loss and available for sale are measured at fair value.

2. Basis of preparation (continued)

(d) On July 11, 2011, the Company amalgamated with IGIC (the “Qualifying Transaction”) to form PyroGenesis Canada Inc. (“PyroGenesis’’)

Each holder of a PyroGenesis share received one common share of the amalgamated entity. Each holder of an IGIC share received 0.32298 common share of the amalgamated entity. Upon Completion of the transaction IGIC shareholders owned approximately 2.2% common share of the amalgamated entity and PyroGenesis shareholders owned 97.8%. Accordingly, PyroGenesis was considered to be the acquirer. The amalgamation was accounted for as an acquisition of a non-trading shell Company within the meaning ascribed by IFRS 2 – share based payment.

The fair value of the shares issued to IGIC was determined based on the share value used in the March 2011 private placements around the time of the qualifying transaction.

The consideration of 1,300,000 shares at $1,040,000 was allocated to identifiable assets and liabilities of IGIC as follows:

	$
Cash	**467,790**
Sales tax receivable	**2,966**
Accounts payable	**(11,858)**
Purchase price of net assets	**458,898**
Transaction costs	**581,102**
Total consideration	**1,040,000**

IGIC share capital and contributed surplus have been eliminated upon consolidation. The excess of the purchase price over net assets acquired has been recorded as transaction costs.

An additional $113,775 of professional fees related to the amalgamation was also recorded as transaction costs.

3. Significant accounting policies

(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 total costs incurred to date, in relation to performance, compared to total 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.

Revenue related to engineering services, which are not long term contracts are recognized as the services are performed.

3. Significant accounting policies (continued)

(B) Foreign currency translation

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 comprehensive loss.

(C) Financial instruments

Financial assets

i) Initial recognition

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 statements of financial position 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. Transaction costs are included in the initial measurement of financial instruments except financial instruments classified as fair value through profit or loss.

International Accounting Standards ("IAS") 39, Financial Instruments: Recognition and measurement require that all financial assets be classified as financial assets at fair value through profit or loss, held-to-maturity, available-for-sale or loans and receivables.

The Company's financial assets include cash, accounts receivable, sales tax receivable and investment tax credits receivable.

ii) Subsequent measurement

Financial assets at fair value through profit or loss: Financial assets at fair value through profit or loss are measured at fair value, with gains or losses, recorded in the statement of operations and comprehensive loss for the period in which they arise. A financial asset at fair value through profit or loss includes assets held for trading and financial assets that are so designated. Fair-value-through-profit-and-loss ("FVTPL") securities are usually held for a short term and are actively traded.

Loans and receivables: Loans and receivable 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.

Gains and losses are recognized in the statements of comprehensive loss when these assets are impaired or derecognized.

Held-to-maturity: Non-derivative 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.

Gain and losses are recognized in the statements of comprehensive loss when the assets are impaired or derecognized.

3. Significant accounting policies (continued)

Available-for-sale: Available-for-sale financial assets are non-derivative financial assets and 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. Upon derecognition of the financial asset, the cumulative gains or losses, previously recognized in Accumulated Other Comprehensive Income ("AOCI") are reclassified to net income (loss).

As a result, the following classifications were determined:

i) Cash is classified as financial asset at fair value through profit or loss.

ii) Accounts receivable, sales tax receivable and investment tax credits receivable are classified as loans and receivables.

Financial liabilities

i) Initial recognition

IAS 39, Financial Instruments: Recognition and Measurement requires that all financial liabilities be classified as: financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments. Classification is determined at the time of initial recognition. Initially, financial liabilities are recognized at fair value.

The Company's financial liabilities include bank indebtedness, accounts payable and accrued liabilities, obligation under finance lease, loans and long-term debt.

ii) Subsequent measurement

Financial liabilities at fair value through profit or loss: Financial liabilities at fair value through profit or loss include financial liabilities that are held for trading (acquired for purpose of selling in the near term) or financial instruments that are so designated.

Financial liabilities are measured at fair value. Gains and losses on liabilities held-for-trading are recognized in the statements of comprehensive loss.

Financial liabilities at amortized cost: Financial liabilities classified as loans and borrowings are measured at amortized cost using the effective interest method. Interest expense is recorded in financing expense in the period.

As a result, the following classifications were determined:

i) Bank indebtedness is classified as financial liabilities at fair value through profit or loss.

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

3. Significant accounting policies (continued)

(D) Impairment of financial assets

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.

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.

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 statements of comprehensive loss is reclassified from direct recognition in equity to the statements of comprehensive loss. Reversals with respect to equity instruments classified as available-for-sale are not recognized in the statements of comprehensive loss. A reversal of an impairment loss on a debt instrument is reversed through the statements of comprehensive loss 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.

(E) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statements of financial position if, and only if, the Company has a legal right to offset the amounts and there is an intention to either settle on a net basis or to realize the assets and settle the liabilities simultaneously.

3. Significant accounting policies (continued)

(F) Deferred income taxes

i) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statements of financial position date.

ii) Deferred income tax

The Company follows the liability method for calculating deferred income taxes. Differences between the amounts reported in the financial statements and the tax bases are applied to tax rates in effect to calculate the deferred tax asset or liability. The effect of any change in income tax rates is recognized in the current period income. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the statement of financial position date. Discounting of deferred tax assets and liabilities is not permitted. Deferred tax assets and liabilities are offset if a legally enforceable right exists to off set current tax assets against current tax liabilities and the deferred taxes related to the same taxable entity and the same taxation authority. Deferred tax is provided in full for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except when the temporary differences arise from the initial recognition of goodwill, or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

(G) Loss per share

Basic loss per share is computed by dividing the net loss by weighted average number of common shares outstanding during the year. Diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options, in the weighted average number of common shares outstanding during the year, if dilutive. For this purpose, the treasury stock method is used for the assumed proceeds upon the exercise of stock options that are used to purchase common shares at the average market price during the year.

(H) Property and equipment

Property and equipment are measured at cost less accumulated amortization and accumulated impairment losses if applicable. Cost includes expenditures that are directly attributable to the acquisition of the asset.

When major parts of an item of property and equipment have different useful lives, they are accounted for separately.

Property and equipment are amortized from the acquisition date.

Amortization is calculated using the following method and rates:

Computer hardware	declining balance 45%
Computer software	declining balance 50%
Machinery	declining balance 20%
Computer hardware under finance lease	declining balance 45%
Leasehold improvements	straight line over 5 years
Equipment under finance lease	straight line over 5 years

3. Significant accounting policies (continued)

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

Gains and losses on derecognition (on disposal or when it is determined that there are no future economic benefits) of property and equipment are determined by comparing the net disposal proceeds with the carrying amount of property, plant and equipment, and are recognized in the statements of comprehensive loss in the period of derecognition.

(I) Impairment - Non-financial assets

The carrying amounts of the Company's non-financial assets are assessed at each reporting date to determine whether there is an indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit (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. Assets that cannot be tested individually are grouped into the smallest independent group of assets that generate cash inflows from continuing use.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognized in the statement of operations and comprehensive loss. Impairment losses recognized in respect of the CGU are allocated first to reduce the carrying amount of goodwill allocated to the units, and then to reduce the carrying amounts on a pro-rata basis of the other assets in the unit.

Impairment losses recognized in prior periods are assessed at each reporting date as to whether there are any indications that the previously recognized losses may no longer exist or may be decreased. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset in prior years.

(J) Government assistance and investment tax credits

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.

(K) Intangible assets

Acquired intangible assets are measured at cost on initial recognition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets with finite lives are amortized over the useful life of the asset and assessed for impairment whenever there is an indication of impairment. The amortization period and method for an intangible asset with a finite life is reviewed at least at each financial year end. Changes in useful life or consumption are accounted for by changing the amortization period or method, and are treated prospectively as changes in accounting estimates. Amortization expense on the intangible assets with finite lives is recognized in the statements of comprehensive loss.

Gains or losses arising from derecognition are recognized in the statements of comprehensive loss at the time that the asset is derecognized.

3. Significant accounting policies (continued)

Intangible assets represent that value of licences that were acquired from a related party during the period.

The estimated useful life of the licence acquired is 10 years. Amortization is calculated on a straight line basis over the life of the asset.

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 recognized as an intangible asset:

• the technical feasibility of completing the intangible asset so that it will be available for use or sale;
• its intention to complete and its ability to use or sell the asset;
• how the asset will generate future economic benefits;
• the availability of resources to complete the asset; and
• the ability to measure reliably the expenditure during development.

Amortization of the asset begins when development is complete. During the period of development, the asset is tested annually for impairment.

(L) General provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The present value of expected future cash outflows is recognized as a liability and the increase to the liability due to the passage of time is recorded as a finance expense.

(M) Warranty provision

At the time of sale, a warranty cost is recorded. The warranty provision is based on management estimates of the expected number of warranty claims and the expected cost of these claims. The warranty provision is based on past experience and on the nature of the contract.

(N) Leases

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. At the commencement of the lease, the leased property is measured at the lower of its fair value and the present value of the minimum lease payments.

Lease payments are apportioned between finance charges and reduction of the outstanding liability. So as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating lease payments are expensed in the statements of comprehensive loss on a straight line basis over the lease term.

(O) Joint operations

The Company conducts some of its activities through interests in jointly controlled assets and operations where it has a direct ownership interest in and it jointly controls the assets and/or operations. The Company recognizes its proportionate share of the income, expenses, assets, and liabilities of these jointly controlled assets and/or operations in the financial statements.

3. Significant accounting policies (continued)

(P) Share-based payments

The Company applies a fair value based method of accounting to all share-based payments. Employee and director stock options are measured at their fair value of each tranche on the grant date and recognized in its respective vesting period. Non-employee stock options are measured based on the service provided to the reporting date and at their then-current fair values. The cost of stock options is presented as share-based payment expense when applicable. On the exercise of stock options share capital is credited for consideration received and for fair value amounts previously credited to contributed surplus. The Company uses the Black-Scholes option-pricing model to estimate the fair value of share-based payments.

4. Significant accounting judgments, estimates and assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions based on currently available information that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results could differ from those estimated. By their very nature, these estimates are subject to measurement uncertainty and the effect of any changes in estimates on the financial statements of future periods could be material.

In the process of applying the Company's accounting policies, management has made the following judgments, estimates, and assumptions which have the most significant effect on the amounts recognized in the financial statements:

Judgments

(a) Jointly controlled operations

Jointly controlled operations involve the use of assets and other resources of the venturers rather than the establishment of a separate entity. Each venturer uses its own assets, incurs its own expenses and liabilities, and raises its own finance. The venturer recognises in its financial statements the assets that it controls, the liabilities that it incurs, the expenses that it incurs, and its share of the income from the sale of goods or services by the joint venture. There is significant judgment involved in determining whether or not the Company's activities are in the nature of a joint operations or a joint venture.

(b) Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There is a material uncertainty regarding the Company's ability to continue as a going concern.

Estimates

(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 costs incurred to date, in relation to progress, compared to total 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.

Revenue related to engineering services, which are not long term contracts are recognized as the services are performed.

4. Significant accounting judgments, estimates and assumptions (continued)

(b) Warranty provision

At the time of sale, a warrant cost is recorded. The warranty provision is based on management estimates of expected number of warranty claims and the expected cost of these claims. The warranty provision is based on past experience and on the nature of the contract and is reviewed each reporting date by management. Should these estimates differ materially from actual warranty cost, the Company may incur costs that differ from the provision. Such costs are recorded in costs of sales and services.

(c) Share-based compensation

The Company uses the fair value method of valuing compensation expense associated with the Company's stock option plan. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, expected forfeitures and distribution yield. The assumptions and models are discussed in note 15.

(d) Assessment of impairments

The Company's impairment test for licenses and intellectual property is based on value in use calculation, which uses a discounted cash flow model. Cash flows are derived from budgets for the next five years and exclude restructuring activities that the Company is not yet committed to or future investment which enhance the asset base of the cash generating unit being tested. The recovered amount is most sensitive to the discount rate that is used for the discounted cash flow model, as well as expected future cash inflows and the growth rate.

(e) Useful lives of property and equipment

The Company estimates the useful life of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful life of property and equipment is reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful life of property and equipment is based on management's experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful life of the property and equipment would increase the recorded expenses and decrease the non-current assets. Useful life, amortization rates and residual values are reviewed at least annually as required by IFRS.

(f) Assessment of Investment tax credits

The investment tax credits are estimated by Management based on quantitative and qualitative analysis and interpretation of various government programmes, related restrictions, limitations, definitions, and eligibility conditions. Management involves its technical staff and external specialists in determining if the expenditures meet the requirements of the different tax credit claims.

5. Changes in accounting policies and practices

Recent accounting pronouncements and amendments

The Company has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2012 but are not yet effective. Unless otherwise stated, the Company does not plan to early adopt any of these new or amended standards and interpretations.

IAS 1 *Presentation of Financial Instruments*

The amendment to IAS 1, issued June 2011, requires items in other comprehensive income and their related income tax effects to be grouped on the basis of whether they may subsequently be reclassified to profit or loss. The amendment will only affect disclosure and is effective for annual periods beginning on or after July 1, 2012I

IFRS 7 *Financial instruments: disclosures and* IAS 32 *Financial instruments: presentation*

Financial assets and financial liabilities may be offset and the net amount presented in the statement of financial position, only when there is a legally enforceable right to set off and there is either an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The amendment to IAS 32, issued in December 2011, clarified the meaning of the offsetting criterion "currently has a legally enforceable right to set off" and the principle behind net settlement, including identifying when some gross settlement systems may be considered equivalent to net settlement

The related amendment to IFRS 7, issued at the same time, requires new disclosures with respect to offsetting which include gross amounts subject to rights of set off, amounts set off in accordance with the offsetting criteria, amounts of financial instruments subject to master netting arrangements or similar agreements, and the related net amounts. The amendment will only affect disclosure and is effective for annual periods beginning on or after January 1, 2013

IFRS 11 *Joint arrangements*

IFRS 11, issued in May 2011, classifies joint arrangements as either joint operations or joint ventures based on the contractual rights and obligations of the arrangement rather than its legal form. Joint venturers use the equity method to account for their interest in the joint venture as proportionate consolidation is no longer permissible. Joint operators recognize and measure the relevant assets, liabilities, income and expenses based on applicable IFRSs, in relation to their interest in the arrangement. The standard, which supersedes IAS 31 *Joint ventures and SIC 13 Jointly controlled entities – Non-monetary contributions by venturers*, is effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of this amendment on its financial statements.

IFRS 12 *Disclosures of interests in other entities*

IFRS 12, issued in May 2011, contains enhanced disclosure requirements for interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. It replaces the disclosure requirements in existing IAS 27 *Consolidated and separate financial statements,* IAS 28 *Investments in associates* and IAS 31 *Interests in joint ventures*. The standard only affects disclosure and is effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of this amendment on its financial statements.

IFRS 13 *Fair value measurement*

IFRS 13, issued in May 2011, redefines fair value to emphasize that it is a market-based measurement, not an entity-specific measurement. It also provides a single framework for measuring fair value and applies, with limited exceptions, when another standard permits or requires fair value measurement. In addition, IFRS 13 requires specific disclosures about fair value measurement. The standard is effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of this amendment on its financial statements.

5. Changes in accounting policies and practices (continued)

IAS 16 *Property, plant and equipment*

The amendment to IAS 16, issued in May 2012, clarified the classification of servicing equipment and spare parts. As a result, some items previously classified as property, plant and equipment may be reclassified as inventory and vice versa. The amendment is effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of this amendment on its financial statements.

IAS 32 *Financial instrument: presentation*

The amendment to IAS 32, issued in May 2012, clarified the income tax consequences of distributions to holders of an equity instrument and of transaction costs of an equity transaction by requiring that these items be accounted for in accordance with IAS 12 *Income taxes.* The amendment is effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of this amendment on its financial statements.

IFRS 9 *Financial instruments*

IFRS 9 was issued in November 2009 and subsequently amended as part of an ongoing project to replace IAS 39 Financial instruments: Recognition and measurement. The standard requires classification of financial assets into two measurement categories based on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. The categories are those measured at fair value and those measured at amortized cost. The classification and measurement of financial liabilities is primary unchanged from IAS 39, other than the fair value measurement option which now addresses an entity's own credit risk. Additional amendments are expected with respect to de-recognition of financial instruments, impairment and hedge accounting. This new standard will also impact disclosures provided under IFRS 7 Financial instrument: disclosures. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is currently assessing the impact of this amendment on its financial statements.

6. Accounts receivable

Accounts receivable are carried on the statements financial position 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 2012 was nil (2011 - nil).

Details of accounts receivable were as follows:

	2012	2011
	$	$
1 – 30 days	**28,610**	251,916
30 – 60 days	**8,856**	63,778
61 – 90 days	**10,702**	7,338
Greater than 90 days	**8,827**	434,711
Total	**56,995**	757,743
Receivable from joint operator	**74,487**	401,107
Other receivable	**25,531**	-
Total accounts receivable	**157,013**	1,158,850

7. Property and equipment

	Computer hardware $	Computer software $	Machinery $	Computer hardware under finance lease $	Torch asset under construction $	Leasehold improve-ments $	Equipment under finance lease $	Total $
Cost:								
Balance at January 1, 2012	129,370	202,883	1,545,260	25,859	419,115	-	-	2,322,487
Additions	2,365	231	-	-	506,302	67,903	14,326	591,127
Disposals	-	-	-	-	-	-	-	-
Balance at December 31, 2012	131,735	203,114	1,545,260	25,859	925,417	67,903	14,326	2,913,614
Accumulated amortization:								
Balance at January 1, 2012	(92,603)	(131,328)	(552,028)	(25,859)	-	-	-	(801,818)
Amortization	(17,078)	(35,835)	(198,646)	-	-	(4,527)	(2,865)	(258,951)
Disposals	-	-	-	-	-	-	-	-
Balance at December 31, 2012	(109,681)	(167,163)	(750,674)	(25,859)	-	(4,527)	(2,865)	(1,060,769)
Net book value	22,054	35,951	794,586	-	925,417	63,376	11,461	1,852,845

	Computer hardware $	Computer software $	Machinery $	Computer hardware under finance lease $	Torch asset under construction $	Total *[Restated Note 24]* $
Cost:						
Balance at January 1, 2011	113,765	139,497	1,538,931	25,859	-	1,818,052
Additions	15,605	63,386	6,329	-	419,115	504,435
Disposals	-	-	-	-	-	-
Balance at December 31, 2011	129,370	202,883	1,545,260	25,859	419,115	2,322,487
Accumulated amortization:						
Balance at January 1, 2011	(68,904)	(91,466)	(304,512)	(14,836)	-	(479,718)
Amortization	(23,699)	(39,862)	(247,516)	(11,023)	-	(322,100)
Disposals	-	-	-	-	-	-
Balance at December 31, 2011	(92,603)	(131,328)	(552,028)	(25,859)	-	(801,818)
Net book value	36,767	71,555	993,232	-	419,115	1,520,669

Annual impairment assessment was done for 2012 and 2011. No impairment charge was required in any of these years.

8. Intellectual property

Intellectual property consists of the following:

	Licences $	**Intellectual property $**	**Total $**
Cost:			
Balance at January 1, 2012		**8,409,051**	**8,409,051**
Additions	**-**	**-**	**-**
Disposals	**-**	**-**	**-**
Balance at December 31, 2012	**-**	**8,409,051**	**8,409,051**
Accumulated amortization:			
Balance at January 1, 2012	**-**	**(1,424,082)**	**(1,424,082)**
Amortization	**-**	**(1,397,073)**	**(1,397,073)**
Balance at December 31, 2012	**-**	**(2,821,155)**	**(2,821,155)**
Net book value	**-**	**5,587,896**	**5,587,896**

	Licences $	Intellectual property $	Total $
Cost:			
Balance at January 1, 2011	772,625	-	772,625
Additions	-	7,636,426	7,636,426
Reclassification on acquisition of property	(772,625)	772,625	-
Balance at December 31, 2011	-	8,409,051	8,409,051
Accumulated amortization:			
Balance at January 1, 2011	(309,050)	-	(309,050)
Amortization	(77,263)	(1,037,769)	(1,115,032)
Reclassification on acquisition of property	386,313	(386,313)	-
Balance at December 31, 2011	-	(1,424,082)	(1,424,082)
Net book value	-	6,984,969	6,984,969

On March 19, 2011, intellectual property and know-how was sold to PyroGenesis for $14,280,000 by a company controlled by a shareholder, the consideration will be payable in equal monthly instalments of $40,000 (Note 13) without interest. The payments commence on April 1, 2011 until December 31, 2040. The fair market value of this intellectual property was valued at $8,100,000 based on an independent external valuation. Prior to the purchase of the intellectual property, the Company carried the license related to this know-how for a carrying value of $463,574. The $7,636,426 represents the additional value attributed to the licenses as a result of the licenses becoming a part of the intellectual property acquired by the Company.

The intellectual property and know-how is being amortized on a straight line basis over it's remaining useful life, on March 19, 2011, of 5.79 years which represents the remaining useful life of the licenses at the time of purchase.

9. Accounts payable and accrued liabilities

	December 31, 2012 $	December 31, 2011 $ *[Restated Note 24]*
Accounts payable trade	**592,215**	1,353,078
Accrued liabilities	**811,276**	776,970
Accounts payable to a company under common control	**51,625**	40,751
Accounts payable - shareholder	**149,213**	160,000
Accounts payable - trust beneficially owned by the shareholder	**137,489**	7,595
Accounts payable - joint operator	**217,491**	245,959
	1,959,309	2,584,353

Accrued liabilities include a warranty accrual of $nil (2011 - $50,000).

10. Joint operations

In 2011, the Company entered into an agreement with another Company to share costs, benefits and risks associated with the development of a pilot plasma destruction unit.

The Company has a 50% share in the joint operations. The only activities to date have been the construction of a torch asset which is included in Property and equipment in Note 7. Each party of the joint operation contributed their own assets and incurred their own expenses and liabilities and raised their own capital.

11. Obligation under finance lease

The finance lease relates to a photocopier. The term of the lease is 60 months. At the end of the lease term, the Company has the option to purchase the asset for $10. The current lease will be automatically renewed for successive one year periods at current prevailing rates unless cancelled in writing by either party at least 30 days prior to the end of the current term.

	2012 $	2011 $
Obligation under finance lease payable in equal quarterly instalments of $784.59 including interest at 3.534%, due October 1, 2016, with the photocopier, having a net book value of $11,461 (2011– $0), pledged as collateral.	**12,553**	-
Less: Interest	**894**	-
	11,659	-
Less: current portion	**2,763**	-
	8,896	-

11. Obligation under finance lease (continued)

Minimum lease payments related to the obligation under finance lease are as follows:

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2012	2011	**2012**	2011
	$	$	**$**	$
No later than 1 year	**3,138**	-	**2,763**	-
Later than 1 year and not later than 5 years	**9,415**	-	**8,896**	-
Later than 5 years	**-**	-	**-**	-
Present value of minimum lease payments	**12,553**	-	**11,659**	-
Presented in the financial statements as:				
Current liabilities			**2,763**	-
Non-current liabilities			**8,896**	-
			11,659	-

12. Billings in excess of costs and profits on uncompleted contracts

The aggregate amount of costs incurred and recognized profits less recognized losses for projects in progress, as of December 31, 2012 and 2011 amounted to $964,229 and $740,400 respectively.

Payments received on contracts in progress were $3,262,993 and $1,466,296 as of December 31, 2012 and 2011.

13. Loans - other

	2012	2011
	$	$
Due to a company controlled by a shareholder (i)	**7,889,861**	7,547,242
Amounts payable – shareholder (ii)	**-**	224,093
Amounts payable - trust beneficially owned by shareholders (ii)	**359,911**	339,103
Promissory note payable - company controlled by a shareholder (iii)	**200,000**	200,000
	8,449,772	8,310,438
Current portion	**-**	548,050
	8,449,772	7,762,388

(i) Due to a company controlled by a shareholder is payable in monthly instalments of $40,000 from April 1, 2011 until December 31, 2040 with interest at an implicit rate of 4.753% per annum. The implicit rate of interest is based on the present value of the cash flows at the time of sale having the same value as the intellectual property which were transferred to the Company in a transaction described in Note 8. The fair value of the intellectual property was based on an external independent valuation. During 2012, the $40,000 monthly instalments were not paid. The unpaid amounts were added back to due to a company controlled by shareholder balance in the amount of $366,591.

On February 1, 2012, the Company signed an amending agreement to amend the terms and conditions of the due to company under common control. Based on the new agreement, payment for the period starting February 1, 2012 and ending February 1, 2013 has been postponed to March 31, 2014 except for a payment of $130,000 to be made on or before March 31, 2013.

13. Loans – other (continued)

Furthermore, each instalment for the period starting on March 1, 2013 and ending on March 1, 2014 will be reduced to $20,000 and the balance of each of these instalments will become due and payable on March 30, 2014, which will be applied against the implied interest.

However, in the event of any change with the Company that would be considered a material change by the directors, any and all outstanding amounts will become immediately due and payable on date of the material change.

(ii) Amounts payable - shareholder and amounts payable - trust beneficially owned by shareholders are unsecured, bear interest at 6%. The amounts payable – trust beneficially owned by shareholders is not repayable before January 1, 2014 unless of any change with the Company that would be considered a material change by the directors, any and all outstanding amounts will become immediately due and payable on date of the material change.

(iii) Promissory note payable - company controlled by a shareholder is unsecured, non-interest bearing, and is due March 31, 2014.

14. Long-term debt

On October 1, 2011, the Company exchanged its existing FIER debenture of $1,000,000 for a convertible debenture of the same amount, due June 30, 2012, with interest paid monthly at 15% per annum compounded monthly.

The debenture was 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.

The convertible debenture, together with all interests, bonuses, penalties, fees and other amounts payable by the Company to the Holder, is convertible to common shares at the option of the holder, at any time prior to the earlier of the maturity date or redemption date, at a price per share equal to the lower of the following prices:

a. the price per share of the last issuance of shares preceding the date of the holder's notice to the Company of its intent to convert all or part of the debenture, less an amount of ten percent (10%) of such price;

b. the price which is the fair market value of the shares at the date of the holder's notice to the Company of its intent to convert all or part of the debenture, as determined by mutual agreement between the Company and the holder or by way of an expert in valuation who is a member of a national Canadian firm of accountants or valuators chosen by the holder, less an amount of ten percent (10%) of such fair market value, it being understood that all the costs of such valuator and valuation shall be solely assumed by the Company. The convertible debenture is being accounted for in accordance with its substance and is presented in the financial statements in its component parts, measured at its respective fair values at the time of issue. The debt element of the instruments has been initially recorded on the statement of financial position as a debt of $969,034, calculated as the present value of the Company's obligation to make interest and principal payments discounted at a rate approximating the interest rate that would have been applicable to nonconvertible debt at the time the debt was issued.

Over the term of the convertible debenture, the debt element will be accreted to the face value of the convertible debenture by the recording of additional interest expense.

The effective interest rate on the debt is 20%. The difference of $30,966 between the face amount and the estimated fair value of the debt element represents the conversion rights and is classified as a component of equity.

On March 29, 2012, the convertible debt balance of $1,000,000 was repaid by the Company, and a loss of $2,007 was recorded on this repayment.

15. Shareholders' equity

Authorized:

The Company is authorized to issue an unlimited number of Class A common shares without par value.

Issues during 2012:

(i) On March 29, 2012, the Company completed an equity offering for a total of 4,424,555 Class A common shares at a price of $0.80 per share for net proceeds of $3,040,518 after a cash commission paid to the agents of $234,000, additional agent fees of $127,887 and legal fees of $137,239. Each unit is comprised of one Class A common share of the Company and one common share purchase warrant. Each warrant will entitle the holder to purchase one common share at a price of $1.20 per Class A common share which can be exercised until March 29, 2015.

In accordance with the Black Scholes pricing model, the Company has allocated a value of $0.301 to the warrants for a total cost of $1,332,234 which has been credited to warrants. The following assumptions under the Black Scholes model were used to arrive at fair value:

Risk free interest rate	1.31%
Expected volatility	127%
Expected dividend yield	nil
Expected life	3 years

On closing, the agents received 309,719 warrants at a price of $0.80 which can be exercised until March 29, 2013.

In accordance with the Black Scholes pricing model, the Company has allocated a value of $0.179 to the warrants for a total cost of $55,408 which has been credited to warrants. The following assumptions under the Black Scholes model were used to arrive at fair value:

Risk free interest rate	1.07%
Expected volatility	128%
Expected dividend yield	nil
Expected life	1 year

(ii) On March 30, 2012, the broker warrants issued with the private placement that occurred on March 30, 2011 expired.

(iii) The Company has a stock option plan authorizing the Board of Directors to grant options to directors, officers, employees and consultants to acquire common shares of the Company at a price computed by reference to the closing market price of the shares of the Company on the business day before the Company notifies the stock exchanges of the grant of the option. The number of shares which may be granted to any one person shall not exceed 5% (2% for consultants) of total share capital over a twelve month period.

15. Shareholders' equity (continued)

(iv) Stock option

On September 19, 2012 160,000 options with an exercise price of $0.15 per share were granted. These options vest over three years starting on the date of grant. The value of each option under the Black Scholes pricing model is $0.16 for a total fair value of $23,535 of which $8,377 has been expensed and credited to contributed surplus in the current year. The following assumptions under the Black Scholes model were used to arrive at the fair value:

Risk free interest rate	1.41%
Expected volatility	136.0%
Expected dividend yield	nil
Expected life	5 years
Exercise price	$0.15
Forfeiture rate	5%

On September 19, 2012 550,000 options with an exercise price of $0.175 per share were granted. These options vest over two to three years starting on the date of grant. The value of each option under the Black Scholes pricing model is $0.16 for a total fair value of $77,728 of which $34,137 has been expensed and credited to contributed surplus in the current year. The following assumptions under the Black Scholes model were used to arrive at the fair value:

Risk free interest rate	1.41%
Expected volatility	136.0%
Expected dividend yield	nil
Expected life	5 years
Exercise price	$0.175
Forfeiture rate	5%

On September 19, 2012 100,000 options with an exercise price of $0.80 per share were repriced so that the exercise price was $0.15. These options vest over two years starting on the date of grant. The value of each option under the Black Scholes pricing model is $0.16. The fair value of the options under the old exercise price at September 19, 2012 was $0.12 which resulted in an incremental fair value difference of $0.04 for a total fair value of $3,853 of which $2,399 has been expensed and credited to contributed surplus in the current year. The following assumptions under the Black Scholes model were used to arrive at the fair value:

Risk free interest rate	1.41%
Expected volatility	136.0%
Expected dividend yield	nil
Expected life	5 years
Exercise price	$0.15
Forfeiture rate	5%

On November 19, 2012 1,166,000 options with an exercise price of $0.21 per share were granted. These options vest over three years starting on the date of grant. The fair value of each option under the Black Scholes pricing model is $0.18 for a total fair value of $189,736 of which $33,059 has been expensed and credited to contributed surplus in the current year. The following assumptions under the Black Scholes model were used to arrive at the fair value:

Risk free interest rate	1.32%
Expected volatility	137.0%
Expected dividend yield	nil
Expected life	5 years
Exercise price	$0.21
Forfeiture rate	5%

15. Shareholders' equity (continued)

On November 19, 2012 2,100,000 options with an exercise price of $0.80 per share were repriced so that the exercise price was $0.21. These options vest over two years starting on the date of grant. The fair value of each option under the Black Scholes pricing model is $0.18. The fair value of the options under the old exercise price at November 19, 2012 was $0.12 which resulted in an incremental fair value difference of $0.04 for a total value of $79,619 of which $31,585 has been expensed and credited to contributed surplus in the current year. The following assumptions under the Black Scholes model were used to arrive at the fair value:

Risk free interest rate	1.32%
Expected volatility	137.0%
Expected dividend yield	nil
Expected life	5 years
Exercise price	$0.21
Forfeiture rate	5%

In 2012, the Company also revised the forfeiture rate estimate to 5% from a former estimate of 2%. .

During the year ended December 31, 2012, 450,000 stock options were forfeited (2011 – nil).

(v) On April 16, 2012, the Company exercised its right under the loan agreement with FIER Croissance Durable ("FCD") and repurchased the convertible bond that was included in long-term debt in the prior year.

Issues during 2011:

(vi) On March 21, 2011, the holder of the 1,093,800 Class F shares of the Company, prior to going public, waived and renounced any and all rights to receive dividends or redemption of these shares. Furthermore, the holder agreed to grant 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.

(vii) On March 29, 2011, the Company completed a non brokered private placement for a total of 312,500 Class A common shares at a price of $0.80 per share for gross proceeds of $250,000.

15. Shareholders' equity (continued)

(viii) On March 30, 2011, the Company completed a private placement of 5,083,250 subscription receipts to acquire Class A common shares at a subscription price of $0.80 per subscription receipt for net proceeds of $3,332,126 after a cash commission paid to the agents of $470,226 and professional fees of $264,248. On closing, the agents received 355,827 warrants at a price of $0.80 which can be exercised until March 30, 2012.

In accordance with the Black Scholes pricing model, the Company has allocated a value of $0.31 to the warrants for a total cost of $110,306 which has been credited to warrants. The following assumptions under the Black Scholes model were used to arrive at the fair value:

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

(ix) On March 22, 2011, FIER Croissance Durable ("FCD") signed a convertible debenture agreement with the Company.

The $1,000,000 convertible debenture was originally due December 31, 2012 and bore interest at 15% per annum commencing April 1, 2011. The convertible debenture was converted into 1,388,889 Class A common shares upon the completion of the Qualifying Transaction. Net proceeds from the debenture were $900,380 after payment of fees of $99,620 which was charged against share capital.

(x) On June 2, 2011, the 1,093,800 preferred shares were converted to 1,367,250 Class A common shares, prior to the company going public.

(xi) On August 10, 2011, 103,328 stock options with an exercise price of $0.62 were exercised by former officers of IGIC.

(xii) On July 20, 2011, two directors were granted options to acquire an aggregate of 200,000 Class A common shares at an exercise price of $0.80 per share. These options will vest quarterly over four years starting on the date of grant. The value of each option under the Black Scholes pricing model is $0.93 for a total value of $180,494 of which $68,283 has been credited to contributed surplus in the current year. The following assumptions under the Black Scholes model were used to arrive at the fair value:

Risk free interest rate	2.33%
Expected volatility	80%
Expected dividend yield	Nil
Expected life	5 years
Expected forfeiture rate	2%

15. Shareholders' equity (continued)

(xiii) On July 20, 2011, two directors were granted options to acquire an aggregate of 900,000 shares, three officers were granted options to acquire an aggregate of 550,000 shares and 14 employees were granted options to acquire an aggregate of 1,460,000 shares.

All of these options have an exercise price of $0.80 per share. Ten percent of these options are vested at the date of grant, 20% vest at the first anniversary of the grant, 30% vest at the second anniversary of the grant and 40% vest at the third anniversary of the grant.

The value of each option under the Black Scholes pricing model is $0.93 for a total value of $2,599,663 of which $620,069 which has been credited to contributed surplus in the current year. The following assumption under the Black Scholes model were used to arrive at the fair value:.

Risk free interest rate	2.33%
Expected volatility	80%
Expected dividend yield	Nil
Expected life	5 years
Expected forfeiture rate	2%

Stock option plan

The option activity, under the share option plan and information concerning outstanding and exercisable options, is as follows:

	Options issued	Weighted Average exercise price $
Balance – December 31, 2010	**-**	**-**
Options granted	**3,150,000**	**0.80**
Options forfeited	**-**	**-**
Options exercised	**-**	**-**
Balance – December 31, 2011	**3,150,000**	**0.80**
Options repriced	**2,200,0000**	**0.21**
Options cancelled for repricing	**(2,200,000)**	**0.80**
Options granted-new	**1,876,000**	**0.20**
Options forfeited	**(450,000)**	**0.80**
Balance – December 31, 2012	**4,626,000**	**0.27**

15. Shareholders' equity (continued)

As at December 31, 2012, the outstanding options, as issued under the stock option plan to directors, officers, employees and consultants for the purchases of one common share per option, are as follows:

Granted	Exercisable	Weighted averaged exercise price	Expiry date
550,000	165,000	0.80	July 2016
550,000	155,000	0.175	September 2017
210,000	76,000	0.15	September 2017
3,316,000	802,100	0.21	November 2017
4,626,000	1,198,100	0.27	

Warrants

At December 31, 2012, the following exercisable warrants were outstanding:

	Issued	Exercisable	Weighted average exercise price	Expiry date
Balance – January 1, 2011	**-**	**-**	**-**	
Warrants issued	355,827	355,827	$0.80	March 30, 2012
Balance – December 31, 2011	**355,827**	**355,827**	**$0.80**	
Expired	(355,827)	(355,827)		
Broker warrants issued	309,719	309,719	$0.80	March 29, 2013
Warrants issued	4,424,555	4,424,555	$1.20	March 29, 2013
	4,734,274	4,734,274	$1.17	

16. Supplemental disclosure of expenses and cash flow information

(i) Net changes in non-cash components of operating working capital	**2012 $**	2011 $ *[Restated Note 24]]*
Decrease (increase) in:		
Accounts receivable	**1,001,837**	(582,299)
Sales tax receivable	**(54,072)**	52,944
Investment tax credits receivable	**1,689,968**	1,855,482
Prepaid expenses	**(18,869)**	(1,283)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**(625,044)**	856,814
Billings in excess of costs and profits on uncompleted contracts	**1,543,543**	810,840
	3,537,363	2,992,498

Included above, in sales tax receivable is an amount of $nil (2011 - $2,966) and in accounts payable and accrued liabilities an amount of $nil (2011- $11,858). These amounts represent assets and liabilities that were acquired in the amalgamation with IGIC in the prior year (see Note 2(d)).

16. Supplemental disclosure of expenses and cash flow information (continued)

(ii) Interest and income taxes paid:

	2012 **$**	2011 $
Interest paid	**117,731**	321,551
Income taxes	**-**	-

(iii) Disclosure of non-cash transactions

During the year, property and equipment was acquired at an aggregate cost of $732,317 (2011 - $444,589), of which $14,326 (2011 - $nil) was acquired by means of a finance lease.

On March 29, 2012, the Company completed a share offering which included attached warrants with a fair value of $1,499,922 and broker warrants with a fair value of $78,358. These transactions were recorded in equity (note 15).

On April 16, 2012, the Company exercised its right under a loan agreement with FIER Croissance Durable (“FCD”) to repurchase a convertible bond. An amount of $6,122 was assessed as the fair value of the convertible rights at the date of repurchase.. The Company also incurred a loss on repurchase of the debt of $2,007.

17. Other information

Cost of sales and services includes the following items:

	2012 **$**	2011 $
Amortization of intellectual property	**1,397,073**	1,115,031
Employee compensation	**1,393,062**	2,643,929
Investment tax credits	**(361,324)**	(1,058,192)
Other expenses	**2,412,822**	2,925,495
	4,841,633	5,626,263

Government assistance in the amount of $29,113 (2011 - $36,653) has been included as a reduction of related expenses, in cost of sales and services.

Selling, general and administrative includes the following items:

	2012 **$**	2011 $
Amortization of property and equipment	**258,951**	322,100
Share- based compensation, directors and employees	**952,055**	711,035
Employee compensation	**1,267,275**	1,195,579
Other expenses	**1,353,806**	2,282,095
	3,832,087	4,510,809

18. Related party transactions

Rent was charged by a trust of which at least one of the trustees and beneficiaries is a shareholder and director of the Company in the amount of $112,682 (2011 - $109,976). A balance due of $157,565 (2011 - $7,595) is included in accounts payable and accrued liabilities.

Interest on long-term debt was charged by a trust of which at least one of the trustees and beneficiaries is a shareholder and director of the Company in the amount of $20,809 (2011 - $16,805). Interest on long-term debt was also charged by a shareholder in the amount of $2,498 (2011 - $11,120). The balance of interest on long-term debt that has not been paid of $79,829 (2011 - $16,805) is included in loans - other.

Interest on long-term debt was charged by a company under common control in the amount of $356,034 (2011 – $270,815).

Fees of $76,522 were charged by a director (2011 - $86,221). A balance of $3,576 (2011 - $43,816) is included in accounts payable and accrued liabilities.

Salaries to key management personnel amounted to $422,000 (2011 - $450,000). In addition, stock based compensation of $910,000 (2011 - $837,000) was granted to key management personnel.

Rent of $330,000 (2011 - $421,900) was charged by a company under common control. A balance due of $51,625 (2011 - $40,751) is included in accounts payable and accrued liabilities.

Royalties of $nil (2011 - $75,000) were charged by a Company controlled by a shareholder.

19. Loss per share

Basic loss per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders by the weighted average number of common shares outstanding during the year.

The net loss and weighted average number of common shares used in the calculation of basic loss per share are as follows:

	2012 **$**	2011 $ *[Restated Note 24]*
Net loss for the year	**(5,809,135)**	(7,028,816)
Weighted average number of Class A common shares - basic and diluted	**62,471,907**	55,917,121
Basic and diluted loss per share	**(0.09)**	(0.13)

The diluted weighted average number of shares is calculated assuming the proceeds that arise from the exercise of outstanding and in the money options are used to purchase Class A common shares of the Company at their average market price for the period. For the year ended December 31, 2012, and December 31, 2011, potential shares from all outstanding options have been excluded from the calculation of diluted loss per share as their inclusion is considered anti-dilutive in periods when a loss is incurred.

20. Financial instruments

As part of its operations, the Company carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed. The Company's overall risk management program focuses on the unpredictability of the financial market and seeks to minimize potential adverse effects on the Company's financial performance. The Company does not use derivative financial instruments to hedge these risks.

Foreign currency risk

The Company enters into transactions denominated in US Dollars for which the related revenues, expenses, accounts receivable and accounts payable balances are subject to exchange rate fluctuations.

As at December 31, 2012, the following items are denominated in foreign currencies

	US $	**CDN $**
Cash	**2,119,220**	**2,112,114**
Accounts receivable	**3,286**	**3,286**
Accounts payable and accrued liabilities	**(80,695)**	**(81,097)**
Total	**2,041,811**	**2,034,303**

As at December 31, 2011, the following items are denominated in foreign currencies:

	US $	CDN $
Cash	559,914	570,922
Accounts receivable	579,140	590,526
Accounts payable and accrued liabilities	(92,388)	(94,198)
Total	1,046,666	1,067,250

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Management has implemented a policy to manage foreign exchange risk by using its purchases in U.S. dollars as a natural hedge against its revenue stream. Therefore the Company does not hold derivative financial instruments to manage the fluctuation of exchange rate risk.

Sensitivity analysis

At December 31, 2012, if the US Dollar had weakened 10% against the Canadian dollar with all other variables held constant, after-tax loss for the year would have been $204,200 (2011 - $104,700) higher. Conversely, if the US Dollar had strengthened 10% against the Canadian dollar with all other variables held constant, after-tax loss would have been $204,200 (2011 - $104,700) lower.

20. Financial instruments (continued)

Credit concentration

As at December 31, 2012, four customers accounted for 93% (2011 - three customers for 83%) of revenues from operations and three customers accounted for 68% (2011 - three customers for 89%) of the accounts receivable, representing the Company's maximum credit risk exposure. The Company believes that there is no unusual exposure associated with the collection of these receivables. The Company manages its credit risk by performing credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable. The Company does not generally require collateral or other security from customers on accounts receivable.

Fair value of financial instruments

Financial instruments comprise of cash, accounts receivable, sales tax receivable, investment tax credits receivable, bank indebtedness, accounts payable and accrued liabilities, loans, and long-term debt. There are three levels of fair value that reflect the significance of inputs used in determining fair values of financial instrument:

Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3 — Inputs for the asset or liability that are not based on observable market data

The fair values of cash, accounts receivable, sales tax receivable, investment tax credits receivable, bank indebtedness, accounts payable and accrued liabilities approximate their carrying amounts due to their short-term maturities.

Cash are measured using level 1 inputs.

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

2012	Carrying value			Fair value
	Fair value through profit and loss $	Available for sale $	Loans and receivables $	Total $
Financial assets:				
Cash	**2,195,571**	**-**	**-**	**2,195,571**
Accounts receivable	**-**	**-**	**157,013**	**157,013**
Sales tax receivable	**-**	**-**	**118,603**	**118,603**
Investment tax credit receivable	**-**	**-**	**254,550**	**254,550**
	2,195,571	**-**	**530,166**	**2,725,737**

20. Financial instruments (continued)

2012	**Carrying value**		**Fair value**
	Fair value through profit and loss $	**Loans and receivables $**	**Total $**
Financial liabilities:			
Accounts payable and accrued liabilities	**-**	**1,959,309**	**1,959,309**

2011	Carrying value			Fair value
	Fair value through profit and loss $	Available for sale $	Loans and receivables $	Total $
Financial assets:				
Cash	481,396	-	-	481,396
Accounts receivable	-	-	1,158,850	1,158,850
Sales tax receivable	-	-	64,531	64,531
Investment tax credit receivable	-	-	1,944,518	1,944,518
	481,396	-	3,167,899	3,649,295

2011	Carrying value		Fair value
	Fair value through profit and loss $	Loans and receivables $	Total $
Financial liabilities:			
Bank indebtedness	-	240,000	240,000
Accounts payable and accrued liabilities	-	2,584,353	2,584,353
Loans – other	-	8,310,438	8,310,438
Long-term debt	-	976,396	976,396
	-	12,111,187	12,111,187

20. Financial instruments (continued)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk.

Sensitivity analysis

The Company is exposed to fluctuations in future cash flows arising from changes in interest rates with respect to bank indebtedness, which is subject to a floating interest rate of prime plus 2.25%. Based on the bank indebtedness as at December 31, 2012, the impact on interest expense of a 1% change in interest rate would be approximately $nil (2011 - $2,400).

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivery of cash or another financial asset. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuance and to generate positive cash flows from operations. 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.

The following table summarizes the contractual maturities of financial liabilities as at December 31, 2012:

Financial liability	**Total**	**Less than 1 year**	**1-3 years**	**Over 3 years**
Accounts payable and accrued liabilities	**1,959,309**	**1,959,309**	**-**	**-**
Loans - other	**8,449,772**	**-**	**1,435,687**	**7,014,075**
	10,409,081	**1,959,309**	**1,435,687**	**7,014,075**

The following table summarizes the contractual maturities of financial liabilities as at December 31, 2011.

Financial liability	Total	Less than 1 year	1-3 years	Over 3 years
Bank indebtedness	240,000	240,000	-	-
Accounts payable and accrued liabilities	2,584,353	2,584,353	-	-
Loans - other	8,310,438	548,050	266,271	7,496,117
Long-term debt	976,396	976,396	-	-
	12,111,187	4,348,799	266,271	7,496,117

21. Contingent liability

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.

22. 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 working capital for operations and product research and development.

The Company currently funds these requirements from cash flows from operations and with financing arrangement 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 Note 10.

The management of capital includes common shares and contributed surplus for a total amount of $15,410,565 (2011 - $11,417,992) and long-term debt of $8,274,779 (2011 - $8,838,784). The Company monitors its working capital in order to meet its financial obligations. As at December 31, 2012, the Company's working capital was calculated as negative $1,436,384 (2011 – negative 1,085,184).

23. 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:

	2012 **$**	2011 $
Loss before income taxes	**(5,809,135)**	(7,028,816)
Income tax rates	**26.9%**	28.4%
Tax effect	**(1,562,657)**	(1,996,184)
Share based compensation	**256,103**	201,934
Non-deductible meals	**5,304**	11,104
Non-deductible interest	**99,936**	1,050
Non-deductible life insurance	**1,453**	-
Other	**817**	188,978
Change in deferred tax benefits not recognized	**1,199,044**	1,593,118
Income taxes	**-**	-

(b) Deferred 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 deferred income tax assets (liabilities) were as follows:

	2012 **$**	2011 $
Share issue costs	**11,702**	24,708
Tax cost of property and equipment and intangibles in excess of carrying value	**(86,180)**	(374,921)
Other (change in tax rates)	**574,578**	575,100
Non-capital losses carried forward	**2,957,613**	2,033,782
	3,457,713	2,258,669
Deferred tax benefits not recognized	**(3,457,713)**	(2,258,669)
	-	-

23. Tax loss and other expenses to carry forward (continued)

(c) Tax carry forward

The Company has the following non-capital losses available to reduce future income taxes:

Expiry date	Federal $	Provincial $
2027	**319,000**	**1,060,000**
2028	**230,000**	**230,000**
2030	**1,508,000**	**2,634,000**
2031	**4,157,000**	**4,551,000**
2032	**3,716,000**	**3,862,000**
	9,930,000	**12,337,000**

24. Comparative figures and restatement of prior year

Management has determined that restatements were required to the earnings of the Company for the years ended December 31, 2010 and December 31, 2011 in order to correct prior period errors. The following describes the nature of the errors:

a) The Company had under accrued vacation pay amounting to $287,695 as at December 31, 2010. An adjustment of $287,695 representing accrued vacation pay has been recorded to correct for this error, resulting in an increase in the opening deficit and an increase in accounts payable and accrued liabilities as at January 1, 2011. The Company had also not previously recorded an accrued liability of $170,000 as of December 31, 2011. The Company has made adjustments to correct for these errors. The net effect on the statement of comprehensive loss was a reduction of comprehensive loss by $117,695 for the year ended December 31, 2011, and an increase in deficit by $170,000 as at December 31, 2011.

b) An adjustment of $142,358 was made to reduce the 2011 revenues reported to more accurately reflect revenues earned under percentage completion contracts and was credited to opening deficit for the year ended December 31, 2011; a further adjustment of $312,865 was also made to the 2011 revenues reported to more accurately reflect revenues earned under percentage completion for a total reduction of $455,223 to the reported revenues for the year ended December 31, 2011. Previously reported cost of sales for the year ended December 31, 2011 was also reduced by $253,018 as a result of correction of errors to correctly account for the percentage completion for the contracts. The net effect on the statement of comprehensive loss for the year ended December 31, 2011 was an increase in the comprehensive loss of $202,205.

The accompanying 2011 year end financial statements have been restated to reflect these corrections.

The effect on the Company's previously issued December 31, 2011 financial statements is summarized as follows:

24. Comparative figures and restatement of prior year (continued)

Statement of Financial Position as of December 31, 2011:

	2011 Previously reported $	Restatement of prior year $	2011 Restated $
Long term assets			
Property and equipment	1,460,823	59,846	1,520,669
Current Liabilities			
Accounts payables and accrued liabilities	(2,414,353)	(170,000)	(2,584,353)
Billings in excess of costs and profits on uncompleted contracts	(606,202)	(119,693)	(725,895)
Shareholder's equity			
Deficit	11,850,738	229,847	12,080,585

Statement of Comprehensive Loss for the year ended December 31, 2011:

	2011 Previously reported $	Restatement of prior year $	2011 Restated $
Revenue	5,065,581	(455,223)	4,610,358
Expenses			
Cost of sales and services	5,879,281	(253,018)	5,626,263
Selling, general and administrative	4,628,504	(117,695)	4,510,809
Comprehensive loss	6,944,306	84,510	7,028,816

Statement of Changes in equity for the year ended December 31, 2011:

	2011 Previously reported $	Restatement of prior year $	2011 Restated $
Balance - December 31, 2010	4,906,432	145,337	5,051,769
Comprehensive loss	6,944,306	84,510	7,028,816
Balance - December 31, 2011	11,850,738	229,847	12,080,585

24. Comparative figures and restatement of prior year (continued)

Statement of Cash flows for the year ended December 31, 2011:

	2011 Previously reported $	Restatement of prior year $	2011 Restated $
Comprehensive loss	6,944,306	84,510	7,028,816
Net change in non-cash operating working capital items	2,848,142	144,356	2,992,498
Accounts payable and accrued liabilities	974,509	(117,695)	856,814
Billings in excess of costs and profits on uncompleted contracts	548,789	262,051	810,840
Investing activities			
Purchase of property and equipment	(444,589)	(59,846)	(504,435)

25. Commitments

(a) Premises

This Company has entered into a long-term lease for premises. The lease ends January 2017. The minimum lease payments (including taxes and utilities) due over the next five years to a trust beneficially owned by the shareholders of the Company are as follows:

	$
2013	**319,100**
2014	**325,900**
2015	**332,700**
2016	**339,500**
2017	**297,567**
	1,614,767

(b) Vehicle

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

	$
2013	**10,570**