Interim Condensed Consolidated Financial Statements of

# BENEV CAPITAL INC.

Six months ended June 30, 2013 and 2012
(Unaudited)

# BENEV CAPITAL INC.

Interim Condensed Consolidated Statement of Financial Position
(Unaudited)
(Expressed in Canadian dollars)

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 70,940,220 | $ 63,856,221 |
| Restricted cash (note 4) | 12,043 | 513,052 |
| Amounts receivable | 104,094 | 1,645,903 |
| Deferred costs | - | 40,224 |
| Prepaid expenses and other | 35,579 | 488,780 |
| | 71,091,936 | 66,544,180 |
| Property, plant and equipment | 43,420 | 7,243,868 |
| Assets under finance lease | - | 186,534 |
| | $ 71,135,356 | $ 73,974,582 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 1,259,405 | $ 1,974,460 |
| Current tax liabilities | 103,721 | 144,134 |
| Provisions (note 5) | 225,819 | 125,974 |
| Current portion of finance lease obligations | - | 32,642 |
| Current portion of long-term liabilities (note 6) | 79,000 | 79,000 |
| | 1,667,945 | 2,356,210 |
| Long-term liabilities (note 6) | 624,337 | 658,881 |
| Shareholders' equity: | | |
| Share capital (note 7) | 97,155,660 | 96,969,879 |
| Contributed surplus (note 8) | 8,308,802 | 8,414,394 |
| Accumulated deficit | (36,621,388) | (34,424,782) |
| Total equity | 68,843,074 | 70,959,491 |
| | $ 71,135,356 | $ 73,974,582 |

Contingencies (note 12)
Subsequent events (notes 5, 8 and 14)

See accompanying notes to interim condensed consolidated financial statements.

# BENEV CAPITAL INC.

Interim Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
(Unaudited)
(Expressed in Canadian dollars)

| | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|---|---|---|---|---|
| Sales | $ - | $ 8,233,080 | $ - | $ 8,233,080 |
| Expenses: | | | | |
| Operating costs | 178,794 | 3,646,910 | 466,718 | 4,108,680 |
| Administration and business development | 898,518 | 1,228,099 | 1,598,513 | 2,448,939 |
| Amortization | 3,491 | 195,147 | 133,866 | 389,247 |
| Loss on disposal of assets held for sale and related restructuring costs (note 9) | 550,848 | - | 550,848 | - |
| | 1,631,651 | 5,070,156 | 2,749,945 | 6,946,866 |
| Operating (loss) income | (1,631,651) | 3,162,924 | (2,749,945) | 1,286,214 |
| Finance income | 241,064 | 214,175 | 467,944 | 750,900 |
| Finance costs | (2,346) | (11,060) | (10,105) | (65,270) |
| Net finance income | 238,718 | 203,115 | 457,839 | 685,630 |
| (Loss) earnings before income taxes | (1,392,933) | 3,366,039 | (2,292,106) | 1,971,844 |
| Income taxes recovery | (95,500) | - | (95,500) | (172,000) |
| Net (loss) income for the period, being comprehensive (loss) income | $ (1,297,433) | $ 3,366,039 | $ (2,196,606) | $ 2,143,844 |
| (Loss) earnings per share (note 10) | | | | |
| Basic (loss) earnings per share | $ (0.03) | $ 0.09 | $ (0.06) | $ 0.06 |
| Diluted (loss) earnings per share | (0.03) | 0.09 | (0.06) | 0.06 |

See accompanying notes to interim condensed consolidated financial statements.

# BENEV CAPITAL INC.

Interim Condensed Consolidated Statement of Changes in Equity
(Unaudited)
(Expressed in Canadian dollars)
For the six months ended June 30, 2013

| | Share capital | Contributed surplus | Share purchase warrants | Accumulated deficit | Total equity |
|---|---|---|---|---|---|
| Balance at January 1, 2012 | $ 96,969,879 | $ 4,873,827 | $ 2,721,131 | $ (43,724,979) | $ 60,839,858 |
| Comprehensive income for the period | - | - | - | 2,143,844 | 2,143,844 |
| Share-based compensation | - | 441,583 | - | - | 441,583 |
| Expiry of share purchase warrants | - | 2,721,131 | (2,721,131) | - | - |
| Balance at June 30, 2012 | $ 96,969,879 | $ 8,036,541 | $ - | $ (41,581,135) | $ 63,425,285 |
| Balance at January 1, 2013 | $ 96,969,879 | $ 8,414,394 | $ - | $ (34,424,782) | $ 70,959,491 |
| Comprehensive loss for the period | - | - | - | (2,196,606) | (2,196,606) |
| Share-based compensation | - | 57,789 | - | - | 57,789 |
| Share options exercised | 185,781 | (163,381) | - | - | 22,400 |
| Balance at June 30, 2013 | $ 97,155,660 | $ 8,308,802 | $ - | $ (36,621,388) | $ 68,843,074 |

See accompanying notes to interim condensed consolidated financial statements.

# BENEV CAPITAL INC.

Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Expressed in Canadian dollars)
For the six months ended June 30

| | 2013 | 2012 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net (loss) income for the period, being comprehensive (loss) income | $ (2,196,606) | $ 2,143,844 |
| Adjustments for: | | |
| Amortization | 133,866 | 389,247 |
| Loss on disposal of assets held for sale (note 9) | 293,348 | - |
| Unwinding of discount on provisions | 4,956 | 5,093 |
| Share-based compensation | 57,789 | 441,583 |
| Income tax recovery | (95,500) | (172,000) |
| Change in non-cash working capital items: | | |
| Amounts receivable | 1,541,809 | (4,057,612) |
| Holdbacks receivable | - | (573,897) |
| Prepaid expenses and other | 453,201 | 180,005 |
| Deferred costs | 40,224 | (886,962) |
| Accounts payable and accrued liabilities | (1,103,977) | 497,185 |
| Provisions | 99,845 | 311 |
| Deferred revenue | - | (1,505,413) |
| Current tax payable | 55,087 | (7,640) |
| Repayment of long-term liabilities | (39,500) | (39,500) |
| Net cash used for operating activities | (755,458) | (3,585,756) |
| Cash flows from investing activities | | |
| Acquisition of property, plant and equipment | (23,100) | (37,236) |
| Net proceeds on disposal of assets held for sale (note 9) | 7,371,790 | - |
| Change in restricted cash | 501,009 | (387) |
| Net cash provided by (used in) investing activities | 7,849,699 | (37,623) |
| Cash flows from financing activities | | |
| Payment of finance lease liabilities | (32,642) | (92,217) |
| Proceeds from exercise of share options | 22,400 | - |
| Net cash used in financing activities | (10,242) | (92,217) |
| Net increase (decrease) in cash and cash equivalents | 7,083,999 | (3,715,596) |
| Cash and cash equivalents at beginning of period | 63,856,221 | 58,720,802 |
| Cash and cash equivalents at end of period | $ 70,940,220 | $ 55,005,206 |

See accompanying notes to the interim condensed consolidated financial statements.

On June 22, 2012, the shareholders of the Company approved a change of the company's name from Bennett Environmental Inc. to BENEV Capital Inc. ("BCI"). On June 28, 2012, the Articles of Amendment giving effect to this name change were filed and made effective. BCI is a company domiciled in Canada. The interim condensed consolidated financial statements of BCI as at and for the six months ended June 30, 2013 are composed of BCI and its subsidiaries (together referred to as the "Company"). The Company was incorporated on July 29, 1992 under the Canada Business Corporation Act.

## 1. Continuing operations:

On May 31, 2013 the Company completed the sale of its Saint Ambroise plant to 8439117 Canada Inc., a company controlled by the plant's manager. The Saint Ambroise plant was the Company's sole operating facility and has been responsible for all of the Company's sales and a substantial portion of its expenses for the past four years. As a result of the sale, all of the sales and operating costs and substantially all of the amortization and some administrative and business development costs will not be recurring going forward.

As at June 30, 2013 the Company has sufficient cash available to fund its operating needs for the foreseeable future.

## 2. Basis of compliance:

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements. These interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2012.

The interim condensed consolidated financial statements were authorized for issuance by the Board of Directors on August 12, 2013.

## 3. Significant accounting policies:

These interim condensed consolidated financial statements have been prepared using the same accounting principles and policies as the annual financial statements for the year ended December 31, 2012 except for the adoption of new IFRS accounting standards as outlined below.

*Amendments to IFRS 7 - Offsetting Financial Assets and Financial Liabilities:*

In December 2011, the International Accounting Standards Board ("IASB") amended IFRS 7, Financial Instruments: Disclosures and added additional disclosure requirements for offsetting financial assets and financial liabilities in accordance with IAS 32 Financial Instruments: Presentation. The amendments are effective for annual periods beginning on or after January 1, 2013. The adoption of the amendments to IFRS 7 did not have a material impact on the financial statements.

*IFRS 10 – Consolidation of Financial Statements and Interest in Other Entities:*

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and Standing Interpretations Committee ("SIC") Interpretation 12 Consolidation - Special Purpose Entities. IFRS 10 defines the principle of control, establishes control as the basis for determining when entities are to be consolidated, and provides guidance on how to apply the principle of control to identify whether an investor controls an investee. Adoption of IFRS 10 did not have a material impact on the financial statements.

*IFRS 13 Fair Value Measurement:*

IFRS 13 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. 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, the effect of the measurements on profit or loss or other comprehensive income. Fair values of financial instruments are determined by valuation methods depending on hierarchy levels as outlined below:

Level 1 – Quoted market price in active markets for identical assets or liabilities.

Level 2 – Inputs, other than quoted market prices, that are observable either directly (i.e. observed prices) or indirectly (i.e. derived from prices or markets).

(Expressed in Canadian dollars)

### 3. Significant accounting policies (continued):

Level 3 – Inputs for the assets or liabilities are not based on observable market data.

The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any changes to the valuation techniques used by the Company to measure fair value or any measurement adjustments as at January 1, 2013. The additional disclosures required by IFRS 13 are included in note 11.

*Amendments to IAS 19 - Employee Benefits:*

The IASB published an amended version of IAS 19 Employee Benefits in June 2011. The amendments will require that past service costs be recognized in full immediately in profit or loss. The amendments impact termination benefits, which would now be recognized at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37, Provisions, and when the entity can no longer withdraw the offer of the termination benefits. Adoption of the amendments to IAS 19 did not have a material impact on the financial statements.

### 4. Cash and cash equivalents:

As at June 30, 2013, the Company had restricted cash of $12,043 (December 31, 2012 - $513,052) which includes $12,043 (December 31, 2012 - $12,045) as required under the Company's corporate credit card agreement and nil (December 31, 2012 - $501,007) security pledged for foreign exchange contracts.

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in note 11.

### 5. Provisions:

| | | |
|---|---|---|
| Balance at December 31, 2011 | $ | 139,551 |
| Provisions made during the period | | - |
| Provisions used during the period | | (13,207) |
| Change in foreign exchange rate | | (370) |
| Balance at December 31, 2012 | | 125,974 |
| Provisions made during the period | | 110,000 |
| Provisions used during the period | | (11,067) |
| Change in foreign exchange rate | | 912 |
| Balance at June 30, 2013 | $ | 225,819 |

(Expressed in Canadian dollars)

**5. Provisions (continued):**

No additional developments have occurred relating to the provisions as described in note 12 of the audited consolidated financial statements as at and for the year ended December 31, 2012 other than:

a) A foreign exchange adjustment to the U.S. denominated provisions as outlined in the chart above.

b) Regarding note 12(b) of the financial statements mentioned above, the Company made payments to Mr. Bennett of $11,067 during the second quarter of 2013 for reimbursement of legal costs which it considered to be reasonable. As at August 6, 2013 the company has received additional invoices from Mr. Bennett of approximately $519,000 which it considers to be unreasonable and therefore not reimbursable. Mr. Bennett has brought a Motion Record to have the Court order the Company to reimburse these costs. The Motion was heard in July, 2013 and the Court's findings are expected during the third quarter of this year. The Company has accrued an additional expense of $110,000 during the second quarter of 2013 in respect of this dispute and has now accrued a total of $125,000 as its best estimate of remaining reimbursements to be paid.

**6. Long-term liabilities:**

The tenure agreement is between the Company and its founder and former CEO. The tenure payments are made on a monthly basis in the amount of $6,583 ($79,000 annually). The tenure agreement expires on December 31, 2022 and is comprised as follows:

| | | |
|---|---|---|
| Balance January 1, 2012 | $ | 810,193 |
| Paid during 2012 | | (79,000) |
| Unwinding of discount | | 6,688 |
| | | 737,881 |
| Less current portion | | (79,000) |
| Balance December 31, 2012 | $ | 658,881 |
| Balance January 1, 2013 | $ | 737,881 |
| Paid during 2013 | | (39,500) |
| Unwinding of discount | | 4,956 |
| | | 703,337 |
| Less current portion | | 79,000 |
| Balance June 30, 2013 | $ | 624,337 |

(Expressed in Canadian dollars)

## 7. Share capital:

The issued share capital of the Company is as follows:

| | Common shares | Amount |
|---|---|---|
| As at January 1, 2012 and December 31, 2012 | 38,685,562 | $ 96,969,879 |
| Share options exercised | 93,335 | 185,781 |
| Balance June 30, 2013 | 38,778,897 | $ 97,155,660 |

## 8. Share-based payment:

The following table summarizes information relating to outstanding and exercisable options at June 30, 2013:

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| Exercise prices | Number of options | Weighted average remaining contractual life (years) | Weighted average exercise price per share | Number exercisable | Weighted average exercise price per share |
| $ 2.08 | 103,125 | 2.44 | 2.08 | 103,125 | 2.08 |
| $ 2.12 | 1,281,000 | 3.00 | 2.12 | 150,000 | 2.12 |
| | 1,384,125 | | $ 2.12 | 253,125 | $ 2.10 |

No stock options were granted during the three months ended June 30, 2013 and total stock compensation expensed during the six months ended June 30 was $57,789 (2012 – $411,583).

Subsequent to the end of the quarter, the Board issued or agreed to grant 1,784,400 stock options to the directors and the new President and CEO. All of these options were granted prior to the date of this report, except for the options issued to the new Executive Chairman (formerly the President and CEO) which are to be issued on August 15, 2013. The non-executive directors and the new Executive Chairman were granted an aggregate amount of 284,400 options (129,900 of these were granted to the new Executive Chairman) which are exercisable on the earlier of: (i) the date the share price exceeds 133% of the share price on grant date; and (ii) the date the Company enters into a transformational transaction. Concurrent

(Expressed in Canadian dollars)

**8. Share-based payment (continued):**

with the grant of 284,400 options to the non-executive directors and the new Executive Chairman, their cash remuneration was reduced.

The Company's new President and CEO has been granted 1,000,000 options. The first tranche of the grant, consisting of 500,000 options, vest immediately but will be automatically cancelled if a binding definitive agreement is entered into with respect to a transformational transaction already being considered by the Company or previously considered by the Company as of July 12, 2013. The second tranche of the grant consists of 500,000 options, which are only exercisable if the Company enters into a transformational transaction. Transformational transaction is defined as an arrangement with another company which results in a substantial change in the nature, size or prospects of the business, and includes a change of control.

The new Executive Chairman has been granted an additional 500,000 options which will only be exercisable if a binding definitive agreement is entered into with respect to a transformational transaction already being considered by the Company or previously considered by the Company as of July 12, 2013. These options and the first tranche of the options granted to the new President and CEO, if the latter are not previously exercised, are mutually exclusive. If the Executive Chairman's options become exercisable, then the first tranche of the President and CEO's options, if not previously exercised, will be automatically cancelled.

In addition, 729,900 of the options currently held by the new Executive Chairman (formerly the President and CEO) will in future only be exercisable in the unanimous discretion of the Board.

**Contributed surplus:**

| | Six months ended June 30, 2013 | June 30, 2012 |
|---|---|---|
| Balance, beginning of period | $ 8,414,394 | $ 4,873,827 |
| Equity-based compensation charged to earnings | 57,789 | 441,583 |
| Share options exercised | (163,381) | - |
| Expiry of share purchase warrants | - | 2,721,131 |
| Balance, end of period | $ 8,308,802 | $ 8,036,541 |

(Expressed in Canadian dollars)

## 9. Loss on disposal of assets held for sale and related restructuring costs:

On May 31, 2013 the Company completed the sale of its Saint Ambroise, Quebec waste treatment plant and related assets and liabilities to 8439117 Canada Inc., a company indirectly controlled by the plant's manager. The Company received $8,000,000 in cash at closing. While all post-closing adjustments have not been finalized the purchase price is expected to be adjusted for a working capital deficit assumed by the buyer at closing of $284,119 and increased for soil contracts received between the date of signing and closing in the amount of $9,328 for expected net proceeds of $7,725,209. The Company may be entitled to additional consideration which could be as high as $2,000,000 or more, contingent on a specific potential new contract being entered into prior to March 7, 2016. The receipt of the potential new contract for any amount of contingent consideration cannot be assured. Disposal costs are estimated to be $1,026,460, of which $628,210 was paid at June 30, 2013 resulting in net cash proceeds of $7,371,790 to date. The remaining accrued selling and disposal costs and the working capital deficiency adjustment are included in accounts payable and accrued liabilities and will be settled in future periods.

The loss on disposal of assets held for sale and related restructuring costs is composed of the following items:

| | | |
|---|---|---|
| Sale price (including estimated purchase price adjustments) | $ | 7,725,209 |
| Carrying value of property, plant and equipment | | (7,276,216) |
| Estimated working capital deficit assumed by the buyer | | (284,119) |
| Estimated selling and disposal costs | | (1,026,460) |
| Loss on disposal of assets held for sale | | (293,348) |
| Restructuring costs related to the sale | | (257,500) |
| Loss on disposal of assets held for sale and related restructuring costs | $ | (550,848) |

(Expressed in Canadian dollars)

## 10. (Loss) earnings per share:

Basic (loss) earnings per share

The reconciliation of the (loss) income for the period and weighted average number of common shares used to calculate basic and diluted (loss) earnings per share is as follows:

| | | Six months ended June 30, 2013 | | Six months ended June 30, 2012 |
|---|---|---|---|---|
| Net (loss) income for the period, being comprehensive (loss) income | $ | (2,196,606) | $ | 2,143,844 |
| Basic and diluted (loss) earnings per share | $ | (0.06) | $ | 0.06 |
| Weighted average number of shares: | | | | |
| Basic | | 38,698,969 | | 38,685,562 |
| Diluted | | 38,698,969 | | 38,765,560 |

Dilutive (loss) earnings per share:

Options have not been included in the calculation of diluted loss per share as they are anti-dilutive for the six months ended June 30, 2013. Options aggregating 79,998 have been included in the calculation of diluted earnings per share for the six months ended June 30, 2012.

## 11. Financial risk management:

Fair Value of Financial Instruments:

As a result of the implementation of IFRS 13 and the corresponding amendments to IAS 34, additional disclosure is required regarding financial instruments in the interim and annual financial statements. The Company has the following financial instruments: cash and cash equivalents, restricted cash, amounts receivable, accounts payable and accrued liabilities, liabilities related to assets held for sale, finance lease obligations and long term liabilities. Cash and cash equivalents and restricted cash are measured at fair value and are classified as Level 1 within the fair value hierarchy of IFRS 13. Amounts receivable, accounts payable and accrued liabilities, liabilities related to assets held for sale, and finance lease obligations are measured at amortized cost and their carrying value approximates their fair value due to the short-term nature of the instruments as at June 30, 2013. The fair value of the long term liabilities are not practicable to determine given the nature of the liability.

**11. Financial risk management (continued):**

The Company has exposure to the following risks from its use of financial instruments: credit risk, market risk and liquidity risk. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these interim condensed consolidated financial statements.

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 the Company's 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 Board of Directors has responsibility for the oversight of the Company's risk management framework. The Board of Directors has mandated the Audit Committee to review how management monitors compliance of the Company's risk management policies and procedures and review the adequacy of the risk management policies and procedures.

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, and arises principally from the Company's receivables from customers and investment securities.

Cash and equivalents and restricted cash:

Cash not immediately required for operating purposes is invested in short-term bank deposits. The Company controls the credit risk of these deposits by placing its cash with only major Canadian chartered banks.

Amounts receivable and holdbacks receivable:

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Credit risk arises from the potential default of a customer in meeting its financial obligation to the Company. The Company has established a credit evaluation, approval and monitoring processes to mitigate potential credit risk.

(Expressed in Canadian dollars)

**11. Financial risk management (continued):**

The Company evaluates the collectability of accounts receivable and records an allowance for doubtful accounts which reduces receivables to the amount management reasonably believes will be collected.

The Company is subject to a concentration of credit risk in its amounts receivable. As at June 30, 2013, two customers represented 0.5% and 2%, respectively (2012 - two customers – 6% and 74%) of the aggregate amount of amounts receivable.

Approximately 1% of the Company's customers have been transacting with the Company for more than five years. In monitoring customer credit risk, customers that are deemed to be "high risk", are required to prepay before services are rendered. The Company has title to the soil at its facility. In the event of non-payment, the Company's standard contracts allow it to return title and possession of untreated material to its customer.

Management is of the opinion that any risk of loss due to bad debts is significantly reduced due to the financial strength of its customers. The Company performs ongoing credit evaluations of its customers' financial condition and requires letters of credit or other guarantees whenever deemed necessary.

Exposure to credit risk:

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

| | Carrying amount | |
|---|---|---|
| | June 30, 2013 | December 31, 2012 |
| Cash and cash equivalents | $ 70,940,220 | $ 63,856,221 |
| Restricted cash | 12,043 | 513,052 |
| Amounts receivable | 104,094 | 1,645,903 |
| Total | $ 71,056,357 | $ 66,015,176 |

(Expressed in Canadian dollars)

## 11. Financial risk management (continued):

The aging of amounts receivable at the reporting date was:

| | Carrying amount | |
|---|---|---|
| | June 30, 2013 | December 31, 2012 |
| Current | $ - | $ 425,780 |
| 31-90 days | 105,496 | 1,209,342 |
| Over 90 days | (1,402) | 69,725 |
| | 104,094 | 1,704,847 |
| Allowance for doubtful accounts | - | 58,944 |
| Total amounts receivable | $ 104,094 | $ 1,645,903 |

Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity risk is to monitor consolidated cash flow to ensure that there will always be sufficient liquidity to meet liabilities when due.

At June 30, 2013, the Company has a cash and cash equivalents balance of $70,940,220 (December 31, 2012 - $63,856,221) and working capital of $69,423,991 (December 31, 2012 - $64,187,970). Management believes the Company has sufficient cash flows to meet amounts due.

The Company had no bank borrowings outstanding at June 30, 2013 and December 31, 2012.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

## 11. Financial risk management (continued):

| Millions of Canadian dollars | Carrying amount | Contractual cash flow | 2013 | 2014 | 2015 | 2016 | 2017 | Thereafter |
|---|---|---|---|---|---|---|---|---|
| Tenure agreement | $ 0.70 | $ 0.75 | $ 0.04 | $ 0.08 | $ 0.08 | $ 0.08 | $ 0.08 | $ 0.39 |
| Accounts payable and accrued liabilities | 1.26 | 1.26 | 1.12 | 0.14 | - | - | - | - |
| Total contractual obligations | $ 1.96 | $ 2.01 | $ 1.16 | $ 0.22 | $ 0.08 | $ 0.08 | $ 0.08 | $ 0.39 |

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates will affect the Company's income or the value of its holding in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Although the Company periodically enters into foreign exchange contracts as economic hedges of related risks, it has elected to not follow hedge accounting. Consequently, these instruments are recorded at fair value on the balance sheet with changes in fair value recorded in earnings as they occur.

*Currency risk*

The Company is exposed to currency risk on sales and purchases that are denominated in a currency other than the functional currency of the Company, primarily the Canadian dollar. The currencies in which these transactions primarily are denominated in are the US dollar. In respect of monetary assets and liabilities denominated in US dollars, the Company ensures that its net exposure is kept to an acceptable level by buying or selling US dollars at spot rate when necessary of by periodically entering into forward exchange contracts to offset its balance sheet exposure and to hedge the cash flow risk associated with its estimated net foreign currency cash requirements and certain significant transactions.

**11. Financial risk management (continued):**

As at June 30, 2013, the Company has no foreign exchange contracts outstanding (December 31, 2012 - $230,000).

The Company's exposure to foreign currency risk at the reporting date excluding the foreign exchange contracts is as described below:

| | | June 30, 2013 US$ | | December 31, 2012 US$ |
|---|---|---|---|---|
| Cash, restricted cash and cash equivalents | $ | 8,295 | $ | 62,531 |
| Amounts receivable | | - | | 250,095 |
| Accounts payable and accrued liabilities | | (42,730) | | (89,727) |
| Notional amount of U.S. dollar forward contracts | | - | | (230,000) |
| Net exposure in U.S. dollars | $ | (34,435) | $ | (7,101) |

*Sensitivity analysis*

A 10% strengthening (weakening) of the Canadian dollar against the U.S. dollar would have decreased (increased) equity and profit and loss by approximately $3,000 as at June 30, 2013. A similar strengthening (weakening) as at December 31, 2012 would have decreased (increased) equity and profit and loss by approximately $700.

*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 rates. The company's exposure to interest rate risk mainly arises from the interest impact of its cash and equivalents as it is subject to floating market rates of interest. Based on the balance outstanding on June 30, 2013, a one percent point increase (decrease) in the money market instruments which the Company invests would increase (decrease) interest income by approximately $710,000 for a twelve month period (2012 - $640,000).

**11. Financial risk management (continued):**

The Company's financial assets and liabilities that bear interest at fixed rates are subject to fair value interest rate risk. The Company's obligation under capital lease bears a fixed rate interest rate.

Capital Management:

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

Management defines capital as the Company's total shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management. The Board of Directors reviews the capital structure on a quarterly basis.

In order to maintain or adjust the capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares or warrants, and issue new debt.

There were no changes in the Company's approach to capital management during the period. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

**12. Contingencies:**

No additional developments have occurred relating to the contingencies as described in note 30 of the audited consolidated financial statements as at and for the year ended December 31, 2012 except for:

a) Regarding note 30(b) to the financial statements mentioned above, John Bennett has attempted to serve the Company with a defense to its claim against him in the amount of $10,340,550. He has also attempted to serve the Company with a counterclaim which seeks to bring proceedings in the Ontario Court claiming defamation and other wrongs and is seeking damages of $30 million plus interest and costs. The Company believes that it is not probable that any liability will arise and no amount has been recorded in the Company's financial statements in respect of this counterclaim.

## 12. Contingencies (continued):

b) Regarding note 30(e) to the financial statements mentioned above, the Company and the contractor signed a full and final mutual release in June 2013, subject to the terms and conditions contained in the minutes of settlement, whereby the parties released and discharged each other from any and all actions and claims related to the matters under dispute.

## 13. Related party transactions:

As described in notes 1 and 9, on May 31, 2013 the Company completed the sale of its Saint Ambroise facility to 8439117 Canada Inc., a company controlled by the plant's manager.

## 14. Subsequent event:

In addition to the subsequent events discussed in note 8, on August 6, 2013 the Company appointed a new President and CEO, Sean Morrison who is the founder and managing partner of Maxam Capital Corp. The previous President and CEO was appointed to the position of Executive Chairman of the Board of Directors. Subject to TSX approval, in connection with Mr. Morrison's appointment, a fund to be created by Maxam Capital Corp. was granted a right to invest in the Company for an amount up to the lesser of (i) 10% of the total issued and outstanding common equity of the Company (or its successor) immediately following one or more transformational transactions, or (ii) $10 million. Subject to adjustment, such investment shall be comprised of publicly traded common shares of the Company (or its successor) priced equal to the value of the common shares ascribed in the transformational transaction, failing which it shall be the 10 trading day volume weighted average price of the Company`s common shares as quoted on a stock exchange commencing on the first trading day immediately after announcing such transformational transaction.