This is exhibit "E" referred to in the Affidavit of Howard Elliott sworn before me on March 13, 2013 at the City of Ann Arbor, Michigan.

A Notary Public in and for the State of
Michigan, United States of America

HEATHER CONWAY-VISSER
NOTARY PUBLIC, STATE OF MI
COUNTY OF WASHTENAW
MY COMMISSION EXPIRES Aug 12, 2017
ACTING IN COUNTY OF Washtenaw

Consolidated Financial Statements of

RS TECHNOLOGIES INC.

For the Years Ended December 31, 2011 and 2010

RS TECHNOLOGIES INC.
Management's Report

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of RS Technologies Inc. and all of the information included in this report are the responsibility of management and have been approved by the Company's Board of Directors.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors, composed entirely of independent directors, meets regularly with management, as well as the external auditors, to discuss auditing, internal controls, accounting policy and financial reporting matters. The Committee reviews the financial statements with both management and the independent auditors and reports its finding to the Board of Directors before such statements are approved by the Board.

Signed "Howard Elliott"
Howard Elliott
President and Chief Executive Officer
RS Technologies Inc.

Signed "Joel Tennison"
Joel Tennison
Interim Chief Financial Officer
RS Technologies Inc.

Calgary, Canada
April 27, 2012

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Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of RS Technologies Inc.

We have audited the accompanying consolidated financial statements of RS Technologies Inc., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of loss and comprehensive loss, changes in deficiency and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of RS Technologies Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements, which indicates that RS Technologies Inc. has a loss from operations of $10.5 million and negative cash flows from operating activities of $7.8 million for the year ended December 31, 2011 and, as at that date, its current liabilities exceeded its current assets by $7.8 million. These conditions, along with other matters as set forth in Note 2 in the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about RS Technologies Inc's ability to continue as a going concern.

KPMG LLP

Chartered Accountants

Calgary, Canada
April 27, 2012

RS Technologies Inc.

Consolidated Statement of Financial Position
(Amounts are stated in thousands of Canadian dollars except for per share amounts)

	Note	December 31, 2011	December 31, 2010 (Note 32)	January 1, 2010 (Note 32)
Assets				
Current assets				
Cash	6	$ -	$ 1,238	$ 3,048
Accounts receivable	7	2,307	275	1,378
Inventories	8	2,625	3,889	5,033
Prepaid expenses and deposits		204	214	240
Total Current assets		5,136	5,616	9,699
Non-current assets				
Restricted cash	9	146	145	145
Property, plant and equipment	10	1,377	1,527	1,659
Total non-current assets		1,523	1,672	1,804
Total assets		$ 6,659	$ 7,288	$ 11,503
Liabilities and shareholders' deficiency				
Current liabilities				
Overdraft	6	$ 28	$ -	$ -
Accounts payable and accrued liabilities	11	2,991	1,992	5,849
Bank loans	12	7,000	7,000	4,000
Province of Ontario loan	13	2,000	2,000	2,000
Current portion of long-term debt	18	254	240	226
Unsecured convertible debenture	17	-	-	23,351
Other current liabilities	14	623	692	685
Total current liabilities		12,896	11,924	36,111
Non-current liabilities				
Long-term notes payable	15	-	3,349	-
Secured convertible debenture	16	2,048	-	6,892
Long term debt	18	539	793	1,033
Redeemable preference shares	20	1,614	-	-
Other long-term liabilities	14	87	234	206
Total non-current liabilities		4,288	4,376	8,131
Shareholders' deficiency				
Share capital	21	194,039	191,569	138,051
Warrants	21	5,807	5,497	2,746
Equity component of convertible debentures	16,17	1,638	-	9,782
Contributed surplus	21	11,427	10,163	9,763
Deficit		(223,436)	(216,241)	(193,081)
Total shareholders' deficiency		(10,525)	(9,012)	(32,739)
Total liabilities and shareholders' deficiency		$ 6,659	$ 7,288	$ 11,503

The accompanying notes are an integral part of these consolidated financial statements.

RS Technologies Inc.

Consolidated Statement of Loss and Comprehensive Loss
For the Years Ended December 31, 2011 and 2010
(Amounts are stated in thousands of Canadian dollars except for per share amounts)

	Note	Year Ended 2011	2010 (Note 32)
Sales		$ 5,018	$ 12,133
Cost of sales		7,427	17,048
Gross margin		(2,409)	(4,915)
Expenses			
General and administrative expenses		6,235	11,225
Depreciation	10	89	137
Stock-based compensation	21	245	52
Impairment of property, plant and equipment	10	26	1,070
Loss from operating activities		(9,004)	(17,399)
Finance income		(178)	(183)
Finance expenses	24	1,720	5,944
Loss from operations		(10,546)	(23,160)
Gain on conversion of notes payable	15	2,793	-
Loss before income tax		(7,753)	(23,160)
Deferred tax benefit	25	558	-
Loss and comprehensive loss		$ (7,195)	$ (23,160)
Basic and diluted loss per share		(0.48)	(7.15)
Basic and diluted weighted average number of shares outstanding (thousands)		14,964	3,240

The accompanying notes are an integral part of these consolidated financial statements.

RS Technologies Inc.

Consolidated Statement of Changes in Deficiency

(Amounts are stated in thousands of Canadian dollars except for per share amounts)

	Note	Number of Shares (thousands)	Share capital	Number of Warrants (thousands)	Warrants	Equity component of convertible debentures	Contributed surplus	Deficit	Total
Balance - January 1, 2011		11,149	$ 191,569	4,978	$ 5,497	$ -	$ 10,163	$ (216,241)	$ (9,012)
Loss and comprehensive loss for the period		-	-	-	-	-	-	(7,195)	$ (7,195)
Common shares and warrants issued for cash	21	1,300	1,092	1,300	310	-	(310)	-	$ 1,092
Common shares converted from loans	21	5,515	1,378	-	-	-	442	-	$ 1,820
Equity portion of debentures, net of tax	16		-	-	-	1,638	-	-	$ 1,638
Forgiveness of debts	21	-	-	-	-	-	828	-	$ 828
Stock-based compensation expense	21	-	-	-	-	-	304	-	$ 304
Balance - December 31, 2011		17,964	$ 194,039	6,278	$ 5,807	$ 1,638	$ 11,427	$ (223,436)	$ (10,525)

The accompanying notes are an integral part of these consolidated financial statements.

RS Technologies Inc.

Consolidated Statement of Changes in Deficiency
(Amounts are stated in thousands of Canadian dollars except for per share amounts)

	Note	Number of Shares (thousands)	Share capital	Number of Warrants (thousands)	Warrants	Equity component of convertible debentures	Contributed Surplus	Deficit	Total
Balance - January 1, 2010		188,883	$ 138,051	39,919	$ 2,746	$ 9,782	$ 9,763	$ (193,081)	$ (32,739)
Loss and comprehensive loss for the period		-	-	-	-	-	-	(23,160)	(23,160)
Issued for cash, net of issue costs (Note 20 a) i) and viii)	21	23,465	7,400	-	-	-	-	-	7,400
Issued in lieu of cash interest on convertible debentures (Note 20 a) ii), iii), iv) and v))	17	151,634	4,023	-	-	-	-	-	4,023
Issued in settlement of unsecured convertible debentures (Note 20 a) vi))	17	1,096,491	34,782	-	-	(9,782)	-	-	25,000
Issued in settlement of secured convertible debentures	16	769,231	7,274	-	-	-	-	-	7,274
Restricted share units exercised		26	39	-	-	-	-	-	39
Warrants issued		-	-	955,598	2,751	-	-	-	2,751
Stock-based compensation expense		-	-	-	-	-	400	-	400
Share consolidation (Note 20 a) vi))	21	(2,218,581)	-	(990,539)	-	-	-	-	-
Balance - December 31, 2010		11,149	$ 191,569	4,978	$ 5,497	-	$ 10,163	$ (216,241)	$ (9,012)

The accompanying notes are an integral part of these consolidated financial statements.

RS Technologies Inc.

Consolidated Statement of Cash Flows
For the Years Ended December 31, 2011 and 2010
(Amounts are stated in thousands of Canadian dollars except for per share amounts)

		For the year ended	
	Note	2011	2010
Cash flows from operating activities			
Loss for the period		$ (7,195)	$ (23,160)
Adjustments for			
Depreciation of property, plant and equipment	10	150	179
Taxation		(558)	-
Taxation accretion		51	-
Finance expenses		1,645	5,525
Stock-based compensation	21	245	52
Impairment of property, plant and equipment	10	26	1,070
Gain on conversion of financial instruments		(2,793)	-
Other non-cash items		(177)	(18)
		(8,606)	(16,352)
Change in non-cash operating working capital	22	759	352
Net cash used in operating activities		(7,847)	(16,000)
Cash flows from investing activities			
Acquisition of property, plant and equipment		(26)	(1,116)
Net cash used in investing activities		(26)	(1,116)
Cash flows from financing activities			
Issue of share capital, net of issue costs	21	1,092	39,609
Issue of secured convertible debenture	16	4,050	-
Bank loan	12	-	3,000
Unsecured promissory notes		1,820	2,000
Long-term notes payable	15	-	6,000
Settlement secured and debentures		-	(11,327)
Settlement of unsecured debentures		-	(20,947)
Settlement unsecured promissory notes		-	(2,000)
Repayment of mortgage		(294)	(226)
Repayment of NRC advances		(18)	(270)
Bank overdraft		(28)	-
Finance costs		(43)	(533)
Net cash from financing activities		6,579	15,839
Net decrease in cash		(1,294)	(1,810)
Cash, beginning of period		1,238	3,048
Cash, end of period		$ -	$ 1,238
Non-cash financing activities:			
Issue of preference shares in exchange for:	20	1,393	-
Long-term notes payable	15	(3,776)	-
Interest accrued on long-term notes payable	15	(410)	-
Gain on conversion of financial instruments	15	$ 2,793	-
Common shares issued in exchange for:	21	1,378	-
Unsecured promissory notes	19	(1,820)	-
Contributed surplus	21	$ 442	-

The accompanying notes are an integral part of these consolidated financial statements.

1. Reporting entity

RS Technologies Inc. ("RS" or the "Company"), a company incorporated pursuant to the laws of Alberta, is a reporting issuer in British Colombia, Alberta, Ontario and Nova Scotia. The address of the Company's registered office is: 233 Mayland Place N.E, Calgary Alberta. Effective June 27, 2011, the common shares of RS are no longer listed and posted for trading on the NEX board of the Toronto Stock Exchange Venture Exchange. RS is an ISO 9001:2008 certified technology innovator that develops advanced composite material products for infrastructure markets.

The composite products manufactured using the company's proprietary resins and processes are typically lighter, more durable and longer-lasting than competing products made from traditional building blocks of wood, steel or concrete. RS's flagship product is its award-winning RStandard® composite pole which is used in transmission and distribution projects to carry electric grids and as communication structures for various uses including wireless networks and microwave communications systems. RS designs, engineers, manufactures and markets its products worldwide. These consolidated financial statements include the accounts of the Company and its subsidiaries.

2. Going concern

These consolidated financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards, which assumes the Company will realize its assets and discharge its liabilities and commitments in the normal course of business. The application of the going concern concept in preparation of these consolidated financial statements is dependent upon the Company successfully raising equity and/or debt financing in the near term, and the ability of the Company to generate profitable operations. For the year ended December 31, 2011, the Company reported a loss from operations of $10,546 and had negative cash flow from operations of $7,847. At December 31, 2011, the Company had negative working capital of $7,760 and an accumulated deficit of $223,436.

These consolidated financial statements do not reflect any adjustments should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities outside the normal course of business.

On July 6, 2011 the Company announced closing of its financing with Werklund Capital Corporation ("WCC") in terms of which WCC agreed to lend RS up to $6,000 in the form of a secured convertible debenture ("Convertible Debenture") which shall be convertible at WCC's option at a price of $0.33 per common share ("Common Share"). In the event that WCC elects to convert the Convertible Debenture, the conversion will result in WCC owning not less than 50.1% of RS's outstanding Common Shares. The funds from the Convertible Debenture are used to fund RS's working capital needs.

In parallel with its commercial activities and the pursuit of orders from utility companies, RS continues to focus on cost reduction and cash management strategies to preserve current cash reserves. These strategies include negotiating more favourable terms with suppliers, reducing discretionary and operational spending, maintaining weekly cash flow budgets, monetizing existing inventories and reducing general and administrative expenses.

2. Going concern (continued)

Management believes that there is material uncertainty surrounding the Company's ability to discharge its current liabilities through the normal course of operations and is exploring possible alternatives to ensure that its current obligations will be met. These alternatives include, but are not limited to, additional equity and debt financing, achieving positive gross margin and implementing additional cost reduction measures.

There can be no assurance that management's plans will be successful as such plans may be dependent upon additional financing as well as market acceptance of the Company's products and the implementation of manufacturing improvements that enable the Company to realize sustained positive margins at levels that ultimately allow it to achieve profitability.

3. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These are the Company's first annual consolidated financial statements prepared in accordance with IFRS and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. In these consolidated financial statements Canadian generally accepted accounting principles ("Canadian GAAP") refers to the accounting standards applied prior to the adoption of IFRS.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 32.

These consolidated financial statements were approved by the Board of Directors on April 27, 2012.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for liabilities for cash-settled share-based payment arrangements, redeemable preferred shares and financial instruments at fair value through profit or loss that are measured at fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in dollars has been rounded to the nearest thousand except for share and per share amounts.

(d) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions. The carrying amount of assets, liabilities, accruals, contingent liabilities, other financial obligations, as well as the determination of fair values, reported income and expense in these consolidated financial statements depends on the use of estimates, judgments and assumptions. IFRS also requires management to exercise judgment in the process of applying the Company's accounting policies. These estimates, judgments and assumptions are based upon the circumstances and estimates at the date of the consolidated financial statements and affect the reported amounts of income and expenses within the reporting period.

3. Basis of preparation (continued)

Given the uncertainty regarding the determination of these factors, actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant items impacted by such estimates and judgments are outlined below. Readers are cautioned that the list is not exhaustive and other items may also be affected by estimates and judgments.

i) Going concern

In assessing the going concern principle management makes certain estimates and judgments regarding the timing and quantity of cash flows from operations and the ability of the Company to obtain additional financing from equity and/or debt sources. Management bases these estimates upon past experience, expected future sales levels, production levels and production costs, and certain cost reduction strategies.

ii) Accounts receivable

Impairment of accounts receivable is constantly monitored. Evidence of impairment could, for example, occur when the financial difficulties of a debtor become known or payment delays occur. Impairments are based upon historical values, observed customer solvency, age of the receivable and customer-specific and industry risks. The Company reviews external credit ratings as well as bank and trade references when available.

iii) Inventories

The net realizable value of inventories is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

iv) Property, plant and equipment

The estimated useful life, residual value and depreciation method chosen are the Company's best estimate of such and are based upon industry norms, historical experience and other estimates. These estimates also consider the period and distribution of future cash flows.

v) Impairment tests

The Company assesses, at the end of each reporting period, whether there is an indication that an asset group may be impaired. If any indication of impairment exists, the recoverable amount of the asset or cash generating unit ("CGU") is determined as the higher of value-in-use and fair value less costs to sell. This amount is compared to the carrying amount of the asset or CGU. Value-in-use calculations require the use of estimates for discount rates and the timing of events or circumstances that will affect future cash flows. Management uses its judgment, considering past and actual performance as well as expected developments in the respective market and in the overall macro-economic environment and economic trends to model and discount future cash flows.

3. Basis of preparation (continued)

vi) Tax assets

The realization of current and deferred tax assets depends on the future taxable income of the Company and its subsidiaries. As the Company has yet to realize positive cash flows from operations no deferred tax asset has been recognized.

vii) Stock-based compensation

The Company accounts for stock-based compensation in accordance with IFRS 2 Share-based Payments which requires companies to recognize the cost of such awards of equity instruments based upon the grant date fair value of those awards. An estimate of the fair value of stock option awards on the date of grant is calculated using the Black-Scholes option valuation model. Within the Black-Scholes valuation model management makes certain key estimates for expected stock price volatility, forfeitures and the expected term.

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRSs, unless otherwise indicated.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Company.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Company’s entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

4. Significant accounting policies (continued)

(c) Financial instruments

(i) Non-derivative financial assets

The Company initially recognizes accounts receivable and deposits on the date that they originate. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Accounts receivable are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition accounts receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Restricted cash comprises cash balances and deposits with longer maturities.

(ii) Non-derivative financial liabilities

The Company initially recognizes debt securities issued on the date that they originated. All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company has the following non-derivative financial liabilities: loans, other liabilities and accounts payables and accrued liabilities.

Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

4. Significant accounting policies (continued)

(iii) Secured and unsecured convertible debentures

The component parts of the secured and unsecured convertible debentures (“Debentures”) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest rate method until extinguished upon conversion or until the instrument’s maturity date.

The fair value of the conversion option is determined (at the date of issue) by deducting the amount of the liability component from the fair value of the compound instrument as a whole. The conversion option is recognized net of tax in equity, is not subsequently re-measured and will remain in equity until the conversion option is exercised at which time it will be transferred to share capital. No gain or loss is recognized in the statement of comprehensive income upon conversion or expiration of the conversion option. As such, a proportionate amount of any unamortized debt issuance costs and accretion related to the Debentures converted into common shares is transferred to share capital on conversion.

(iv) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

(iv) Preferred shares

Preferred shares are classified as equity if non-redeemable, or redeemable only at the Company’s option, and any dividends are discretionary.

Preferred shares are classified as a financial liability if redeemable on a specific date or at the option of shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

IFRS 1 provides for a discretionary exemption whereby the Company can elect to determine its deemed cost to be fair value or cost at acquisition less accumulated depreciation at the date of transition, January 1, 2010. The Company has elected its deemed cost to be fair value for all of its assets.

Cost includes all expenditures that are directly attributable to the acquisition of the asset.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

4. Significant accounting policies (continued)

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment (repair and maintenance) are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a diminishing balance basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The depreciation rates for the current and comparative years are as follows:

Building	4%
Equipment	20%
Furniture and fixtures	20%
Automotive	30%
Computer hardware and software	50%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iv) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset.

4. Significant accounting policies (continued)

The expenditure capitalized includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(e) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(f) Impairment

(i) Financial assets (including accounts receivable)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

4. Significant accounting policies (continued)

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any 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 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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into cash-generating units (CGUs).

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, 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 depreciation, if no impairment loss had been recognized.

(g) Employee benefits

(i) Stock-based payment transactions

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

4. Significant accounting policies (continued)

The fair value of the amount payable to directors in respect of deferred share units, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the director unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as stock-based compensation expense (recovery) in profit or loss.

(ii) Termination benefits

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(iii) Short-term employee benefits

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(h) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance expense.

(i) Revenue

The Company’s products are generally sold based upon purchases orders or contracts with customers that include fixed or determinable prices. Revenue is recognized when there is persuasive evidence that an arrangement exists, delivery has occurred under the terms of the arrangement, title has passed to the customer, the price is fixed or determinable and collection is probable. Contract terms do not include a provision for significant post-service delivery obligations.

4. Significant accounting policies (continued)

(j) Lease payments

Payments made under operating leases are recognized in profit and loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(k) Financing costs

Financing costs comprise interest and accretion expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(l) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

4. Significant accounting policies (continued)

(m) Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise share options granted to employees.

(n) New pronouncements

IFRS 9 *Financial instruments*

In November 2009 the IASB issued IFRS 9 *Financial Instruments* (IFRS 9 (2009)), and in October 2010 the IASB published amendments to IFRS 9 (IFRS 9 (2010)). In December 2011, the IASB issued an amendment to IFRS 9 to defer the mandatory effective date to annual periods beginning on or after January 1, 2015.

IFRS 9 (2009) replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, on the classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivable.

Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

Gains and losses on remeasurement of financial assets measured at fair value will be recognized in profit or loss, except that for an investment in an equity instrument which is not held-for-trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. Amounts presented in OCI will not be reclassified to profit or loss at a later date.

IFRS 9 (2010) added guidance to IFRS 9 (2009) on the classification and measurement of financial liabilities, and this guidance is consistent with the guidance in IAS 39 expect as described below.

Under IFRS 9 (2010), for financial liabilities measured at fair value under the fair value option, changes in fair value attributable to changes in credit risk will be recognized in OCI, with the remainder of the change recognized in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss. Amounts presented in OCI will not be reclassified to profit or loss at a later date.

IFRS 9 (2010) also requires derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument to be measured at fair value, whereas such derivative liabilities are measured at cost under IAS 39.

4. Significant accounting policies (continued)

IFRS 9 (2010) also added the requirements of IAS 39 for the derecognition of financial assets and liabilities to IFRS 9 without change.

The IASB has deferred the mandatory effective date of the existing chapters of IFRS 9 *Financial Instruments* (2009) and IFRS 9 (2010) to annual periods beginning on or after January 1, 2015. The early adoption of either standard continues to be permitted.

IFRS 9 (2010) supersedes IFRS 9 (2009) and is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. For annual periods beginning before January 1, 2015, either IFRS 9 (2009) or IFRS 9 (2010) may be applied.

The Company intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 (2010) has not yet been determined.

IFRS 13 *Fair Value Measurement*

In May 2011 the IASB published IFRS 13 *Fair Value Measurement*, which is effective prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application.

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income.

IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 13 has not yet been determined.

Amendments to IAS 1 *Presentation of Financial Statements*

In June 2011 the IASB published amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*, which are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively. Early adoption is permitted.

The amendments require that an entity present separately the items of OCI that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. Consequently an entity that presents items of OCI before related tax effects will also have to allocate the aggregated tax amount between these categories.

4. Significant accounting policies (continued)

The existing option to present the profit or loss and other comprehensive income in two statements has remained unchanged.

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

5. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment

The fair value of property, plant and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

(ii) Accounts receivable

The fair value of accounts receivable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(iii) Preferred shares

The fair value of the preferred shares is measured using discounted cash flow analysis using the likelihood of future events occurring, the expected future cash flows and a market-related discount rate.

(iv) Stock-based payment transactions

The fair value of the employee share options is measured using the Black-Scholes option pricing model. Measurement inputs include the share price on measurement date, the exercise price of the instrument, the expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), the weighted average expected life of the instruments (based on historical experience and general option holder behavior), the expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions are not taken into account in determining fair value.

(Amounts are stated in thousands of Canadian dollars except for per share amounts)

5. Determination of fair values (continued)

The fair value of the employee restricted share unit plan is measured using the Black-Scholes pricing model. The restricted share units are granted to participants at the discretion of management. Compensation expense, equal to the fair market value of the shares on the grant date, is recorded as an increase to contributed surplus over the vesting period.

Once vested, the amount previously recognized in contributed surplus is recorded as an increase to share capital.

The Company has a cash-settled deferred share unit plan, whereby the directors' fees are tied to the market value of the Company's common shares and payment is deferred until the director resigns from the board. Deferred share units are recorded as a liability and are initially recognized at the fair value of the Company's shares on the grant date.

The liability relating to the deferred share unit plan is revalued quarterly based on the market value of the Company's common shares and the resulting adjustment is recorded as an expense (recovery) to stock-based compensation expense.

(v) Other non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible debentures the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

6. Bank and cash

	December 31, 2011	December 31, 2010	January 1, 2010
(Overdraft) Bank balances	$ (28)	$ 1,238	$ 3,047
Cash	-	-	1
	$ (28)	$ 1,238	$ 3,048

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 26.

7. Accounts receivables

	December 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	$ 2,194	$ 204	$ 1,032
Other receivables	113	71	346
	$ 2,307	$ 275	$ 1,378

The Company's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 26.

(Amounts are stated in thousands of Canadian dollars except for per share amounts)

8. Inventories

	2011	2010	January 1, 2010
Raw materials and consumables	$ 394	$ 813	$ 1,096
Work in progress	-	-	-
Finished goods	2,231	3,076	3,937
	$ 2,625	$ 3,889	$ 5,033

During the year the Company wrote-down inventories in the amount of $310 (2010 - $2,504), included in cost of sales, to net realizable value.

In 2011 raw materials, consumables and changes in finished goods recognized as cost of sales amounted to $3,520 (2010 - $9,608).

9. Restricted cash

The Company has established certain credit arrangements through its bank which are secured by cash of $146 (January 1, 2010 and December 31, 2010 - $145) held in a separate account.

(Amounts are stated in thousands of Canadian dollars except for per share amounts)

10. Property, plant and equipment

	Note	Land and building	Equipment	Furniture and fixtures	Automotive	Computer hardware and software	Leasehold improvements	Total
Cost								
Balance - January 1, 2011		$ 1,549	$ 716	$ 525	$ 265	$ 1,626	$ 847	$ 5,528
Additions		-	26	-	-	-	-	26
Balance - December 31, 2011		1,549	742	525	265	1,626	847	5,554
Accumulated depreciation and impairment losses								
Balance - January 1, 2011		435	716	376	147	1,485	842	4,001
Depreciation		35	-	28	26	56	5	150
Impairment losses		-	26	-	-	-	-	26
Balance - December 31, 2011		470	742	404	173	1,541	847	4,177
Net book value - December 31, 2011		$ 1,079	$ -	$ 121	$ 92	$ 85	$ -	$ 1,377

(Amounts are stated in thousands of Canadian dollars except for per share amounts)

10. Property, plant and equipment (continued)

	Note	Land and building	Equipment	Furniture and fixtures	Automotive	Computer hardware and software	Leasehold improvements	Total
Cost								
Balance - January 1, 2010		$ 1,195	$ -	$ 525	$ 226	$ 1,619	$ 847	$ 4,412
Additions		354	716	-	39	7	-	1,116
Balance - December 31, 2010		1,549	716	525	265	1,626	847	5,528
Accumulated depreciation and impairment losses								
Balance - January 1, 2010		45	-	344	141	1,393	830	2,753
Depreciation		36	-	32	6	92	12	178
Impairment losses		354	716	-	-	-	-	1,070
Balance - December 31, 2010		435	716	376	147	1,485	842	4,001
Net book value - December 31, 2010		$ 1,114	$ -	$ 149	$ 118	$ 141	$ 5	$ 1,527
Net book value - January 1, 2010		$ 1,150	$ -	$ 181	$ 85	$ 226	$ 17	$ 1,659

(Amounts are stated in thousands of Canadian dollars except for per share amounts)

10. Property, plant and equipment (continued)

Impairment loss

In accordance with IFRSs, for purposes of assessing impairment of property, plant and equipment, management has identified cash-generating units (CGUs) based on the smallest group of assets that are capable of generating largely independent cash inflows. In addition, the recoverable value-in-use for impairment analysis is based on discounted cash flows.

Management determined that the Company has one CGU and that the carrying value of its manufacturing assets was in excess of the associated recoverable amount (ie. value-in-use). The cash flows were discounted at a pre-tax rate of 31 percent (management's estimate of the Company's weighted-average cost of capital), and projected for 5 years using an average sales growth rate of 35 percent which is reflective of management's best estimate considering the timing, size and frequency of future sales orders.

As a result, at January 1, 2010, the date of Transition to IFRS, the Company recognized an impairment loss on its manufacturing assets in the amount of $5,868. During the year ended December 31, 2011, the Company tested the related assets for impairment and wrote-off $26 (2010 - $1,070) of its current period additions. The Company also did not find evidence that the previously recognized impairment loss had reversed (see Note 32 (b) for details).

Depreciation

	2011	2010
Cost of Sales	$ 61	$ 42
Depreciation	89	137
	$ 150	$ 179

11. Accounts payable and accrued liabilities

	December 31, 2011	December 31, 2010	January 1, 2010
Trade payables	$ 895	$ 458	$ 5,291
Accruals and provisions	2,016	1,534	558
	$ 2,911	$ 1,992	$ 5,849

12. Bank loan

At January 1, 2010 the Company had a demand loan from a Canadian chartered bank in the amount of $4,000 bearing interest at bank prime plus 1.0% due December 1, 2013. On February 19, 2010, the Company obtained an additional $3,000 of demand loans from the Canadian chartered bank at an interest rate of bank prime plus 1.00% due March 31, 2010. A commitment fee of $30 was paid to the bank upon acceptance of the loan.

On March 19, 2010, the Company obtained an extension on the demand loans from March 31, 2010 to October 1, 2010. An extension fee of $35 was paid upon acceptance of the extension and a general security agreement over all the assets of the Company was provided to the bank as part of the agreement, giving the bank a first charge over the Company's assets, subject to certain permitted encumbrances.

(Amounts are stated in thousands of Canadian dollars except for per share amounts)

12. Bank loan (continued)

On September 30, 2010, the Company obtained an extension on the demand loans from October 1, 2010 to December 1, 2010. An extension fee of $12 was paid.

On October 29, 2010, (in conjunction with the November 1, 2010 announcement of the $6,000 private placement of 240 units) the Company obtained an extension on the demand loans from December 1, 2010 to December 1, 2013. An extension fee of $50 was paid.

Current and former directors of the Company or corporations which they control had agreed to provide limited liability guarantees ("Guarantees") in favour of the bank guaranteeing all the obligations to the bank up to December 1, 2013. The Directors were, until July 6, 2011, to be compensated for the provision of the guarantees at a weighted-average annual rate of 8.46% for the loans. On July 6, 2011 all outstanding and future amounts owed for the provision of personal guarantees were forgiven by the RS directors and their corporations. The liability of $828 accrued to that date was transferred as an increase in contributed surplus; the liability for guarantees was previously included in accounts payable and accrued liabilities.

13. Province of Ontario loan

In August 2007, the Company entered into a definitive manufacturing and licensing agreement with Global Composite Manufacturing Inc. ("GCM"). The Company provided a $2,090 loan guarantee to the Province of Ontario (the "Province") on a limited recourse basis collateralized by the RStandard pole manufacturing equipment (carrying value $nil at December 31, 2011 and 2010). This guarantee could be called upon should GCM fail to perform under its obligations to the Province.

On September 3, 2008, GCM was deemed to have made an assignment into bankruptcy with an effective date of August 1, 2008. The bankruptcy of GCM constituted an event of default of the loan agreement between GCM and the Province. In substance, the Company has assumed the obligation of $2,090 effective August 1, 2008 in accordance with the guarantee it provided the Province on June 1, 2007. During 2009, the Company paid the Province $90 reducing the obligation to $2,000. The Company has recorded interest at 5.69% on the loan totaling $114 in the current year (2010 – $340). The Company intends to seek settlement of the guarantee issue with the Province and would take issue with any move by the Province to call the guarantee. No financial covenants attach to the loan.

14. Other liabilities

	December 31, 2011	December 31, 2010	January 1, 2010
Current portion			
NRC advances i)	$ -	$ 20	$ 145
Deferred lease inducement ii)	-	34	34
Deferred share unit liability (Note 21(e))	11	120	506
Unsecured promissory note iii)	552	510	-
Other	60	8	-
	623	692	685
Long-term portion			
Deferred lease inducement ii)	-	136	152
Other	87	98	54
	$ 87	$ 234	$ 206

14. Other liabilities (continued)

i) Pursuant to an agreement with the National Research Council ("NRC"), as amended, the Company received advances of $498 to develop its resin formulations. The advances were payable quarterly at a rate of 1.90% of the Company's gross revenue, as defined, for the period December 1, 2005 through November 30, 2010.

ii) In 2006, the Company renegotiated one of its operating leases and received $300 in tenant inducements. These inducements were amortized over the term of the lease.

iii) In October 2010, in exchange for settlement of invoices for raw materials the Company issued an unsecured promissory note in the amount of $500 plus interest at bank prime plus 5% to a supplier. The unsecured promissory note principal and interest was due January 2, 2012. The Company has entered further negotiation with the supplier to agree an extended payment schedule over the 2012 year.

15. Long-term notes payable

On October 29, 2010, the Company completed a private placement for total proceeds of $6,000 whereby 240 units at $25 per unit were issued. Each unit consisted of a $25 note payable bearing interest at 10% per annum paid semi-annually with a maturity value of $28 (the units were issued at a 10% discount) on October 29, 2015 plus 3,981,656 warrants exercisable for 1 common share of the company at $0.01 per share with an expiry of October 29, 2015.

The long-term notes were bifurcated at inception into a liability component of $3,249 and an equity component of $2,751. The liability component was calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest of 33.5%. The market rate of interest was determined by reference to similar liabilities that do not have a conversion option.

The difference between the $6,000 face value and the initial liability component was, until July 6, 2011, accreted and recorded as a finance expense. The 10% discount was being accrued and recorded as a finance expense. On July 6, 2011, the notes payable were cancelled in exchange for preferred shares (Note 20) and each holder of notes agreed to waive all accrued and unpaid interest outstanding. The $410 interest accrued to July 6, 2011 and $3,776 accreted long-term note value were exchanged for proceeds of $1,393 fair value in preference shares (Note 20) and a gain of $2,793 was recorded in profit and loss.

16. Secured convertible debentures

(a) On December 16, 2008, the Company issued 10,000 units for total proceeds of $10,000, due December 17, 2013. Each unit consisted of a one thousand dollar convertible secured redeemable debenture ("Secured Debenture") earning interest at 15% per annum paid annually. The Company had the option of paying the interest by issuing common shares to the debenture holders. The issuance of the shares would be based on 85% of the volume weighted average price (VWAP) of the common shares for the five consecutive trading days ending five trading days preceding the interest payment date.

(Amounts are stated in thousands of Canadian dollars except for per share amounts)

16. Secured convertible debentures (continued)

The Secured Debentures were secured by all of the assets of the Company, subject to the ability to put in place senior indebtedness. The Secured Debentures and accrued interest were convertible by the holder at any time after December 16, 2010 and prior to repayment of the debenture. The conversion price was based on dividing the total principal amount of the debt by 115% of the VWAP for the five consecutive trading days immediately preceding December 16, 2010.

The Secured Debentures were redeemable by the Company, in whole or in part, at a redemption price equal to their principal amount plus any accrued and unpaid interest. In addition, each unit had 4,000 purchase warrants enabling the holder to purchase 1.06 common shares at $0.17 per share until December 16, 2013.

On maturity or on redemption at any time after December 16, 2010, the Company could, at its option, on not more than 60 days and not less than 40 days prior notice and subject to regulatory approval, elect to satisfy its obligation to repay the principal amount of the Secured Debentures and accrued interest thereon by issuing and delivering that number of freely tradable common shares obtained by dividing the principal amount of the Secured Debentures and the accrued interest thereon by 85% of the VWAP of the common shares on the TSX for the five consecutive trading days ending five trading days preceding the date fixed for redemption or maturity, as the case may be.

As a result of a 2009 rights offering the conversion price of the outstanding secured convertible debentures was adjusted by multiplying the original conversion price by 95.0%.

The Secured Debentures were separated on issuance into:

Debenture	$	6,911
Conversion option		337
Warrants		2,752
Total value of units	$	10,000

The debt component was calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest of 31%.

The financing costs related to the Secured Debentures of $584 were also bifurcated into a liability component and an equity component on a pro-rata basis based on carrying amounts.

The difference between the $10,000 due on maturity and the initial liability component was being accreted and recorded as financing charges over the term of the debt using the effective interest method.

On October 20, 2010, the Company issued 769,230,740 shares (on a pre 1 for 200 consolidation basis) at $0.013 per share as payment for the principal amount of the Secured Debentures and 102,107,658 shares (on a pre 1 for 200 consolidation basis) at $0.013 per share as payment for interest accrued from the last interest payment date to October 20, 2010.

(b) On July 6, 2011 RS entered into an agreement with WCC whereby WCC will lend RS up to $6 million in the form of a secured convertible debenture. The debenture ranks in priority to the demand loan from a Canadian Chartered Bank (Note 12), is convertible at the option of WCC at a price of $0.33 per common share, bears no interest and matures on January 6, 2014.

16. Secured convertible debentures (continued)

The secured convertible debenture was bifurcated at inception of each advance received into a liability component, an equity component and deferred taxation of $1,855, $1,638 and $558, respectively and cumulatively at December 31, 2011. The expected cash flows over the term of the convertible debentures were discounted at a discount rate of 35% percent, which was management's estimate of the cost of capital of the company having regard to market values of financial instruments traded on public markets, the borrow cost of the company for similar liabilities without a conversion option and other factors which impact the availability of financing to the Company. The difference between the $4,050 face value received in cash and the initial liability component recorded will be accreted and recorded as finance expense. At December 31, 2011 the secured convertible debentures have been accreted to a value of $2,048.

At the year end, RS had drawn $4,050, leaving $1,950 of the original $6,000, disbursement of which is subject to the sole discretion of WCC.. Subsequent to year end, RS drew an additional $80, bringing the total amount drawn to $4,130 and leaving $1,870 remaining in the Convertible Debenture facility. RS has, since negotiating the facility, remained in compliance with all terms of the Convertible Debenture agreement.

17. Unsecured convertible debentures

On October 6, 2005, the Company issued $25,000 of unsecured convertible debentures ("Unsecured Debentures") due October 7, 2010 and bearing interest at 8.5% per annum payable semi-annually each June 30th and December 31st.

The holders of the Unsecured Debentures had the option to convert the principal amount of the Unsecured Debenture into common shares at an original conversion price of $2.90 per share at any time prior to the maturity date or the business day preceding the Company exercising its redemption option on the debentures. This conversion price was more than the market price of the Company's shares at the issue date.

The Unsecured Debentures were redeemable by the Company at any time after October 6, 2007 at a redemption price equal to the principal amount plus accrued and unpaid interest provided that the VWAP of the common shares exceeded $3.63 for the twenty consecutive trading days ending five trading days prior to the date on which notice of redemption was given.

On redemption or maturity, the Company could elect to repay the principal amount plus accrued and unpaid interest on the debentures by issuing and delivering common shares in the amount of the unsecured debenture principal plus accrued and unpaid interest divided by 95% of the VWAP of the common shares for the twenty consecutive trading days ending five trading days preceding the date fixed for redemption or maturity.

As a result of the 2009 rights offering the conversion price of the outstanding unsecured convertible debentures was adjusted from $2.90 per common share to $2.76 per common share. This resulted in a conversion rate of approximately 362 common shares for each $1,000 principal amount of debentures.

The Unsecured Debentures were bifurcated at inception into a liability component of $14,129 and an equity component of $10,258. The difference between the $25,000 due on maturity and the initial liability component was accreted and recorded as financing charges.

(Amounts are stated in thousands of Canadian dollars except for per share amounts)

17. Unsecured convertible debentures (continued)

The liability component was calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest of 15%.The financing costs related to the Unsecured Debentures of $1,410 were also bifurcated into a liability component and an equity component on a pro-rata basis based on carrying amounts. The liability component of $797 net of amortization to December 31, 2009 was recorded as a reduction in the outstanding convertible debenture liability.

In January 2010, the Company entered into a supplemental indenture whereas the interest due on December 31, 2009 and through the remainder of the debenture term could be settled by an issuance of shares in lieu of a cash payment. The number of shares issued was based on 95% of the current market price as defined by the Toronto Stock Exchange ("TSX").

On January 7, 2010, the Company issued 2,582,891 shares (on a pre 1 for 200 consolidation basis) at $0.411 per share as payment for interest accrued for the period from July 1, 2009 to December 31, 2009. On June 30, 2010, the Company issued 6,903,777 common shares (on a pre 1 for 200 consolidation basis) at $0.154 per share as payment for interest accrued for the period from January 1, 2010 to June 30, 2010.

On August 11, 2010, the Company announced its intention to satisfy its obligation to repay all the Unsecured Debentures by issuing and delivering to the holders common shares in accordance with the terms of the indenture.

18. Long-term debt

The mortgage payable bears interest at 6% compounded annually, repayable in monthly installments of $24.5 and matures December 1, 2014. The mortgage is secured by the land and building in Tilbury, Ontario, the location of the Company's manufacturing facility, with a carrying value of $1,079 (2010 - $1,114). As a requirement of the agreement, the company must keep current with the utilities and taxes payable to the municipality. The Company has remained in full compliance.

	December 31, 2011	December 31, 2010	January 1, 2010
Mortgage principal	$ 793	$ 1,033	$ 1,259
Less: current portion	(254)	(240)	(226)
	$ 539	$ 793	$ 1,033

Principal repayments required over the remaining term of the mortgage are as follows:

2012	$ 254
2013	270
2014	269
	$ 793

19. Unsecured promissory notes

In April, May and June 2011 the Company issued unsecured promissory notes in the amount of $1,820. The notes were payable on demand and bore interest at 12% per annum compounded monthly.

On July 6, 2011, the notes were exchanged for common shares at a deemed price of $0.33 per common share (Note 21 (a) xii)).

20. Redeemable preference shares

On July 6, 2011, the outstanding 10% secured notes (Note 16) were cancelled in exchange for the receipt of preferred shares with a deemed value of $1 each. 6,666,480 preferred shares with a face value of $6,666 were issued and recorded at a fair value of $1,393, calculated by discounting the cash flows over the period of the instrument at a market interest rate of 38%. The preferred shares were designated a financial liability at fair value through profit or loss. They are measured at fair value and changes recognized in profit or loss. The preferred shares are reported as non-current liabilities at a fair value of $1,614 at December 31, 2011. The market interest rate of 38% was used to estimate fair value at December 31, 2011.

The preferred shares are non-voting, do not accrue interest or dividends and shall be redeemed at the election of the Company for cash or common shares on May 13, 2016.

If the preferred shares are to be redeemed for common shares the number of common shares to be issued will be calculated as:

- If the RS share is listed on a recognized stock exchange at December 31, 2014 the number of common shares issued will be calculated by dividing the number of preferred shares by the 15-day discounted volume weighted average price ending on the last trading day of 2014.
- If the RS share is not listed on a recognized stock exchange at December 31, 2014 the number of common shares issued will be calculated as the lesser of:
    1. one common share for every preferred share or
    2. the number of preferred shares divided by:

       four-times the 2014 EBITDA less debt at December 31, 2014, divided by the number of common shares outstanding (non-diluted) at December 31, 2014.

If the preferred shares are to be redeemed for cash the amount will be calculated as:

- If the RS share is listed on a recognized stock exchange at both December 31, 2014 and December 31, 2015: the number of preferred shares divided by the 15-day discounted volume weighted average price ending on the last trading day of 2014, multiplied by the 15-day volume weighted average price ending on the last trading day of 2015. This amount multiplied by the number of preferred shares.
- If the RS share is listed on a recognized stock exchange at December 31, 2014 but not at December 31, 2015: the number of preferred shares divided by the 15-day discounted volume weighted average price ending on the last trading day of 2014, multiplied by:

  five-times the 2015 EBITDA less debt at December 31, 2015, divided by the number of common shares outstanding (non-diluted) at December 31, 2015.

20. Redeemable preference shares (continued)

- If the RS share is not listed on a recognized stock exchange at December 31, 2014 and is listed on a recognized stock exchange at December 31, 2015: the lesser of:
  1. one common share for every preferred share or
  2. the number of preferred shares divided by:

     four-times the 2014 EBITDA less debt at December 31, 2014 divided by the number of common shares outstanding (non-diluted) at December 31, 2014,

     and multiplied by the 15-day VWAP ending on the last trading day of 2015.
- If the RS share is not listed on a recognized stock exchange at both of December 31, 2014 and December 31, 2015:

  the lesser of:
  1. one common share for every preferred share or
  2. the number of preferred shares divided by four-times the 2014 EBITDA less debt at December 31, 2014

  multiplied by: five-times the 2015 EBITDA less debt at December 31, 2015, divided by the number of common shares outstanding (non-diluted) at December 31, 2015.

21. Shareholders' deficiency

(a) Authorized and issued share capital of no par value:

i) On March 19, 2010, the Company issued 22,465,396 common shares (on a pre 1 for 200 consolidation basis) as part of a private placement at $0.33 per share for net proceeds of $7,335.

ii) On January 7, 2010, the Company issued 2,582,891 common shares (on a pre 1 for 200 consolidation basis) in lieu of cash interest on the 8.5% $25,000 debenture for interest accrued during the period from July 1, 2009 to December 31, 2009. The number of common shares issued was calculated as being $0.411 per common share in accordance with the terms of the indenture.

iii) On June 10, 2010, the Company issued 6,903,777 common shares (on a pre 1 for 200 consolidation basis) in lieu of cash interest on the 8.5% $25,000 debenture for interest accrued during the period from January 1, 2010 to June 30, 2010. The number of common shares issued was calculated as being $0.154 per common share in accordance with the terms of the indenture.

iv) On October 7, 2010, the Company issued 40,038,399 common shares (on a pre 1 for 200 consolidation basis) in lieu of cash interest on the 8.5% $25,000 debenture for interest accrued during the period from July 1, 2010 to October 7, 2010. The number of common shares issued was calculated as being $0.023 per common share in accordance with the terms of the indenture.

v) On October 10, 2010, the Company issued 102,107,658 common shares (on a pre 1 for 200 consolidation basis) in lieu of cash interest on the 15% $10,000 debenture for interest accrued during the period from November 30, 2009 to October 10, 2010. The number of common shares issued was calculated as being $0.013 per common share in accordance with the terms of the indenture.

21. Shareholders' deficiency (continued)

vi) On October 7, 2010, the Company issued 1,096,491,176 common shares (on a pre 1 for 200 consolidation basis) in lieu of cash settlement of the 8.5% $25,000 debenture. The number of common shares issued was calculated as being $0.023 per common share in accordance with the terms of the indenture.

vii) On October 10, 2010, the Company issued 769,230,740 common shares (on a pre 1 for 200 consolidation basis) in lieu of cash settlement of the 15% $10,000 debenture. The number of common shares issued was calculated as being $0.013 per common share in accordance with the terms of the indenture.

viii) On August 17, 2010, the Company issued 1,000,000 common shares (on a pre 1 for 200 consolidation basis) in connection with a $2,000 unsecured promissory note from a company controlled by a director.

ix) On October 29, 2010, the Company issued 955,597,440 warrants (on a pre 1 for 200 consolidation basis) in connection with its $6,000 private placement unit offering.

x) On November 29, 2010, the Company consolidated its shares on a 1 for 200 basis. Because the settlement of the Company's previously outstanding debentures occurred later in the year, in October 2010, and involved the issuance of a significant number of shares, the weighted average number of shares outstanding for 2010 was heavily weighted towards the beginning of the year when less shares were outstanding (where on a post 1 for 200 consolidation basis, there were approximately 1,051,000 shares outstanding). With the significant number of shares issued to settle the debentures, the weighted average number of shares outstanding for 2010 increased to 3,240,523.

xi) On February 18, 2011, the Company completed a private placement for total proceeds of $1,092 whereby 1,300,000 units were issued at $0.84 per unit. Each unit consisted of 1 common share plus 1 warrant exercisable for 1 common share of the Company at $1.03 per share with an expiry of February 18, 2013.

xii) On July 6, 2011, the Company's unsecured promissory notes in the amount of $1,820 were exchanged for 5,515,160 common shares at a deemed price of $0.33 per common share; these were recorded in equity at the fair value of $1,378.

xiii) As at December 31, 2011 and the date of the financial statements, the number of issued and outstanding common shares was 17,963,864.

xiv) In the event WCC elects to convert the entire $6 million Convertible Debenture (Note 16) 18,181,818 common shares will be issued to WCC.

(b) Warrants

At December 31, 2010, there were 191,569 warrants exercisable at $34.00 (on a post 1 for 200 share consolidation basis) with an expiry of December 16, 2013.

On October 29, 2010, as part of the $6,000 private placement unit offering, 4,777,991 warrants exercisable at $2.00 with an expiry of October 29, 2015 were issued (on a post 1 for 200 share consolidation basis).

(Amounts are stated in thousands of Canadian dollars except for per share amounts)

21. Shareholders' deficiency (continued)

On February 18, 2011, the Company completed a private placement for total proceeds of $1,092 whereby 1,300,000 units were issued at $0.84 per unit. Each unit consisted of 1 common share plus 1 warrant exercisable for 1 common share of the Company at $1.03 per share with an expiry of February 18, 2013.

The fair value of the warrants was estimated using the Black-Scholes option pricing model with the following key assumptions:

Volatility	40%
Risk free interest rate	2.75%
Expected life	3 years

As at December 31, 2011, there were a total of 6,277,586 warrants issued and outstanding, of which 199,595 are exercisable at $34.00 with an expiry of December 16, 2013, 4,777,991 are exercisable at $2.00 with an expiry of October 29, 2015 and 1,300,000 are exercisable at $1.03 with an expiry of February 18, 2013.

(c) Stock-based compensation

During the year, the Company recorded $291 (2010 - $394) in stock-based compensation expense that relates to stock options granted to employees and non-employees. The fair value of each option granted was estimated on the date of the grant using the Black-Scholes option-pricing model.

The following weighted average assumptions were used in valuing the options:

Weighted average assumptions and results	2011	2010
Risk free interest rate (%)	3.03	3.03
Expected life (years)	5.00	5.00
Expected volatility (%)	100.85	100.85
Expected dividends ($)	-	-
Expected forfeiture (%)	5	5
Weighted average grant-date fair value ($)	0.22	0.22

In addition, a recovery of $60 (2010 - $385 recovery) of stock-based compensation was recorded relating to the granting and revaluation of deferred share units and an expense of $14 (2010 - $43) related to restricted share units. There were 100,000 RSUs outstanding at December 31, 2010, no RSUs remain outstanding at December 31, 2011.

21. Shareholders' deficiency (continued)

(d) Share options outstanding

Number of shares are in thousands	Number of share options	Weighted average exercise price
Outstanding, January 1, 2010	10,043	$ 0.92
Granted	2,750	0.29
Expired	(757)	1.09
Forfeited	(1,888)	0.62
1 for 200 Share consolidation	(10,097)	-
Outstanding, December 31, 2010	51	$ 160.47
Granted	-	-
Outstanding December 31, 2011	51	$ 160.47

(e) Deferred share units

Under the Company's deferred share unit ("DSU") plan, directors have the option to defer their annual fees. Prior to July 6, 2011, all directors had elected to be compensated under the DSU plan; the three directors who were appointed on July 7, 2011 do not earn directors fees and will not participate in the DSU plan. Annual fees of directors who have so elected are converted to DSUs which will be converted to cash upon the director leaving the board. Each DSU has an initial value equal to the volume weighted average price for the five days preceding the granting date of one common share. The value of a DSU when converted to cash is equivalent to the market value of one common share at the time the conversion takes place.

If dividends are paid on the Company's common shares, DSUs will attract dividends in the form of additional DSUs at the same rate as dividends on common shares. Market value is the volume weighted average price of the Company's share on the last five days traded on a public market, including the over-the-counter market where that is the only market on which the share has traded.

A director cannot convert DSUs to cash until the director ceases to be a member of the board. As at December 31, 2011 there were 1,719,531 DSUs outstanding (2010 - 127,445). The liabilities for DSUs are revalued to market on a quarterly basis; as at December 31, 2011, $59 (2010 - $120) is included in other current liabilities. The DSUs of the three directors who resigned on July 7, 2011 have not yet been converted to cash; the liability of $21 was included within the $59 DSU within other current liabilities at December 31, 2011.

21. Shareholders' deficiency (continued)

Number of DSU in thousands	Number of units	$
Outstanding, January 1, 2010 (post 200:1 basis)	6,207	506
Granted (post 200:1 basis)	121,238	279
1 for 200 Share consolidation	-	(665)
Outstanding, December 31, 2010	127,445	120
Granted	1,592,086	243
Market value adjustment	-	(303)
Outstanding December 31, 2011	1,719,531	$ 59

(f) Contributed surplus

In thousands of dollars		
Balance January 1, 2010	$	9,763
Stock based compensation		849
Stock options forfeited		(410)
Restricted share units exercised		(39)
Balance December 31, 2010	$	10,163
Stock based compensation		304
Allocated to value of warrants		(310)
Forgiveness of liability on personal guarantees		828
Common shares converted from unsecured promissory notes		442
Balance December 31, 2011	$	11,427

On February 18, 2011, the Company completed a private placement for total proceeds of $1,092 whereby 1,300,000 units were issued at $0.84 per unit. Each unit consisted of 1 common share plus 1 warrant exercisable for 1 common share of the Company at $1.03 per share with an expiry of February 18, 2013. The warrants were valued at $310 based upon the Black-scholes option pricing model.

On July 6, 2011 all outstanding and future payments owed to RS directors and their corporations for provision of personal guarantees were forgiven. The liability at July 6, 2011 in the amount of $828 was transferred as an increase in contributed surplus.

22. Change in non-cash working capital

	December 31, 2011	December 31, 2010
Increase (decrease) in accounts receivable	$ (2,034)	$ 1,103
Decrease in inventory	1,264	1,144
Decrease in prepaid expenses	10	26
Increase (decrease) in accounts payable	1,519	(3,111)
Other	-	1,190
	$ 759	$ 352

(Amounts are stated in thousands of Canadian dollars except for per share amounts)

23. Personnel expenses

	December 31, 2011	December 31, 2010
Wages and salaries	$ 4,001	$ 9,920
Canadian Pension Plan and Employment Insurance remittances	215	475
Equity-settled share-based payment transactions	245	52
Vehicle allowances	95	140
	$ 4,556	$ 10,587

24. Finance expenses

	December 31, 2011	December 31, 2010
Interest on convertible debentures	$ -	$ 2,716
Accretion on convertible debentures	193	2,833
Interest on long-term notes payable	310	-
Accretion on long-term notes payable	427	-
Net change in fair value of preferred shares	221	-
Interest on NRC loan	-	146
Other interest	569	249
	$ 1,720	$ 5,944

25. Deferred tax benefit

Unrecognized temporary differences:

Deferred tax assets have not been recognized in respect of the following temporary differences:

	December 31, 2011	December 31, 2010	January 1, 2010
Non capital loss carry-forwards	$ 172,173	$ 165,854	$ 147,651
Property plant and equipment	13,660	10,269	12,451
Other	3,387	2,954	4,402
	$ 189,220	$ 179,077	$ 164,504

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits.

During the year deferred tax of $558 was created on the bifurcation of the secured convertible debentures (Note 16) and $51 was amortized related to the accretion of the debentures during the year. The asset was released to income at year end as it is not probable that future taxable income will be available against which the Company can utilize the benefit.

The Company has non-capital losses for which no benefit has been recognized in the financial statements which expire as follows:

Period	2011	2010
2014	$ 8,870	$ 11,663
2015	14,509	14,509
2018 – 2031	148,794	139,682
Total	$ 172,173	$ 165,854

(Amounts are stated in thousands of Canadian dollars except for per share amounts)

25. Deferred tax benefit (continued)

Reconciliation of effective tax rate:

	2011	2010
Net loss before tax	(7,753)	(23,160)
Statutory income tax rate	26.5%	28.8%
Computed income tax recovery	(2,054)	(6,670)
Increase (decrease) result from:		
Change in unrecognized temporary differences	2,536	3,643
Other	(1,040)	3,027
	$ (558)	$ -

The decrease in the statutory tax rate from 2010 to 2011 was due to a reduction in the Canadian corporate tax rates as part of a series of corporate tax reductions previously enacted by the Canadian Federal Government.

26. Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Company activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Audit Committee oversees how management monitors compliance with the risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and accounts receivable.

Cash is maintained at major financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions of reputable credit and therefore bear minimal credit risk.

Credit risk from accounts receivable encompasses the default risk of the Company's customers. The maximum exposure is the carrying amount of accounts receivable. The Company holds no collateral or other security relating to accounts receivable other than insisting on direct wire pre-payment or the use of Letters of Credit for shipments outside of the United States and Canada.

(Amounts are stated in thousands of Canadian dollars except for per share amounts)

26. Financial risk management (continued)

The Company closely monitors the extension of credit and does not believe there is significant credit risk arising from existing accounts receivable based on historical collections and the creditworthiness of its customers, which is not already reflected in the financial statements. As at December 31, 2011, the Company had 74% (2010 – 33%) of outstanding accounts receivable from one customer. No one customer accounted for a disproportionately large portion of revenue in 2011.

The carrying amount of financial assets represents the maximum credit exposure. The exposure to credit risk at the reporting date was:

	December 31, 2011	December 31, 2010	January 1, 2010
Accounts receivable	$ 2,307	$ 275	$ 1,378
Cash	-	1,238	3,048
	$ 2,307	$ 1,513	$ 4,426

The maximum exposure to credit risk for loans and receivables by geographic region was:

	December 31, 2011	December 31, 2010	January 1, 2010
Canada	$ 546	$ 273	$ 1,376
United States	1,712	2	2
Other	49	-	-
	$ 2,307	$ 275	$ 1,378

The aging of loans and receivables was:

	Gross 12/31/2011	Provision 12/31/2011	Gross 12/31/2010	Provision 12/31/2010	Gross 1/1/2010	Provision 1/1/2010
Not past due	$ 1,429	$ -	$ 263	$ -	$ 1,340	$ -
Past due 0 to 30 days	670	-	8	-	20	-
Past due 31 to 60 days	21	-	-	-	-	-
Past due 61 to 120 days	172	35	-	-	-	-
More than 120 days	15	15	2	-	16	-
	$ 2,307	$ 50	$ 275	$ *	$ 1,376	$ -

Subsequent to year end $2,206 was collected from customers.

The movement in the allowance for impairment in respect of receivables during the year was:

	2011	2010
Balance at January 1	-	-
Impairment loss recognized	50	-
Balance at December 31	$ 50	-

At December 31, 2011 an impairment loss of $50 relates to a customer which has fallen into arrears on rental of sublet premises. The Company believes that the unimpaired amounts that are past due remain collectible based on historic payment patterns.

(Amounts are stated in thousands of Canadian dollars except for per share amounts)

26. Financial risk management (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations that are settled by delivering cash or other financial assets as they come due. Management uses internally prepared cash flow forecasts to ensure the Company has sufficient liquidity to meet its liabilities when due. The Company will seek to issue additional equity, obtain further debt facilities, and implement cost cutting strategies to meet its liquidity needs.

The contractual maturities of financial liabilities, including estimated interest payments are:

December 31, 2011	Carrying amount	Contractual cash flow	0 to 6 months	6 to 12 months	12 to 24 months	After 24 months
Accounts payable, accrued	2,911	2,911	2,911	-	-	-
Bank overdraft	28	28	28	-	-	-
Bank loan	7,000	7,000	7,000	-	-	-
Province of Ontario loan	2,000	2,000	2,000	-	-	-
Long term debt	793	865	147	147	294	277
Other liabilities	710	710	671	6	12	21
Secured convertible debenture	2,012	4,050	-	-	-	4,050
Redeemable preferred shares	1,614	-	-	-	-	1,614
	$ 17,068	$ 18,564	$ 12,757	$ 153	$ 306	$5,962

December 31, 2010	Carrying amount	Contractual cash flow	0 to 6 months	6 to 12 months	12 to 24 months	After 24 months
Accounts payable, accrued liabilities	1,992	1,992	1,992	-	-	-
Bank loan	7,000	7,000	-	-	-	7,000
Other liabilities	4,405	3,789	2,262	127	311	1,089
Long term notes payable, including interest	3,349	8,467	400	300	600	7,167
	$16,846	$21,248	$4,654	$427	$911	$15,256

(c) Currency risk

The Company is exposed to foreign currency risk on certain sales and raw material purchases, as well as on certain assets and liabilities denominated in United States dollars:

	2011 CAD	2011 USD	2010 CAD	2010 USD
Cash	19	19	581	584
Trade receivables	1,935	1,903	172	173
Trade payables	(347)	(341)	(65)	(65)
Net exposure	$ 1,607	$ 1,581	$ 688	$ 692

A strengthening of the Canadian dollar against the United States dollar at December 31 would have increased equity and profit or loss by:

	Equity	Profit or loss
December 31, 2011		
USD – 10% strengthening	$ 1,77	$ 161
December 31, 2010		
USD – 10% strengthening	$ 75	$ 69

A weakening of the Canadian dollar against the United States dollar would have had the equal but opposite effect, on the basis that all other variables remain constant.

(Amounts are stated in thousands of Canadian dollars except for per share amounts)

26. Financial instruments (continued)

(d) Interest rate risk

The interest rate profile of the Company's interest-bearing financial instruments was:

	2011	2010
Fixed rate instruments		
Financial assets	-	1,238
Financial liabilities	(2,793)	(6,382)
	$ (2,793)	$ (5,144)
Variable rate instruments		
Financial assets	146	145
Financial liabilities	(7,028)	(7,000)
	$ (6,882)	$ (6,855)

A change of 100 basis points in interest rates on the variable rate instruments at the reporting date would have increased equity deficiency and increased loss by $69 (2010 - $77).

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology, infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Senior management has responsibility for the development and implementation of controls and this is supported by development of overall Company standards for:

- Appropriate segregation of duties
- Reconciliation and monitoring of transactions
- Compliance with regulatory and legal requirements
- Reporting of losses and remedial action
- Ethical and business standards
- Risk mitigation, including insurance when this is effective.

(f) Capital management

The Company's objective when managing capital is to safeguard its ability to continue as a going concern and focus on growth within the current product base so that returns can be provided for shareholders and benefits for other stakeholders. Management defines capital as the Company's cash, long-term debt and shareholders' deficiency. The Company sets the amount of capital in proportion to risk and seeks to manage the capital structure and make adjustments to it in light of changes in economic conditions and the risk of the underlying assets. The Company's objective is met by retaining adequate capital to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. The Board of Directors does not establish quantitative return on capital criteria for management, but rather promotes sustainable operation and profitability. The Company is not subject to any externally imposed capital requirements.

(Amounts are stated in thousands of Canadian dollars except for per share amounts)

26. Financial instruments (continued)

	2011	2010
(Overdraft) cash	(28)	1,238
Short and long-term liabilities	11,841	13,382
Shareholders' deficiency	(10,525)	(9,012)
	$ 1,288	$ 5,608

(g) Fair values

The carrying values of financial assets and liabilities approximate their fair values. The valuation method for financial instruments carried at fair value can be derived from one of the following levels:

- Level 1: quoted prices in an active market 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. 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 redeemable preference shares are valued at Level 3.

27. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2011	2010
Less than 1 year	431	814
Between 1 and 5 years	1,043	1,420
	$1,474	$2,234

The Company leases a number of offices and factory facilities under operating leases. The leases typically run for a period of five years, with an option to renew after that date. Lease payments are increased annually to reflect (market rentals or inflation).

One of the leased properties has been sublet by the Company. The lease and subleases expire in June 2013. Sublease payments of $315 are expected to be received during the 2012 financial year.

During the year ended December 31, 2011 an amount of $880 was recognized as an expense in profit or loss in respect of operating leases (2010 - $1,108). An amount of $338 was recognized as revenue in respect of subleases in 2011 (2010 - $315).

(Amounts are stated in thousands of Canadian dollars except for per share amounts)

28. Operating segments

The Company's activities are comprised of one operating segment being the development, manufacturing and sales of composite products for infrastructure markets. The Company evaluates performance as one entity. During the year, the Company's revenue consisted entirely of utility pole sales. During the year 35% (2010 – 84%) of total sales were to one customer. Sales to customers in the United States totaled $2,766 (2010 - $300) and International sales totaled $1,372 (2010 - $1,683) with all other sales attributed to customers located in Canada. All non-current assets are in Canada.

29. Contingencies

In the ordinary course of business, the Company may be contingently liable for litigation and/or claims with customers, suppliers, former employees and third parties. Management believes that adequate provisions have been recorded in the accounts where applicable. Although, it may not be possible to estimate accurately the extent of potential costs and losses, if any, management believes that the ultimate resolution of such contingencies would not have a material effect.

30. Related party transactions

Key management personnel compensation

In addition to their salaries, the Company provides non-cash benefits to directors and executive officers. Executive officers participate in the Company's share option plan with all employees.

Certain former executive officers were entitled to a term of notice and upon termination of employment due to retirement or upon request of the company, 36 months gross salary, compensation for loss of benefits and average of prior year bonuses.

Key management personnel compensation comprised:

	2011	2010
Short term employee benefits	700	$1,044
Retirement benefits	1,069	-
Other long-term benefits	16	19
	$ 1,785	$ 1,063

Key management personnel and director transactions

Directors of the Company control 14.8% percent of the voting shares of the Company. Two directors hold executive positions in WCC, the secured convertible debenture holder (Note 16). During 2011, $4,050 had been advanced to RS under the debenture. The WCC appointed directors do not control voting shares of the Company.

A retirement obligation of $1,069 was accrued due to the retirement of the Company's former President and Chief Executive Officer pursuant to his executive employment agreement and as announced by the Company on November 18, 2011.

RS made management fee payments in the amount of $102 to WCC in the period between July 6, 2011 and December 31, 2011.

30. Related party transactions (continued)

During 2010, in exchange for $2,000, an unsecured promissory note along with 1,000,000 common shares of the Company (5,000 common shares on a post 1 for 200 consolidation basis) were issued to a corporation wholly-owned by a director of the Company. The unsecured promissory note bore interest of 12% per annum and was due November 1, 2010.

On October 12, 2010, in exchange for $900, additional unsecured promissory notes were issued to either directors of the Company or to corporations which they control. The unsecured promissory notes bore interest of 12% per annum and were due November 1, 2010.

On October 29, 2010, (in conjunction with the November 1, 2010 announcement of the $6,000 private placement of 240 units of RS) these unsecured promissory notes were exchanged for $2,900 of the Units. Interest of $73 was paid on these unsecured promissory notes.

During 2010, 37,818,539 common shares of the Company (189,093 common shares on a post 1 for 200 consolidation basis) were issued to either directors of the Company or to corporations which they control for interest due and settlement of the $25,000 unsecured convertible debenture.

During 2010, 244,360,748 common shares of the Company (1,221,804 common shares on a post 1 for 200 consolidation basis) were issued to either directors of the Company or to corporations which they control for interest due and settlement of the $10,000 secured convertible debenture.

Certain members of the Board of Directors, and prior directors, have agreed to provide limited liability guarantees (“Guarantees”) in favour of a Canadian Chartered bank (Note 12) guaranteeing all the obligations of the Company to the bank up to December 1, 2013. As at December 31, 2010 $545 of compensation for the provision of these Guarantees by the directors had been recorded in the financial statements. On July 6, 2011 all outstanding and future payments owed to RS directors and their corporations as consideration for the provision of the guarantees were forgiven by such persons. The liability of $828 was transferred to contributed surplus. The guarantees remain in place.

On February 18, 2011, the Company completed a private placement for total proceeds of $1,092 whereby 1,300,000 units at $0.84 per unit were issued. Each unit consists of 1 common share of the Company plus 1 warrant exercisable for 1 common share of the Company at $1.03 per share with an expiry of February 18, 2013. Of these 556,400 units were issued to directors or to corporations which they control.

On April 26, 2011, in exchange for $200, an unsecured promissory note was issued to a company controlled by a director of the Company. The unsecured promissory note bore interest at 12% per annum and was due July 1, 2011. On July 6, 2011 the unsecured promissory note was exchanged for common shares at a deemed price of $0.33 per common share.

In May 2011, in exchange for $900, unsecured promissory notes were issued to directors of the Company or to corporations which they control. The unsecured promissory notes bore interest at 12% per annum and were due July 1, 2011. On July 6, 2011 the unsecured promissory notes were exchanged for common shares at a deemed price of $0.33 per common share.

In June 2011, in exchange for $720, unsecured promissory notes were issued to directors of the Company or to corporations which they control. The unsecured promissory notes bore interest at 12% per annum and were due July 1, 2011. On July 6, 2011 the unsecured promissory notes were exchanged for common shares at a deemed price of $0.33 per common share.

(Amounts are stated in thousands of Canadian dollars except for per share amounts)

30. Related party transactions (continued)

On July 6, 2011 the outstanding 10% secured notes were cancelled in exchange for the receipt of preferred shares redeemable at the election of the Corporation for cash or common shares on May 13, 2016. In addition each holder of secured notes agreed to waive all accrued and unpaid interest outstanding pursuant to those notes and the security granted pursuant to the secured notes was released. 48% of these 10% secured notes were held by directors or corporations which they controlled and 48% of the preference shares are held by the same parties (Note 21).

On July 6, 2011 RS entered into an agreement with WCC whereby WCC will lend RS up to $6 million in the form of a secured convertible debenture (Note 16). The debenture entitles WCC to appoint three directors to the Board of Directors of RS. RS also has an agreement to pay monthly administration fees of $17 per month to WCC until the date on which the debentures are fully repaid or converted into common shares (Note 16 (b)); RS made payments in the amount of $100 to WCC in the form of administration fees for the period from July 6, 2011 to December 31, 2011.

31. Significant subsidiaries

		Ownership interest		
	Country of Incorporation	2011	2010	January 1, 2010
Resin Systems (USA) Inc.	USA	100%	100%	100%
RS Advanced Structures Inc.	Canada	100%	100%	100%
New Version Sports Ltd	Canada	100%	100%	100%
Uni-Seal USA, Ltd	USA	100%	100%	100%

32. Explanation of transition to IFRS

As stated in Note 3 (a), these are the Company's first annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 4 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Company's date of transition).

In preparing the opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition has affected the Company's financial position, financial performance and cash flows is set out in the following tables and accompanying notes.

In preparing these consolidated financial statements, the Company applied the following optional and mandatory exemptions from full retrospective application of IFRS.

32. Explanation of transition to IFRS (continued)

(a) Elected exemptions from full retrospective application:

i) Property, plant and equipment

IFRS 1 provides the option to measure property, plant and equipment at its fair value at the date of transition and using those amounts as deemed cost or using historical cost as if IFRS would have always been applied (retrospectively). The Company has elected to apply the fair value as deemed cost as at the transition date for property, plant and equipment. See Note 32 b) (i) Impairment of property, plant and equipment.

ii) Share-based payments

IFRS 1 provides the option to not have to retrospectively restate share-based payments for share options that were issued after November 22, 2002 and that had vested or were settled prior to January 1, 2010 (the date of Transition). The Company has elected to not restate share-based payments which had vested prior to the transition date.

iii) Business combinations

IFRS 1 provides the option to apply IFRS 3 Business Combinations prospectively from January 1, 2010 (the date of Transition). The Company has elected to not restate business combinations recorded in accordance with previous Canadian GAAP that took place prior to January 1, 2010 (the date of Transition).

iv) Cumulative translation differences

IFRS 1 provides the option to allow the cumulative translation gains and losses account to be reset to zero as at January 1, 2010 (the date of Transition). This provides relief from determining cumulative transition differences in accordance with IAS 21, from the date a subsidiary was acquired. The Company has elected to reset the cumulative translation gains and losses account to zero as at January 1, 2010 (the date of Transition).

(b) Mandatory exemptions from full retrospective application:

Estimates:

IFRS 1 prohibits the use of hindsight to create or revise previous estimates. The estimates made under previous Canadian GAAP. The estimates made under previous Canadian GAAP are consistent with their application under IFRS.

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in its financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRSs has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

(Amounts are stated in thousands of Canadian dollars except for per share amounts)

32. Explanation of transition to IFRS (continued)

(i) Reconciliation of the statement of financial position under Canadian GAAP to IFRS at January 1, 2010

	Note	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets				
Cash		$ 3,048	$ -	$ 3,048
Accounts receivable		1,378	-	1,378
Inventories		5,033	-	5,033
Prepaid expenses and deposits		240	-	240
Total current assets		9,699	-	9,699
Non-current assets				
Restricted cash		145	-	145
Property, plant and equipment	a	7,527	(5,868)	1,659
Total non-current assets		7,672	(5,868)	1,804
Total assets		$ 17,371	$ (5,868)	$ 11,503
Liabilities and shareholders' deficiency				
Current liabilities				
Accounts payable and accrued liabilities		$ 5,849	$ -	$ 5,849
Bank loans		4,000	-	4,000
Province of Ontario loan		2,000	-	2,000
Current portion of long-term debt		226	-	226
Unsecured convertible debenture	b	22,718	633	23,351
Other current liabilities	d	763	(78)	685
Total current liabilities		35,556	555	36,111
Non-current liabilities				
Secured convertible debentures		6,892	-	6,892
Long-term debt		1,033	-	1,033
Other long-term liabilities	d	652	(446)	206
Total non-current liabilities		8,577	(446)	8,131
Shareholders' deficiency				
Share capital		138,051	-	138,051
Warrants		2,746	-	2,746
Equity component of convertible debentures	b,c	10,415	(633)	9,782
Contributed surplus	e	9,830	(67)	9,763
Deficit		(187,804)	(5,277)	(193,081)
Total shareholders' deficiency		(26,762)	(5,977)	(32,739)
Total liabilities and shareholders' deficiency		$ 17,371	$ (5,868)	$ 11,503

(Amounts are stated in thousands of Canadian dollars except for per share amounts)

32. Explanation of transition to IFRS (continued)

(ii) Reconciliation of the statement of financial position under Canadian GAAP to IFRS at December 31, 2010

	Note	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets				
Cash		$ 1,238	$ -	$ 1,238
Accounts receivable		275	-	275
Inventories		3,889	-	3,889
Prepaid expenses and deposits		214	-	214
Total current assets		5,616	-	5,616
Non-current assets				
Restricted cash		145	-	145
Property, plant and equipment	a	1,562	(35)	1,527
Total non-current assets		1,707	(35)	1,672
Total assets		$ 7,323	$ (35)	$ 7,288
Liabilities and shareholders' deficiency				
Current liabilities				
Accounts payable and accrued liabilities		$ 1,992	$ -	$ 1,992
Bank loans		7,000	-	7,000
Province of Ontario loan		2,000	-	2,000
Current portion of long-term debt		240	-	240
Unsecured convertible debenture		-	-	-
Other current liabilities	d	260	(78)	182
Total current liabilities		11,492	(78)	11,414
Non-current liabilities				
Long-term notes payable		3,349	-	3,349
Long-term debt		793	-	793
Other long-term liabilities	d	1,112	(368)	744
Total non-current liabilities		5,254	(368)	4,886
Shareholders' deficiency				
Share capital	b	192,202	(633)	191,569
Warrants		5,497	-	5,497
Contributed surplus	e	10,254	(91)	10,163
Deficit		(217,376)	1,135	(216,241)
Total shareholders' deficiency		(9,423)	411	(9,012)
Total liabilities and shareholders' deficiency		$ 7,323	$ (35)	$ 7,288

(Amounts are stated in thousands of Canadian dollars except for per share amounts)

32. Explanation of transition to IFRS (continued)

(iii) Reconciliation of the statement of loss and comprehensive loss under Canadian GAAP to IFRS for the year-ended December 31, 2010

	Note	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
Sales		$ 12,133	$ -	$ 12,133
Cost of sales	a	17,954	(906)	17,048
Gross margin		(5,821)	906	(4,915)
Expenses				
Selling, general and administrative	d	11,148	78	11,225
Depreciation	a	205	(68)	137
Stock-based compensation	e	76	(24)	52
Impairment of property, plant and equipment	a	5,928	(4,859)	1,070
Loss from operating activities		23,178	(5,779)	17,399
Finance income		183	-	183
Finance expenses	e	(6,577)	633	(5,944)
Loss and comprehensive loss		$ 29,572	$ (6,412)	$ 23,160

The following discussion explains the significant differences between the Company's previous GAAP accounting policies and those applied by the Company under IFRS. IFRS policies have been retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternate treatment upon transition to IFRS for first time adopters. The descriptive note captions below correspond to the adjustments presented in the preceding reconciliations.

a) Material adjustments to the statement of cash flows

Adjustments to the Company's cash flow statement under IFRS – the reconciling items discussed between Canadian GAAP and IFRS policies have no material impact on the cash flows generated by the Company.

Consistent with the Company's accounting policy choice under IAS 7, Statement of Cash Flows, Interest paid has moved into the body of the Statement of Cash Flows, whereas they were previously disclosed as supplementary information.

32. Explanation of transition to IFRS (continued)

b) Material adjustments to the balance sheet and statement of loss and comprehensive loss

(i) Impairment of property, plant and equipment

In accordance with IFRSs, for purposes of assessing impairment of property, plant and equipment, management has identified cash-generating units (CGUs) based on the smallest group of assets that are capable of generating largely independent cash inflows. Under previous Canadian GAAP, property, plant and equipment was allocated to asset groups defined as the lowest level of assets and liabilities for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. In addition, the recoverable value-in-use for impairment analysis is based on discounted cash flows under IFRSs, unlike previous Canadian GAAP, where the recoverable amount was initially assessed on an undiscounted cash flow basis.

Under IFRS, management determined that the Company has one CGU and that the carrying value of its manufacturing assets was in excess of the associated recoverable amount (ie. value-in-use). Value in use was determined by using the discounted cash flow approach.

Estimating future cash flows requires judgment, considering past and actual performance as well as management's estimated market pick-up of its products as it reaches commercial break-even. The cash flows were discounted at a pre-tax rate of 31 percent (management's estimate of the Company's weighted-average cost of capital), and projected for 5 years using an average sales growth rate of 35 percent which is reflective of management's best estimate considering the timing, size and frequency of future sales orders.

As a result, at January 1, 2010 (the date of Transition) an impairment charge of $5,868 was recorded. At December 31, 2010 the impairment charge under Canadian GAAP of $5,928 was reversed and an impairment charge of $1,069 related to current period additions was recorded.

Additionally, depreciation associated on manufacturing assets was reduced by $974 (of which $906 included in "Cost of sales") for the year ended December 31, 2010.

(ii) Revaluation of the $25,000 unsecured convertible debenture

Under previous Canadian GAAP, the bifurcation of the debenture can be done by valuing either the debt or equity portion of the instrument (whichever is more reliable), with the residual value being allocated to the debt or equity portion, as the case may be. With respect to the 2005 $25,000 unsecured convertible debenture, the Company valued the equity portion first and allocated the residual to the liability portion.

For the purposes of determining the value of the debt and equity portion of the convertible debentures, IAS 32 Financial Instruments Presentation states that the fair value of the liability portion be valued first and the residual value recorded as the equity portion. In accordance with IAS 32, the Company performed a calculation and valued the liability portion of the $25,000 unsecured convertible debenture which resulted in an adjustment to the carrying value of the debenture of $633 with an offsetting charge to the "Equity component of convertible debentures".

32. Explanation of transition to IFRS (continued)

A market interest rate of 15% was used to value the liability portion.

There was no adjustment to the valuation of the $10,000 secured debenture as the Company valued the liability portion first and the residual value recorded as the equity portion.

At December 31, 2010 accretion of the $25,000 unsecured convertible debenture was decreased by $633.

(iii) Deferred tax liability

In accordance with IAS 32 Financial Instruments Presentation the equity portion of the convertible debentures is required to be tax affected and a resulting deferred tax liability created and amortized over the life of the debenture. Under previous Canadian GAAP there was no requirement to tax effect the equity portion and create a deferred tax liability.

In accordance with IAS 32, the equity portion of the $25,000 unsecured convertible debenture was tax effected. However, the Company had sufficient unrecognized deferred tax assets to offset this deferred tax liability.

Similarly, the equity portion of the $10,000 secured convertible debenture was tax effected. However, the Company had sufficient unrecognized deferred tax assets to offset this deferred tax liability.

(iv) Sale and leaseback transaction

Under IFRS 17 Leases, when a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any gain or loss shall be recognized into income immediately.

In 2005, the Company entered into a sale and leaseback transaction with respect to one of its properties resulting in a gain on the transaction. Under previous Canadian GAAP any gain or loss on the sale and leaseback transaction is recognized over the life of the lease.

At the date of Transition, January 1, 2010, the Company has recognized the remaining balance of the gain into income and reduced the corresponding amounts in “Other current liabilities” and “Other long-term liabilities”, in accordance with IFRS \17, in the amount of $78 and $446, respectively.

As at December 31, 2010 an adjustment of $78 was recorded to reverse the amortization of the gain on the sale and leaseback previously recorded under Canadian GAAP.

(v) Stock-based payments

Under IFRS 2 Share-based Payments, with respect to stock options, the options are to be expensed based upon a graded vesting schedule which resulted in an adjustment at January 1, 2010 (the date of Transition) of $67.

At December 31, 2010 Stock-based compensation was reduced by $24.