SAMPLE MANUFACTURING COMPANY LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
Year ended December 31, 2011

BDO

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For the year ended December 31, 2011

The information contained in these sample financial statements are of a general nature and are not intended to address the particular circumstances of any particular entity. Although we endeavour to provide accurate information, there can be no guarantee that such information is accurate as of the date on which it is received, or that it will remain so in the future. No action should be taken, or refrained from, without appropriate professional advice and after an examination of the facts and circumstances of the particular situations. No responsibility is assumed or implied for any loss sustained by any person or organisation that relies on the illustrative financial statements.

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The sample financial statements are based on the following assumptions:

- The Statement of Comprehensive Income has been presented by function with the related nature of costs disclosures provided in the Notes;
- Property, plant and equipment will be accounted for using the cost model;
- The Company does not have any complex financial instruments or financing transactions;
- The Company has early adopted the amendments to IFRS 1 which replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs'

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO Canada LLP to discuss these matters in the context of your particular circumstances. BDO Canada LLP, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

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Sample Manufacturing Company Limited

Consolidated Statement of Financial Position
As at December 31, 2011
References: IAS 1.10(a), IAS 1.113, IAS 1.138, IAS 1.54, IAS 1.60, IAS 1.61, IAS 1.66, IAS 1.78

Reference:		**2011**	2010	January 1, 2010
IAS 1.54-.56	**Assets**			
	Current assets			
	Cash and cash equivalents	**$xxx**	$xxx	$xxx
	Trade and other receivables (Note 4)	**xxx**	xxx	xxx
	Inventories (Note 5)	**xxx**	xxx	xxx
	Prepaid expenses and deposits	**xxx**	xxx	xxx
	Investment tax credits receivable (Note 6)	**-**	xxx	xxx
	Total current assets	**xxx**	xxx	xxx
	Property, plant and equipment (Note 7)	**xxx**	xxx	xxx
	Intangibles (Note 8)	**xxx**	xxx	xxx
	Goodwill (Note 9)	**xxx**	xxx	xxx
	Total assets	**$xxx**	$xxx	$xxx
	Liabilities			
IAS 1.69	Current liabilities			
	Bank indebtedness	**$xxx**	$xxx	$xxx
	Accounts payable and accrued liabilities (Note 10)	**xxx**	xxx	xxx
	Provisions (Note 11)	**xxx**	xxx	xxx
	Income taxes payable (Notes 12)	**xxx**	-	-
	Current portion of finance leases (Note 13)	**xxx**	xxx	xxx
	Current portion of long term debt (Note 14)	**xxx**	xxx	xxx
	Total current liabilities	**xxx**	xxx	xxx
	Finance leases (Note 13)	**xxx**	xxx	xxx
	Long term debt (Note 14)	**xxx**	xxx	xxx
	Deferred tax liabilities (Note 12)	**xxx**	xxx	xxx
	Total liabilities	**$xxx**	$xxx	$xxx
IAS 1.54	**Equity**			
IAS 1.78	Share capital (Note 15)	**$xxx**	$xxx	$xxx
	Contributed surplus	**xxx**	xxx	xxx
	Retained earnings	**xxx**	xxx	xxx
	Total equity	**$xxx**	$xxx	$xxx
	Total liabilities and equity	**$xxx**	$xxx	$xxx

Signed on behalf of the Board of Directors by: _____Director

_____Director

Reference:		**2011**	2010
IAS 1.82	**Revenue**	**$xxx**	$xxx
	Cost of Sales	**xxx**	xxx
	Gross Profit	**xxx**	xxx
	General and administrative	**xxx**	xxx
	Other Expenses	**xxx**	xxx
	Income from operations	**xxx**	xxx
	Finance Costs	**xxx**	xxx
	Income before income taxes	**xxx**	xxx
IAS 12.77	**Provision (recovery) for income taxes** (Note 12)		
	Current income tax	**xxx**	xxx
	Deferred income tax	**xxx**	xxx
	Net Income and Comprehensive income (loss) for the year	**$xxx**	$xxx
IAS 33.66	**Earnings (loss) per common share, basic** (Note 20)	**$ x.xx**	$ x.xx
	Earnings (loss) per common share, diluted (Note 20)	**$ x.xx**	$ x.xx

Reference:		Share capital	Contributed surplus	Retained earnings	Total equity
IAS 1.106					
	Balance at January 1, 2010	$xxx	$xxx	$xxx	$xxx
	Net income (loss)	-	-	xxx	xxx
	Share capital issued	xxx	-	-	xxx
	Stock options issued	-	xxx	-	xxx
	Options exercised	xxx	(xxx)	-	xxx
	Balance, December 31, 2010	**$xxx**	**$xxx**	**$xxx**	**$xxx**
	Net Income	-	-	xxx	xxx
	Share capital issued	xxx	-	-	xxx
	Stock options issued	-	xxx	-	xxx
	Options exercised	xxx	(xxx)	-	xxx
	Balance, December 31, 2011	**$xxx**	**$xxx**	**$xxx**	**$xxx**

Reference:		**2011**	2010
IAS 7.18-.21	**Operating activities**		
	Net income for the year	**$xxx**	$xxx
	Adjustments for:		
	Depreciation of property, plant and equipment	**xxx**	xxx
	Amortization of intangible assets	**xxx**	xxx
	Stock compensation expense	**xxx**	xxx
	Finance costs	**xxx**	xxx
	Loss /(gain) on sale of property, plant and equipment	**xxx**	(xxx)
	Income tax expense	**xxx**	xxx
		xxx	xxx
	Changes in other assets and liabilities		
	Trade and other receivables	**(xxx)**	xxx
	Inventories	**(xxx)**	xxx
	Prepaid expenses and deposits	**(xxx)**	xxx
	Investment tax credits receivable	**xxx**	(xxx)
	Accounts payable and accrued liabilities	**xxx**	(xxx)
		xxx	xxx
IAS 7.35	Income taxes paid (recovered)	**xxx**	xxx
IAS 7.31	Interest paid	**xxx**	xxx
IAS 7.10	**Total cash inflows (outflows) from operating activities**	**$xxx**	$xxx
IAS 7.16	**Investing activities**		
	Purchase of property, plant & equipment	**$(xxx)**	$(xxx)
	Purchase of intangibles	**-**	(xxx)
	Sale of property, plant, and equipment	xxx	-
	Total cash inflows (outflows) from investing activities	**$(xxx)**	$(xxx)
IAS 7.17	**Financing activities**		
	Repayments of finance leases	**$(xxx)**	$(xxx)
	Repayments of loans	**(xxx)**	(xxx)
	Total cash inflows (outflows) from financing activities	**$(xxx)**	$(xxx)
	Net increase (decrease) in cash and cash equivalents	**xxx**	xxx
	Cash and cash equivalents at beginning of year	**xxx**	xxx
IAS 7.45	**Cash and cash equivalents at end of year**	**$xxx**	$xxx

Reference:

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

IAS 1.110(e)
IAS 1.51
IAS 1.113
IAS 1.138

Reporting Entity

Sample Manufacturing Company Limited (the Company) is incorporated in Ontario and is a limited liability company. The Company operates as one operating segment as a widget manufacturer in Ontario. The Company head office is located at 123 Any Street, Anytown, Ontario.

IAS 10.17

These financial statements have been authorized for issue by the Board of Directors on Month XX, 2012.

IAS 1.112(a)
IAS 1.16

Basis of Presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB). This is the first time that the Company has prepared its financial statements in accordance with IFRS, having previously prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles (pre-changeover Canadian GAAP). Details of how the transition from pre-changeover Canadian GAAP to IFRS has affected the financial position, financial performance and cash flows are disclosed in Note 22.

IAS 1.117

These financial statements were prepared under the historical cost convention.

IAS 21.8
IAS 21.53
IAS 1.51

The Company's functional and presentation currency is the Canadian dollar. The financial statements are presented in thousands of Canadian dollars.

IAS 1.122
IAS 1.125

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

IAS 1.138

Basis of Consolidation

Where the company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the company and its subsidiary ("the Company") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognized at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated Statement of Comprehensive Income from the date on which control is obtained. They are deconsolidated from the date control ceases.

Reference:

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

IFRS 7.B5(f)
IAS 39.58

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits at call with banks, other short-terms highly liquid investments with original maturities of three months or less. For cash flow statement presentation purposes, cash and cash equivalents includes bank overdrafts.

IAS 2.36

Inventories

Inventories, comprising finished goods and work in process awaiting further processing and sale, are valued initially at cost and subsequently at the lower of cost and net realizable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Raw materials are valued initially at cost and subsequently at the lower of cost and net realizable value. Cost is determined using the weighted average cost method and includes direct manufacturing expenditures and an appropriate portion of normal manufacturing overhead expenditure. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Obsolete, redundant and slow moving inventories are identified and written down to net realizable values.

IAS 20.39

Government Grants

Government grants, including investment tax credits, received on capital expenditures are deducted in arriving at the carrying amount of the asset purchased. Grants for operating expenditures are netted against the cost incurred by the Company. Where retention of a government grant is dependent on the Company satisfying certain criteria, it is initially recognized as liability. When the criteria for retention have been satisfied, the liability balance is released to the consolidated statement of operations and comprehensive income or netted against the asset purchased.

Investment tax credits are recorded when it is probable that the credits will be realized.

IAS 16.6

Property, Plant and Equipment

IAS 6.73

Recognition and Measurement

IAS 16.16
IAS 16.30

Property, plant and equipment is initially recorded at cost being the purchase price and directly attributable cost of acquisition required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs.

Property, plant and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment (losses).

Where an item of property, plant and equipment comprises significant components with different useful lives, the components are accounted for as separate items of plant and equipment.

Reference:

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Subsequent Costs

The cost of replacing 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 are recognized in profit or loss as incurred.

Major Maintenance and Repairs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Gains and Losses

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, and are recognized net within gain or loss from disposal of equipment in profit or loss.

IAS 16.73
IAS 16.51

Depreciation

Depreciation is recognized in net income and begins when the asset is available for use, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation is provided on a straight line basis over the estimated useful life of the assets as follows:

Manufacturing equipment	8-10 years
Tools and dies	2 years
Computer equipment	5 years
Office equipment	5 years
Automotive equipment	3 years
Leasehold improvements	Straight line over lease term

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

IAS 17.7-19

Leased Assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the Consolidated Statement of Comprehensive Income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rentals payable under the lease are charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

Reference:

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

IAS 38.118

Intangible Assets

Intangible assets include acquired and internally developed software used in production or administration and brand names and customer lists that qualify for recognition as an intangible asset in a business combination. They are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing as described below. The following useful lives are applied:

- Software: 3 years
- Patents: 15 years
- Customer Lists: 4 years

The patents and customer lists were acquired as part of the business combination in 2008. The software is an internally developed intangible asset.

Expenditure on internally developed products is capitalized if it can be demonstrated that:

- It is technically feasible to develop the product for it to be sold;
- Adequate resources are available to complete the development;
- There is an intention to complete and sell the product;
- The Company is able to sell the product;
- Sale of the product will generate future economic benefits; and
- Expenditure on the project can be measured reliably.

Capitalized development costs are amortized over the periods the Company expects to benefit from selling the products developed. The amortization expense is included within the cost of sales line in the Consolidated Statement of Comprehensive Income.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognized in the Consolidated Statement of Comprehensive Income as incurred.

IAS 1.117

Goodwill

Goodwill represents the excess of the cost of a business combination over, in the case of business combinations completed prior to 1 January 2010, the Company's interest in the fair value of identifiable assets and liabilities acquired and, in the case of business combinations completed on or after 1 January 2010, the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

For business combinations completed prior to 1 January 2010, cost comprised the fair value of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition. Changes in the estimated value of contingent consideration arising on business combinations completed by this date were treated as an adjustment to cost and, in consequence, resulted in a change in the carrying value of goodwill.

For business combinations completed on or after 1 January 2010 and going forward, cost comprises the fair value of assets given, liabilities assumed and equity instruments issued, plus the amount of any non-controlling interests in the acquiree plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree. Contingent consideration is included in cost at its acquisition date fair value and, in the case of contingent consideration classified as a financial liability, remeasured subsequently through profit or loss. Any direct costs of acquisition are recognized immediately as an expense.

Goodwill is capitalized with any impairment in carrying value being charged to the Consolidated Statement of Comprehensive Income. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the Consolidated Statement of Comprehensive Income on the acquisition date.

Reference:

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

IAS 36.12

Impairment of Non-Financial Assets (excluding inventory)

IAS 36.66
IAS 36.130

Impairment tests on goodwill are undertaken annually at the financial year end. Other non-financial assets including property, plant and equipment and intangible assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (CGU), which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. The Company has two CGUs for which impairment testing is performed.

Goodwill is allocated on initial recognition to those CGUs that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company at which management monitors goodwill. CGUs to which goodwill has been allocated are tested for impairment at least annually.

Impairment losses for CGUs reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the CGUs. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the CGU's recoverable amount exceeds its carrying amount.

Impairment charges are included in the Consolidated Statement of Comprehensive Income in general and administrative expenses.

IFRS 7.21
IFRS 7.B5

Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are measured initially at fair value plus directly attributable transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently depending on their classification as discussed below.

Financial Assets

Cash and cash equivalents, trade and other receivables and loans that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Loans and receivables are initially recognized at the fair value and subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Consolidated Statement of Comprehensive Income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated allowance.

Reference:

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial Instruments (cont'd)

Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

The Company does not have any financial assets classified as Fair Value Through Profit or Loss, Held to Maturity or Available-for-Sale.

Financial Liabilities

The Company's financial liabilities include bank indebtedness, trade and other payables and loans. These are classified as Other Financial Liabilities and are measured at fair value on initial recognition, net of transactions costs and subsequently at amortized cost using the effective interest rate method.

The Company does not have any financial liabilities classified as Fair Value Through Profit or Loss.

IAS 37.10

Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

IAS 1.32

Income Taxes

IAS 12.12
IAS 12.15
IAS 12.24
IAS 12.34

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

IAS 12.37
IAS 12.46-47
IAS 12.58

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets for unused tax (losses), tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to 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.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities / (assets) are settled / (recovered).

Reference:

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

IFRS 7.76

Share Capital

Share capital represents shares that have been issued by the Company measured at the proceeds received, net of direct issue costs.

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

The Company's ordinary shares are classified as equity instruments.

IFRS 2.12
IFRS 2.46

Share-based Payments

IFRS 3.13
IAS 1.79(b)

As part of its remuneration, the Company grants stock options to buy common shares of the Company to its employees. The fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is measured at the grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates

All share-based remuneration is ultimately recognized as an expense in The Consolidated Statement of Comprehensive Income with a corresponding credit to contributed surplus. Upon exercise of share options, the proceeds received net of any directly attributable transaction costs and the amount originally credit to contributed surplus are allocated to share capital.

IAS 18.35

Revenue Recognition

Revenue from the sale of widgets is recognized when the Company has transferred the significant risks and rewards of ownership to the buyer and it is probable that the Company will receive the previously agreed upon payment. Significant risks and rewards are generally considered to be transferred to the buyer when the customer has taken delivery of the widgets. Where the buyer has a right of return, the Company defers recognition of revenue until the right to return has lapsed. However, where high volumes of sales are made to established wholesale customers, revenue is recognized in the period where the goods are delivered less an appropriate provision for returns based on past experience. The same policy applies to warranties.

IAS 23.8

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Financing costs are capitalized at interest rates relating to loans specifically raised for that purpose, or at the weighted average borrowing rate where the general pool of Company borrowings is utilized. Capitalization of borrowing costs ceases when the asset is substantially complete. Other borrowing costs are expensed in the period in which they are incurred and reported in 'finance costs'.

IAS 21.23

Foreign Currency Translation

The Company's presentation currency is the Canadian dollar ("$"). The functional currency of the Company and its subsidiary is the Canadian dollar.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, foreign currency monetary assets and liabilities are translated using the reporting date foreign exchange rate. Foreign currency non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in the Consolidated Statement of Comprehensive Income.

Reference:

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

IAS 8.30

Standards, Amendments and Interpretations Not Yet Effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2011 or later years. None of these is expected to have a significant effect on the consolidated financial statements, except for the following:

- The Company has early adopted amendments to IFRS 1 which replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs'. This eliminates the need for the Company to restate derecognition transactions that occurred before the date of transition to IFRSs. The amendment is effective for year-ends beginning on or after July 1, 2011; however, the Company has early adopted the amendment. The impact of the amendment and early adoption is that the Company only applies IAS 39 derecognition requirements to transactions that occurred after the date of transition i.e. January 1, 2010.

The following standards and interpretations have been issued but are not yet effective:

- IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Company is in the process of evaluating the impact of the new standard on the accounting for the available-for-sale investment.

- IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is yet to assess the full impact of IFRS 10 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

- IFRS 11 describes the accounting for arrangements in which there is joint control. A party to joint arrangement accounts for its rights and obligations that arise from the arrangement. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers. The Company is yet to assess the full impact of IFRS 11 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

- IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Company is yet to assess the full impact of IFRS 12 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

- IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Company is yet to assess the full impact of IFRS 13 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

Reference:

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

IAS 1.122
IAS 1.125
IAS 1.129

The Company makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Judgments

Leases

In applying the classification of leases in IAS 17, management considers some of its equipment leases as finance lease arrangements and its building and office equipment leases as operating. In some cases, the lease transaction is not always conclusive, and management uses judgment in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership or an operating lease. Details of the lease terms are provided in Note 13.

CGU Determination

Identification of an asset's cash-generating unit under IAS 36 involves judgment. If the recoverable amount cannot be determined for an individual asset, management identifies the lowest aggregation of assets that generate largely independent cash inflows. Management has determined that there are two CGUs for impairment testing purposes. Details are provided in Note 9.

Components

In applying IAS 16 for the recognition of property, plant and equipment, management applies judgment to determine aggregation of assets. The Standard does not prescribe the unit of measure for recognition, or what constitutes an item of property, plant and equipment. Thus, judgment is required in applying the recognition criteria to the Company's specific circumstances. The Company aggregates individually insignificant items, such as moulds, tools and dies. Management has determined that there are no significant components to property, plant, and equipment that should be segregated

Estimates and Assumptions

Warranty

The company uses historical warranty claim information, as well as recent trends that might suggest that post cost information may differ from future claims. Factors that could impact the estimated claim information include the success of the Company's productivity and quality initiatives, as well as parts and labour costs. Actual claims costs may differ from management's estimates depending upon whether the actual claims costs were significantly different than the estimates.

Reference: **2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONT'D)**

Impairment

An impairment loss is recognized for the amount by which an asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Company's assets within the next financial year.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Useful Lives of Depreciable Assets

Management reviews the useful lives of depreciable assets including property, plant and equipment and intangible assets at each reporting date based on the expected utility of the assets to the Company. Actual results, however, may vary due to technical obsolescence. Details of the Property, Plant and Equipment and Intangibles useful lives are provided in Note 7 and Note 8 respectively.

Inventories

Inventories are measured at the lower of cost and net realizable value. In estimating net realizable values, management takes into account the most reliable evidence available at the times the estimates are made. The Company's business is subject to technology changes which may cause selling prices to change rapidly. Moreover, future realization of the carrying amounts of inventory assets is affected by price changes in different market segments. Details of the inventory balances are provided in Note 5.

Income Taxes

The Company periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities. The details of the income tax expense are provided in Note 12.

Reference:

3. SUBSIDIARIES

IAS 27.9

The Company has a wholly owned subsidiary, Manufacturing SubCo, that performs research and development activities. The subsidiary was acquired in 2008 and is located in Anytown, Ontario.

IAS 1.77
IAS 1.78(b)
IFRS 7.8(c)
IFRS 7.36
IFRS 7.25

4. TRADE AND OTHER RECEIVABLES

Trade and other receivables are comprised of the following:

	2011	2010	Jan 1, 2010
Trade receivables	**$xxx**	$xxx	$xxx
Allowance for doubtful debts	**(xxx)**	(xxx)	(xxx)
Other receivables	**xxx**	xxx	xxx
	$xxx	$xxx	$xxx

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

Other receivables relate to interest receivable.

The average credit period of the Company's sales is xx days. The Company has financial risk management policies in place to ensure that all receivables are received within the pre-agreed credit terms.

Included in trade and other receivables are receivables with a carrying value of $xxx (December 31, 2010 - $xxx; January 1, 2010 - $xxx) that are past due but have not been provided for. The past due amounts are considered recoverable as they relate to customers with no default history. The following table provides details on the age of trade receivables:

	2011	2010	Jan 1, 2010
0 to 30 days	**$xxx**	$xxx	$xxx
31 to 60 days	**xxx**	xxx	xxx
61 to 90 days	**xxx**	xxx	xxx
91 to 365 days	**xxx**	xxx	xxx
Greater than 365 days	**xxx**	xxx	xxx

Amounts owing from x customers comprised xx% of the accounts receivable balance at December 31, 2011 (xx% - December 31, 2010; xx% - January 1, 2010). There was no significant change in the credit quality of these x customers over that time.

Movements on in the allowance for doubtful debts are as follows:

	2011	2010
Opening balance	**$xxx**	$xxx
Impairment losses provided for	**xxx**	xxx
Amounts written off during the year as uncollectible	**(xxx)**	(xxx)
Amounts recovered during the year	**-**	xxx
Closing balance	**$xxx**	$xxx

At December 31, 2011, receivables of $xxx (December 31, 2010 - $xxx; January 1, 2010 - $xx) were impaired and provided for. Impairment was determined based on payment history and collection efforts.

Reference:

5. INVENTORIES

IAS 2.36(b)(c)

	2011	2010	Jan 1, 2010
Raw materials	**$xxx**	$xxx	$xxx
Work in process	**xxx**	xxx	xxx
Finished goods	**xxx**	xxx	xxx
	$xxx	$xxx	$xxx

During the year inventories of approximately $xxx (2010 - $xxx) were written off. Cost of sales represents the costs of inventories expensed in the year.

IAS 20.39

6. INVESTMENT TAX CREDITS

The Company claims research deductions and related tax credits for income tax purposes based on management's interpretation of the applicable income tax legislation. These claims are subject to audit by the income tax authorities and any adjustments that result could reduce the tax credits recorded.

The net research expenses consist of the following:

	2011	2010
Research expenses:		
Materials	**$xxx**	$xxx
Wages and salaries	**xxx**	xxx
	xxx	xxx
Less:		
Investment tax credits	**(xxx)**	(xxx)
Net research expenses	**$xxx**	$xxx

Reference:

IAS 6.73(d)(e)

7. PROPERTY PLANT AND EQUIPMENT

	Manufacturing equipment	Manufacturing equipment leased	Tools and Dies	Computer Equipment	Office Equipment	Automotive Equipment	Leasehold Improvements	Total
Cost								
Balance as of January 1, 2010	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx
Additions	xxx	xxx	xxx	xxx	xxx	-	xxx	xxx
Disposals	-	-	-	-	-	-	-	-
Balance as of December 31, 2010	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx
Additions	xxx	xxx	xxx	xxx	-	-	xxx	xxx
Disposals	(xxx)	-	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)
Balance as of December 31, 2011	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx
Accumulated depreciation and impairment losses								
Balance as of January 1, 2010	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx
Depreciation for the year	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Impairment (losses)	-	-	-	-	-	-	-	-
Disposals	-	-	(xxx)	(xxx)	-	-	-	-
Balance as of December 31, 2010	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx
Depreciation for the year	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Impairment (losses)	-	-	-	-	-	-	-	-
Disposals	(xxx)	-	-	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)
Balance as of December 31, 2011	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx
Net Book Value								
At January 1, 2010	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx
At December 31, 2010	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx
At December 31, 2011	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx	$xxx

Reference:

IAS 38.118

8. INTANGIBLE ASSETS

	Customer lists (acquired)	Patents (acquired)	Software (internally generated)	Total
Cost				
Balance as of January 1, 2010				
	$xxx	**$xxx**	**$xxx**	**$xxx**
Additions	-	-	xxx	xxx
Disposals	-	(xxx)	-	-
Balance as of December 31, 2010				
	$xxx	**$xxx**	**$xxx**	**$xxx**
Additions	-	-	xxx	xxx
Disposals	-	-	-	-
Balance as of December 31, 2011				
	$xxx	**$xxx**	**$xxx**	**$xxx**
Accumulated amortization and impairment losses				
Balance as of January 1, 2010				
	$xxx	**$xxx**	**$xxx**	**$xxx**
Amortization	-	xxx	-	xxx
Impairment (losses)				
Balance as of December 31, 2010				
	$xxx	**$xxx**	**$xxx**	**$xxx**
Amortization	xxx	-	xxx	xxx
Impairment (losses)	xxx	xxx	xxx	xxx
Balance as of December 31, 2011				
	$xxx	**$xxx**	**$xxx**	**$xxx**
Net Book Value				
At January 1, 2010	**$xxx**	**$xxx**	**$xxx**	**$xxx**
At December 31, 2010	**$xxx**	**$xxx**	**$xxx**	**$xxx**
At December 31, 2011	**$xxx**	**$xxx**	**$xxx**	**$xxx**

Reference:

9. GOODWILL

IAS 36.134

The Company has two cash-generating units: CGU 1 and CGU 2. For purposes of testing for impairment, it allocated goodwill as follows:

	Net Book Value of Goodwill at:		
	2011	2010	Jan 1, 2010
CGU 1	**$xxx**	xxx	xxx
CGU 2	**$xxx**	xxx	xxx

The Company tested both of its cash-generating units for impairment at December 31, 2011, December 31, 2010 and January 1, 2010 by comparing their carrying amounts to their recoverable amount. It determined each cash-generating unit's recoverable amount based on its value in use, calculated using cash flow projections derived from a financial budget approved by management for a period of three years extrapolated beyond this period using an assumed annual growth rate of x% for each segment. The Company discounted these estimates of future cash flows to their present value using a pre-tax discount rate of x%.

The growth rates reflect the long-term average growth rates for the product lines and industries of the CGUs. Operating margins have been based on past experience and future expectations in the light of anticipated economic and market conditions. Discount rates are based on management's assessment of specific risks related to the cash generating unit.

The Company did not make any changes to the valuation methodology used to assess goodwill impairment since the last annual impairment test.

The Company did not identify any impairment loss for either of its cash-generating units at any of the dates disclosed and there is no accumulated impairment loss on goodwill. At the end of the reporting period, management does not believe that a reasonably possible change in any of the other key assumptions would cause the carrying amount of any of the cash generating units to exceed their recoverable amount.

IAS 1.77
IFRS 7.8

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2011	2010	Jan 1, 2010
Trade payables	**$xxx**	$xxx	$xxx
Accrued liabilities	**xxx**	xxx	xxx
Other payables	**xxx**	xxx	xxx
	$xxx	$xxx	$xxx

The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms. The carrying amount of trade and other payables approximate fair value.

IAS 37.84-.85

11. PROVISIONS

For certain products the Company has incurred an obligation to exchange the item if it breaks prematurely due to a lack of quality through its warranty program or give a refund if a customer is not satisfied. Revenue for the sale of the products is recognized once the good is delivered; however, a provision based on previous experience is recognized at the same time (revenue is adjusted for the amount of the provision). The movement in the provision is as follows:

Opening balance at Jan 1, 2010	$xxx
Additional provision made	xxx
Amounts used during year	(xxx)
Unused amounts reversed	(xxx)
Balance at Dec 31, 2010	$xxx
Additional provision made	xxx
Amounts used during year	(xxx)
Unused amounts reversed	(xxx)
Balance at Dec 31, 2011	**$xxx**

Reference:
IAS 12.79
IAS 12.80
IAS 12.81

12. INCOME TAXES

The significant components of tax expense included in net income are composed of:

	2011	2010
Current tax expense		
Based on current year taxable income	**$ xxx**	$ xxx
Adjustments for over / under provision in prior periods	**xxx**	xxx
Total current tax	**$ xxx**	$ xxx
Deferred tax expense		
Origination and reversal of temporary differences	**$ xxx**	$ xxx
Change in unrecognized deferred tax assets	**xxx**	xxx
Recognition of previously unrecognized tax (losses)	**xxx**	xxx
Reduction in tax rate	**xxx**	xxx
Total income tax expense (recovery)	**$ xxx**	$ xxx

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in Canada applied to profits for the year are as follows:

	2011	2010
Net income for the year	**$ xxx**	$ xxx
Expected taxes based on the statutory rate of x%	**xxx**	xxx
Reduction due to manufacturing and processing credit	**(xxx)**	(xxx)
Non deductible portion of expenses	**xxx**	xxx
Change in tax rates	**xxx**	xxx
Over (under) provision in prior years	**xxx**	xxx
Other	**xxx**	xxx
Total income tax expense (recovery)	**$ xxx**	$ xxx

The approximate tax effect of each item that gives rise to the Company's deferred tax assets and liabilities are as follows:

	Opening Balance at Jan 1, 2010	Recognized in Net Income	Recognized in Equity	Closing Balance at Dec 31, 2010
Property, plant & equipment	$xxx	$xxx	$-	$xxx
Intangibles	xxx	xxx	-	xxx
Investment tax credits receivable	xxx	xxx	-	xxx
Other	xxx	-	xxx	xxx
Deferred tax assets	xxx	$xxx	$xxx	$xxx
Finance leases	xxx	xxx	-	xxx
Non-deductible reserves	xxx	xxx	-	xxx
Deferred tax liabilities	$xxx	$xxx	$-	$xxx

	Opening Balance at Jan 1, 2011	Recognized in Net Income	Recognized in Equity	Closing Balance at Dec 31, 2011
Property, plant & equipment	$xxx	$xxx	$-	$xxx
Intangibles	xxx	xxx	-	xxx
Investment tax credits receivable	xxx	xxx	-	xxx
Other	xxx	-	xxx	xxx
Deferred tax assets	xxx	$xxx	$xxx	$xxx
Finance leases	xxx	xxx	-	xxx
Non-deductible reserves	xxx	xxx	-	xxx
Deferred tax liabilities	$xxx	$xxx	$-	$xxx

Reference:

12. INCOME TAXES (CONT'D)

The movement on the deferred tax liabilities and deferred tax assets is as shown below:

	2011	2010	Jan 1, 2010
Deferred tax liabilities			
Deferred tax liabilities to be settled within 12 months	**$ xxx**	$ xxx	$ xxx
Deferred tax liabilities to be settled after more than 12 months	**xxx**	xxx	Xxx
	$ xxx	$ xxx	$ xxx
Deferred tax assets			
Deferred assets to be settled within 12 months	**$ xxx**	$ xxx	$ xxx
Deferred tax assets to be settled after more than 12 months	**xxx**	xxx	xxx
		$ xxx	**$ xxx**
	$ xxx		

IAS 17.31

13. LEASES

Finance Leases - lessee

Finance leases relate to manufacturing equipment (net carrying amount $xx – 2010 - $xx, January 1, 2010 - $xx) with lease terms of 4 to 6 years payable in monthly installments in advance. Such assets are generally classified as finance leases as the rental period amounts to the estimated useful economic life of the assets concerned and often the Company has the right to purchase the assets outright at the end of the minimum lease term by paying a nominal amount. The Company's obligations under finance leases are secured by the lessor's title to the leased assets. Interest rates range from x.xx% to x.xx%. The fair value of the of the finance lease liabilities approximated carrying value.

Future finance lease payments are due as follows:

(a) Minimum lease payments

	2011	2010	Jan 1, 2010
No later than 1 year	**$xxx**	$xxx	$xxx
Later than 1 year, but no later than 5 years	**-**	xxx	Xxx
Later than 5 years	**-**	-	-
	xxx	$xxx	$xxx
Less: future finance charges	**(xxx)**	(xxx)	(xxx)
Present value of minimum lease payments	**$xxx**	$xxx	$xxx

(b) Present value of minimum lease payments

	2011	2010	Jan 1, 2010
Current liabilities	**$xxx**	$xxx	$xxx
Non-current liabilities	**xxx**	xxx	Xxx

Operating leases - lessee

The Company leases its buildings and some computer equipment under operating lease agreements. The lease terms for the buildings are usually 8 years while the computer equipment is 2 years. The total future value of minimum lease payments is due as follows:

	2011	2010	Jan 1, 2010
No later than 1 year	**$xxx**	$xxx	$xxx
Later than 1 year, but no later than 5 years	**-**	xxx	xxx
Later than 5 years	**-**	-	-
	xxx	xxx	xxx

Reference:

14. LONG TERM DEBT

IAS 1.77
IFRS 7.31
IFRS 7.25
IFRS 7.29
IFRS 7.14

The book value of the loans are as follows:

	2011	2010	Jan 1, 2010
Equipment loans, bearing interest	$xxx	$xxx	$xxx
Bank term loans, bearing interest	xxx	xxx	xxx
	xxx	xxx	xxx
Current portion	xxx	xxx	xxx
	$xxx	$xxx	$xxx

Equipment Loans

The loans for the equipment purchase bear interest at a fixed rate that ranges from x% to x% with a term of x years. The loans are secured by the related equipment.

The fair value of the equipment loans is $xxx (2010 - $xxx; January 1, 2010 - $xxx). The fair values of the loans are based on cash flows discounted using rates based on the applicable market rate. The discount rate applied was within the range of x% to x% (2010: x% to x%).

Bank Term Loan

Bank term loans bear interest at the variable 90-day bankers' acceptance rate.

The Company has provided its bank with a general security agreement over all assets of the Company, In addition to the bank term loans above, the Company has a committed, revolving credit facility up to a maximum of $xxx available from the bank. This credit facility has been in place for x years. Borrowings on the revolving credit facility at December 31, 2011 was $xxx (December 31, 2010; $xxx; January 1, 2010: $xxx).

The Company is subject to specific covenants under its borrowing arrangements as stipulated in the facility agreement with its bank. The Company was in compliance with these requirements during the year and at year-end.

The fair value of the bank loans is $xxx (2010 - $xxx; January 1, 2010 - $xxx). The fair values of the loans are based on cash flows discounted using rates based on the applicable market rate. The discount rate applied was within the range of x% to x% (2010: x% to x%).

Reference:

IAS 1.79

15. SHARE CAPITAL AND RESERVES

Common Shares

The Company is authorized to issue an unlimited number of common shares, issuable in series.

The holders of common shares are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

The following is a summary of changes in common share capital from January 1, 2010 to December 31, 2011:

	Number of Shares	Issue Price	Amount $'000s
Balance at January 1, 2010	**xxx**	**$x.xx**	**$xxx**
Shares issued	xxx	x.xx	xxx
Issue of shares on exercise of options	xxx	x.xx	xxx
Less: share issue costs	-	-	(xxx)
Balance at December 31, 2010	**xxx**	**x.xx**	**xxx**
Shares issued	xxx	x.xx	xxx
Issue of shares on exercise of options	xxx	x.xx	xxx
Less: share issue costs	-	-	(xxx)
Balance at December 31, 2011	**xxx**	**$x.xx**	**xxx**

Contributed Surplus

Contributed Surplus is used to recognize the value of stock option grants prior to exercise.

16. SHARE-BASED PAYMENTS

Stock Options

IFRS 2.45
IFRS 2.52
IFRS 2.51

The Company established a stock option plan (the "Plan") on MM/DD/YY under which non-transferable options to purchase common shares of the Company may be granted to for certain full-time employees of the Company. The Plan provides for the granting of options to acquire common shares of the Company. No amounts are paid or payable by the recipient on receipt of the option, and the options granted are not dependent on any performance-based criteria. In accordance with the Plan, 25% of the options vest immediately, with a further 25% vesting in each of the subsequent three years on the anniversary of the initial grant date.

			During the Year						
Grant Date	**Expiry Date**	**Exercise Price**	**Opening Balance**	**Granted**	**Exercised**	**Forfeited**	**Closing Balance**	**Vested and Exercisable**	**Unvested**
MM/DD/YY	MM/DD/YY	$X.XX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
MM/DD/YY	MM/DD/YY	$X.XX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
MM/DD/YY	MM/DD/YY	$X.XX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
			XXX	XXX	XXXX	XXX	XXX	XXX	XXX
Weighted Average Exercise Price			$x.xx	$x.xx	$x.xx	$x.xx	$x.xx	$x.xx	$x.xx

The weighted average fair value of each option granted during the year ended December 31, 2011 was $x.xx per option (2010: $x.xx).

The weighted average share price at the date of exercise of options during the year ended December 31, 2011 was $x.xx per share (2010:$x.xx).

Reference:

16. SHARE-BASED PAYMENTS (CONT'D)

The stock option expense charged to income during the year ended December 31, 2011 amounted to $xxx ($xxx – December 31, 2010) which is the amount credited to contributed surplus. Stock option expense were determined using the Black-Scholes option pricing model with the following assumptions:

Grant Date	Expiry Date	Share Price at Grant Date	Exercise Price	Risk-free Interest Rate	Expected life	Volatility Factor	Dividend Yield
MM/DD/YY	MM/DD/YY	$X.XX	$X.XX	x.xx% - x.xx%	x – x months	x.xx% - x.xx%	0%
MM/DD/YY	MM/DD/YY	$X.XX	$X.XX	x.xx% - x.xx%	x – x months	x.xx% - x.xx%	0%
MM/DD/YY	MM/DD/YY	$X.XX	$X.XX	x.xx% - x.xx%	x – x months	x.xx% - x.xx%	0%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

IAS 1.93

17. EXPENSES BY NATURE

	2011	2010
Depreciation and amortization	$ xxx	$ xxx
Transportation expenses	xxx	xxx
Advertising expenses	xxx	xxx
Staff Costs	xxx	xxx
Research and development costs	xxx	xxx
Changes in inventories of finished goods and work in progress	xxx	xxx
Operating lease expense	xxx	xxx
Gain (loss) on disposal of property, plant and equipment	(xxx)	xxx
Other Costs	xxx	xxx
	$ xxx	$ xxx

IAS 24.17-.18

18. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiary have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Company and other related parties are disclosed below.

The Company's related parties consist of companies owned by executive officers and directors as follows:

Related Party	Nature of transactions	Terms
Building Enterprises Inc.	Property Rental	Monthly payment due 1st of each month
DieCut Precision Machining	Machining subcontract vendor	Net 60 days

Reference:

18. RELATED PARTY TRANSACTIONS (CONT'D)

IAS 24.17-.18

The Company incurred the following expenses in connection with companies owned by executive officers and directors.

	2011	2010	Jan 1, 2010
Property rental	**$xxx**	$xxx	$xxx
Machining subcontract	**xxx**	xxx	xxx

Included in accounts payable are machining subcontract costs to DieCut outstanding at year end totaling $xxx (2010 - $xxx).

The Company entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including directors and management.

	2011	2010
Salaries and benefits	**$xxx**	$xxx
Share-based payments	**xxx**	xxx
Total	**$xxx**	$xxx

IFRS 7.31-.42

19. FINANCIAL INSTRUMENTS

General objectives, policies, and processes

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Company's finance function. The Board of Directors receives quarterly reports from the Company's Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The Company's financial instruments are exposed to certain financial risks, including credit risk liquidity risk, currency risk, and interest rate risk. The Company's exposure to these risks and its methods of managing the risks remain consistent.

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. The Company is mainly exposed to credit risk from credit sales. Management assesses the credit risk of new customers before entering contracts. Purchase limits are established for each customer based on the credit risk assessment.

Management determines concentrations of credit risk by quarterly monitoring the creditworthiness rating of existing customers and through a monthly review of the trade receivables' ageing analysis.

Reference:

19. FINANCIAL INSTRUMENTS (CONT'D)

The Company's maximum exposure to credit risk is limited to the carrying amount of the trade receivables as shown in Note 4. Further disclosures regarding trade and other receivables including amounts which are neither past due nor impaired and concentrations of credit risk are also provided in Note 4.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its expansionary plans. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 45 days. The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

December 31, 2011	**45 days**	**< 1 year**	**1 - 5 years**	**>5 years**
Accounts payable	**$xxx**	**$xxx**	**-**	**-**
Finance leases		**xxx**	**-**	**-**
Loans		**xxx**	**xxx**	**-**
		xxx	**xxx**	**-**

December 31, 2010	**45 days**	**< 1 year**	**1 - 5 years**	**>5 years**
Accounts payable	$xxx	$xxx	-	-
Finance leases		xxx	xxx	
Loans		xxx	xxx	-
	$xxx	$xxx	$xxx	-

January 1, 2010	**45 days**	**< 1 year**	**1 - 5 years**	**>5 years**
Accounts payable	$xxx	$xxx	-	-
Finance leases		xxx	xxx	$xxx-
Loans		xxx	xxx	-
	$xxx	$xxx	$xxx	$xxx-

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its loans. The risk that the Company will realize a loss as a result of a decline in the fair value of loans is limited because the Company's loans are based on market interest rates. The Company monitors its exposure to interest rates annually. A 1% change in market interest rates on the Company's loans would result in change in profit in 2011 of approximately $xxx (2010 - $xxx).

Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company's revenues are based on the Canadian dollar, but the Company incurs some nominal expenses in U.S. dollars. A significant change in the currency exchange rates between the U.S. dollar relative to the Canadian dollar could have an effect on the Company's results of operations, financial position and cash flows. The Company routinely enters into foreign exchange contracts to sell U.S. dollars to manage exposures to currency fluctuations. As of December 31, 2011, 2010 and January 1, 2010, the Company had no foreign exchange contracts outstanding.

Reference:

19. FINANCIAL INSTRUMENTS (CONT'D)

The carrying amount of the Company's foreign-currency denominated monetary assets and liabilities is as follows:

	2011	2010	Jan 1, 2010
Cash and cash equivalents	**xxx**	-	-
Accounts payable and accrued liabilities	**(xxx)**	(xxx)	(xxx)
	xxx	xxx	xxx

A $0.05 change in the Canadian and U.S. dollar exchange rate on these financial instruments would result in change in net profit in 2010 of approximately $150,000.

IAS 33.70

20. EARNINGS PER SHARE

Basic earnings per share (EPS) amounts are calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year. The diluted earnings per share are adjusted for employee stock options.

Numerator	**2011**	**2010**
Income for the year and earnings used in basic and diluted EPS	$ xxx	$ xxx

Denominator		
Weighted average number of shares used in basic EPS	xxx	xxx
Effect of share options in issue	xxx	xxx
Weighted average number of shares used in diluted EPS	**xxx**	**xxx**

The total number of options in issue is disclosed in note 16.

IFRS 1.23-.28

21. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company's financial statements for the year-ending December 31, 2011 as the first annual financial statements that will be prepared in accordance with IFRS. IFRS 1 *First-time Adoption of International Financial Reporting Standards* requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011. Therefore the 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 the opening IFRS statement of financial position at January 1, 2010 are prepared in accordance with IFRS standards effective at the reporting date. However, IFRS also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adoption.

Prior to transition to IFRS, the Company prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ("pre-changeover CGAAP").

IFRS 1 Exemptions and Exceptions

IFRS 1.C1-C5
IFRS 1.D23

The IFRS 1 applicable exemptions and exceptions applied in the conversion from pre-changeover Canadian GAAP to IFRS are as follows:

Reference:

21. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

Optional Exemptions

IFRS 1.D5
IFRS 1.D2

Business Combinations

IFRS 1.B2
IFRS 1.14-.16

The Company has elected not to retrospectively apply IFRS 3, Business Combinations, to business combinations that occurred prior to its Transition Date and such business combinations have not been restated.

Borrowing Costs

The Company has elected to apply the transitional provisions of IAS 23, Borrowing Costs which permits prospective capitalization of borrowing costs on qualifying assets from the Transition Date

Fair Value as Deemed Cost

The Company has elected to measure some items of property, plant, and equipment at the Transition Date to IFRS at its fair value and use that fair value as its deemed cost at that date.

Share-based Payment Transactions

The Company has elected not to retrospectively apply IFRS 2 Share-based Payments to equity instruments that were granted and had vested before the Transition Date. As a result of applying this exemption, the Company will apply the provisions of IFRS 2 only to all outstanding equity instruments that are unvested as at the Transition Date to IFRS.

Mandatory Exceptions

Estimates

The estimates previously made by the Company under pre-changeover Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result the Company has not used hindsight to revise estimates.

Derecognition of financial assets and financial liabilities

Financial assets and liabilities that had been derecognized before date of transition under pre-changeover Canadian GAAP have not been recognized under IFRS.

IFRS 1.23-.25

Reconciliation of Equity and Comprehensive Income

In preparing these financial statements, management has amended certain accounting policies previously applied in the pre-changeover Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2010 were restated to reflect these adjustments. The following reconciliations and explanatory notes provide a description of the effect of the transition from pre-changeover Canadian GAAP to IFRS on members' equity, net income and comprehensive income.

Reference:

21. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

Statement of Financial Position as at January 1, 2010 – Transition Date

	Note	Pre- changeover Canadian GAAP	Adjustments	IFRS
Assets				
Current assets				
Cash		$xxx		$xxx
Trade and other receivables		xxx	-	xxx
Inventories		xxx	-	xxx
Prepaid expenses and deposits		xxx	-	xxx
Investment tax credits receivable		xxx	-	xxx
Total current assets		xxx	-	xxx
Property, plant and equipment	(i)	xxx	xxx	xxx
Intangibles		xxx	-	xxx
Goodwill		xxx	-	xxx
Total assets		$xxx	$xxx	$xxx
Liabilities				
Current liabilities				
Bank indebtedness		$xxx	$-	$xxx
Accounts payable and accrued liabilities		xxx		
Income taxes payable		xxx	-	xxx
Current portion of finance leases		xxx	-	xxx
Current portion of long term debt		xxx	-	xxx
Deferred tax liabilities	(iii)	xxx	xxx	xxx
Total current liabilities		xxx	xxx	xxx
Finance leases		xxx	-	xxx
Long term debt		xxx		xxx
Deferred tax liabilities		xxx		xxx
Total liabilities		$xxx	$xxx	$xxx
Equity				
Share capital		$xxx	$-	$xxx
Contributed surplus	(ii)	xxx	xxx	xxx
Retained earnings	(iv)	xxx	xxx	xxx
Total equity		xxx	xxx	xxx
Total liabilities and equity		$xxx	$xxx	$xxx

Reference:

21. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

Statement of Financial Position as at December 31, 2010

	Note	Pre- changeover Canadian GAAP	Adjustments	IFRS
Assets				
Current assets				
Cash		$xxx		$xxx
Trade and other receivables		xxx	-	xxx
Inventories		xxx	-	xxx
Prepaid expenses and deposits		xxx	-	xxx
Investment tax credits receivable		xxx	-	xxx
Total current assets		xxx	-	xxx
Property, plant and equipment	(i)	xxx	xxx	xxx
Intangibles		xxx	-	xxx
Goodwill		xxx	-	xxx
Total assets		xxx	xxx	xxx
Liabilities				
Current liabilities				
Bank indebtedness		$xxx		$xxx
Accounts payable and accrued liabilities				
Income taxes payable		xxx	-	xxx
Current portion of finance leases		xxx	-	xxx
Current portion of long term debt		xxx	-	xxx
Deferred tax liabilities	(iii)	xxx	xxx	xxx
Total current liabilities		xxx	-	xxx
Finance leases		xxx	-	xxx
Long term debt		xxx		xxx
Deferred tax liabilities		xxx		xxx
Total liabilities		xxx	xxx	xxx
Equity				
Share capital		$xxx	-	xxx
Contributed surplus	(ii)	xxx	xxx	xxx
Retained earnings	(iv)	xxx	xxx	xxx
Total equity		xxx	xxx	xxx
Total liabilities and equity		$xxx	$xxx	$xxx

Reference:

21. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

Consolidated Statement of Comprehensive Income for the Year-Ended December 31, 2010

	Note	Pre-changeover Canadian GAAP	Adjustments	IFRS
Revenue		$xxx	-	$xxx
Cost of Sales		xxx	-	xxx
Gross Profit		xxx	-	xxx
Other operating income		xxx	-	xxx
General and administrative	(i)(ii)	xxx	xxx	xxx
Other expenses		xxx	-	xxx
Income from operations		xxx	-	xxx
Finance Costs		xxx	-	xxx
Income before income taxes		xxx	-	xxx
Provision (recovery) for income taxes				
Current income tax		xxx	-	xxx
Deferred income tax		xxx	-	xxx
Net Income and Comprehensive income (loss) for the year		$xxx	$xxx	$xxx

Reference:

21. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

Statement of Cash Flows for the Year-Ended December 31, 2010

The transition to IFRS had no impact on total operating or financing activities on the statement of cash flows. The change in net income for year-ended December 31, 2010 has been offset by adjustments to operating activities.

Explanation of the Adjustments

(i) Property, Plant and Equipment

At the date of transition, the Company elected to measure the administrative building and related land within property, plant and equipment at fair value as deemed cost. The aggregate of fair values used in the opening balance sheet is $xxx. Depreciation increased under IFRS based on this deemed cost for the year ended December 31, 2010 by $xxx. The aggregate adjustment to the carrying amount reported under pre-changeover Canadian GAAP in the opening balance sheet is $xxx.

(ii) Share based payments

IFRS 2 is effective for the Company as at January 1, 2010 and is applicable to:

- New grants of stock-based payments subsequent to January 1, 2010;
- Equity settled stock-based compensation awards granted subsequent to November 7, 2002 and that vest after January 1, 2010; and
- Awards that are modified on or after January 1, 2010, even if the original grant of the award was not accounted for in accordance with IFRS 2.

Pre-changeover Canadian GAAP allows the Company to calculate the fair value of the stock-based compensation on all awards granted and recognizes the expense from the date of grant over the vesting period using the graded vesting methodology. The Company determines the fair value of stock options granted using the Black-Scholes option pricing model.

IFRS 2 requires each tranche in an award with graded vesting to be treated as a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis.

As a result contributed surplus increased and retained earnings decreased by $ xxx at January 1, 2010 (December 31, 2010 - $ xxx). The share-based payment expense will be lower than pre-changeover Canadian GAAP BY $X during 2010, resulting in an increase in net income.

(iii) As a result of the transition to IFRS the carrying amounts of various assets and liabilities have been adjusted (see (i) to (iv) above). There has not been a corresponding change to the tax basis of these assets and liabilities. As a result an adjustment $xxx is required to deferred taxes at January 1, 2010 with corresponding adjustments of $xxx and $xxx to retained earnings and accumulated other comprehensive income respectively. Details of the various deferred tax liabilities at January 1 and December 31, 2010 and the corresponding amounts recorded in income for the year-ended December 31, 2010 are provided in Note 12.

In addition, under IFRS all deferred tax assets and liabilities must be classified as non-current. This will be a presentation adjustment on the balance sheet.

(iv) The following table outlines the adjustments to retained earnings:

	2011	2010
Property, Plant and Equipment (i)	**$(xxx)**	$(xxx)
Share-based payments (ii)	**(xxx)**	(xxx)
Deferred income taxes (iii)	**(xxx)**	(xxx)
	$ xxx	$ xxx

If you require further guidance on IFRS information, please contact your local BDO Canada office or visit **www.bdo.ca/ifrs.**

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