Interim Condensed Consolidated Financial Statements of

BENEV CAPITAL INC.

Nine months ended September 30, 2013 and 2012
(Unaudited)

BENEV CAPITAL INC.

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

	September 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 69,991,331	$ 63,856,221
Restricted cash (note 4)	12,041	513,052
Amounts receivable	23,253	1,645,903
Deferred costs	-	40,224
Prepaid expenses and other	218,980	488,780
	70,245,605	66,544,180
Property, plant and equipment	39,930	7,243,868
Assets under finance lease	-	186,534
	$ 70,285,535	$ 73,974,582
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 819,122	$ 1,974,460
Current tax liabilities	56,900	144,134
Provisions (note 5)	484,395	125,974
Current portion of finance lease obligations	-	32,642
Current portion of long-term liabilities (note 6)	79,000	79,000
	1,439,417	2,356,210
Long-term liabilities (note 6)	606,976	658,881
Shareholders' equity:		
Share capital (note 7)	97,155,660	96,969,879
Contributed surplus (note 8)	8,571,567	8,414,394
Accumulated deficit	(37,488,085)	(34,424,782)
Total equity	68,239,142	70,959,491
	$ 70,285,535	$ 73,974,582

Contingencies (note 12)
Subsequent events (note 9)

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 September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Sales	$ -	$ 12,233,452	$ -	$ 20,466,531
Expenses:				
Operating costs	-	5,100,871	466,718	9,209,550
Administration and business development	1,123,132	1,123,762	2,721,644	3,572,701
Amortization	3,491	207,656	137,356	596,903
Loss on disposal of assets held for sale and related restructuring costs (note 9)	8,824	57,334	559,674	57,334
	1,135,447	6,489,623	3,885,392	13,436,488
Operating (loss) income	(1,135,447)	5,743,829	(3,885,392)	7,030,043
Finance income	279,788	210,261	746,281	960,409
Finance costs	(11,038)	(13,884)	(19,692)	(78,402)
Net finance income	268,750	196,377	726,589	882,007
(Loss) earnings before income taxes	(866,697)	5,940,206	(3,158,803)	7,912,050
Income taxes recovery	-	610,000	95,500	782,000
Net (loss) income for the period, being comprehensive (loss) income	$ (866,697)	$ 6,550,206	$ (3,063,303)	$ 8,694,050
(Loss) earnings per share (note 10)				
Basic (loss) earnings per share	$ (0.02)	$ 0.17	$ (0.08)	$ 0.22
Diluted (loss) earnings per share	(0.02)	0.17	(0.08)	0.22

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 nine months ended September 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	-	-	-	8,694,050	8,694,050
Share-based compensation	-	666,033	-	-	666,033
Expiry of share purchase warrants	-	2,721,131	(2,721,131)	-	-
Balance at September 30, 2012	$ 96,969,879	$ 8,260,991	$ -	$ (35,030,929)	$ 70,199,941
Balance at January 1, 2013	$ 96,969,879	$ 8,414,394	$ -	$ (34,424,782)	$ 70,959,491
Comprehensive loss for the period	-	-	-	(3,063,303)	(3,063,303)
Share-based compensation	-	320,554	-	-	320,554
Share options exercised	185,781	(163,381)	-	-	22,400
Balance at September 30, 2013	$ 97,155,660	$ 8,571,567	$ -	$ (37,488,085)	$ 68,239,142

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 nine months ended September 30

	2013	2012
Cash flows from operating activities:		
Net (loss) income for the period, being comprehensive (loss) income	$ (3,063,303)	$ 8,694,050
Adjustments for:		
Amortization	137,356	596,903
Unwinding of discount on provisions	7,345	7,557
Gain on sale of property, plant and equipment	-	(2,311)
Loss on disposal of assets held for sale (note 9)	302,174	57,334
Share-based compensation	320,554	666,033
Income tax recovery	(95,500)	(782,000)
Change in non-cash working capital items:		
Amounts receivable	1,622,650	(9,718,718)
Holdbacks receivable	-	(1,571,182)
Prepaid expenses and other	269,800	(302,589)
Deferred costs	40,224	1,510,292
Accounts payable and accrued liabilities	(1,204,891)	671,042
Provisions	358,421	(13,882)
Deferred revenue	-	(3,278,333)
Current tax payable	8,266	38,500
Repayment of long-term liabilities	(59,250)	(59,250)
Net cash used for operating activities	(1,356,154)	(3,486,554)
Cash flows from investing activities:		
Net proceeds on disposal of assets held for sale (note 9)	7,023,595	-
Acquisition of property, plant and equipment	(23,100)	(175,333)
Change in restricted cash	501,011	(461)
Proceeds from sale of property, plant and equipment	-	29,307
Net cash provided by (used in) investing activities	7,501,506	(146,487)
Cash flows from financing activities:		
Payment of finance lease liabilities	(32,642)	(107,371)
Proceeds from exercise of share options	22,400	-
Net cash used in financing activities	(10,242)	(107,371)
Net increase (decrease) in cash and cash equivalents	6,135,110	(3,740,412)
Cash and cash equivalents at beginning of period	63,856,221	58,720,802
Cash and cash equivalents at end of period	$ 69,991,331	$ 54,980,390

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 nine months ended September 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 September 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 November 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 September 30, 2013, the Company had restricted cash of $12,041 (December 31, 2012 - $513,052) which includes $12,041 (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		368,900
Provisions used during the period		(11,067)
Change in foreign exchange rate		588
Balance at September 30, 2013	$	484,395

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) As described in note 12(b) of the financial statements noted above, the Company is subject to an Interim Court Order (“Order”) which requires the reimbursement of Mr. John Bennett’s legal costs reasonably incurred in connection with his indictment by the U.S. Department of Justice ("DOJ”). During the first nine months of 2013 the Company accrued $368,900 of costs incurred pursuant to this Order composed of $110,000 and $258,900 in second and third quarters of 2013, respectively. The above amounts, together with the amounts accrued in prior periods resulted in a liability to Mr. Bennett, as at September 30, 2013, of $384,395. This liability provides for Mr. Bennett’s legal costs estimated to be incurred and reimbursable to him at the end of the current reporting period. The cost to the Company in respect of his future legal expenses will be recorded when these expenses are known and the amounts reimbursable to him can be reasonably estimated.

   The Company expects to receive reimbursement from its insurance underwriter in the amount of approximately $282,000 in respect of costs incurred to date. Under its funding agreement with the underwriter, the Company expects to be required to repay all legal costs it recovers from the underwriter in the event that Mr. Bennett is found guilty. The Company has adequately provided for the estimated liability that may result from this requirement and has offset this provision against the reimbursement expected to be received from the underwriter.

   The Company has long believed that Mr. Bennett is not entitled to indemnification but has not been able to successfully dispute his claims due to the unavailability of key witnesses and other constraints. As a result of recent developments these constraints have been removed and the Company has now filed a motion which seeks to deny Mr. Bennett any future indemnification payments and require the repayment of all such advances previously made to him. Alternatively, the motion requests a stay of the Order requiring these advances, and an expedited trial to resolve the matter. The outcome of these proceedings cannot be determined at this time.

(Expressed in Canadian dollars)

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		(59,250)
Unwinding of discount		7,345
		685,976
Less current portion		(79,000)
Balance September 30, 2013	$	606,976

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 September 30, 2013	38,778,897	$ 97,155,660

(Expressed in Canadian dollars)

8. Share-based payment:

The following table summarizes information relating to outstanding and exercisable options at September 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
$ 1.50	154,500	4.75	1.50	-	1.50
$ 1.72	1,000,000	4.85	1.72	500,000	1.72
$ 1.79	129,900	4.88	1.79	-	1.79
$ 1.79	500,000	4.88	1.79	-	1.79
$ 2.08	103,125	2.19	2.08	103,125	2.08
$ 2.12	1,281,000	2.93	2.12	150,000	2.12
	3,168,525		$ 1.90	753,125	$ 1.85

1,784,400 stock options were granted during the three months ended September 30, 2013 and total stock compensation expensed during the nine months ended September 30 was $320,554 (2012 – $666,033).

In the third quarter, the Board issued 1,784,400 stock options to the directors and the new President and CEO. The non-executive directors and the new Executive Chairman were issued an aggregate amount of 284,400 options (129,900 of these were issued 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 with the issuance 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 was issued 1,000,000 options. The first tranche of the issuance, 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 issuance 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.

(Expressed in Canadian dollars)

8. Share-based payment (continued):

The new Executive Chairman was issued 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 issued 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.

Input for measurement of grant date fair values:

The fair value of each option grant was estimated using the Black-Scholes option pricing model using the following weighted average assumptions:

	2013	2012
Risk-free interest rate	1.035%	N/A
Expected option lives (years)	3.0	N/A
Expected volatility	38.0%	N/A
Dividend yield	Nil%	Nil%

Contributed surplus:

	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Balance, beginning of period	$ 8,414,394	$ 4,873,827
Equity-based compensation charged to earnings	320,554	666,033
Share options exercised	(163,381)	-
Expiry of share purchase warrants	-	2,721,131
Balance, end of period	$ 8,571,567	$ 8,260,991

(Expressed in Canadian dollars)

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

Sale of Saint Ambroise Waste Treatment Plant

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. During the fourth quarter of 2013 the purchase price adjustments were finalized with the purchaser. The preliminary purchase price of $8,000,000 was reduced by $277,264 for working capital assumed by the buyer and increased by $9,328 for soil contracts received prior to closing. These changes resulted in an adjusted price of $7,732,064. 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 $1,035,286 of which $976,405 was paid prior to the end of the third quarter of 2013 resulting in net cash proceeds of $7,023,595. 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 during the fourth quarter of 2013.

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

Sale price (including purchase price adjustments)	$	7,732,064
Carrying value of property, plant and equipment		(7,276,216)
Working capital deficit assumed by the buyer		(277,264)
Selling and disposal costs		(1,035,286)
Loss on disposal of assets held for sale		(302,174)
Restructuring costs related to the sale		(257,500)
Loss on disposal of assets held for sale and related restructuring costs	$	(559,674)

The loss on sale of $8,824 recorded during the third quarter of 2013 is due to differences between the estimated and final amounts of the purchase price and disposal costs.

(Expressed in Canadian dollars)

9. Loss on disposal of assets held for sale and related restructuring costs (continued):

Sale of Belledune Facility

When the Company sold its Belledune facility on April 8, 2011, the purchaser held back $300,000 of cash consideration at closing to cover the costs of remediating creosote contamination of the building. During the third quarter of 2012, the Company agreed to allow the purchaser of the facility to retain the holdback in return for releasing the Company from all post-closing undertakings and its obligation to remediate the facility previously estimated to be $242,666. As a result of this agreement the Company recorded an additional loss on disposal in the amount of $57,334 in the third quarter of 2012.

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:

	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Net (loss) income for the period, being comprehensive (loss) income	$ (3,063,303)	$ 8,694,050
Basic and diluted (loss) earnings per share	$ (0.08)	$ 0.22
Weighted average number of shares:		
Basic	38,725,905	38,685,562
Diluted	38,725,905	38,765,380

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 nine months ended September 30, 2013. Options aggregating 79,818 have been included in the calculation of diluted earnings per share for the nine months ended September 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 September 30, 2013. The fair value of the long term liabilities are not practicable to determine given the nature of the liability.

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.

(Expressed in Canadian dollars)

11. Financial risk management (continued):

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:

The carrying amount of amounts receivable represents the maximum exposure to credit loss.

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	
	September 30, 2013	December 31, 2012
Cash and cash equivalents	$ 69,991,331	$ 63,856,221
Restricted cash	12,041	513,052
Amounts receivable	23,253	1,645,903
Total	$ 70,026,625	$ 66,015,176

The aging of amounts receivable at the reporting date was:

	Carrying amount	
	September 30, 2013	December 31, 2012
Current	$ 23,253	$ 425,780
31-90 days	-	1,209,342
Over 90 days	-	69,725
	23,253	1,704,847
Allowance for doubtful accounts	-	58,944
Total amounts receivable	$ 23,253	$ 1,645,903

11. Financial risk management (continued):

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 September 30, 2013, the Company has a cash and cash equivalents balance of $69,991,331 (December 31, 2012 - $63,856,221) and working capital of $68,806,188 (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 September 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.

Millions of Canadian dollars	Carrying amount	Contractual cash flow	2013	2014	2015	2016	2017	Thereafter
Tenure agreement	$ 0.69	$ 0.73	$ 0.02	$ 0.08	$ 0.08	$ 0.08	$ 0.08	$ 0.39
Accounts payable and accrued liabilities	0.82	0.82	0.68	0.14	-	-	-	-
Total contractual obligations	$ 1.51	$ 1.55	$ 0.70	$ 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.

11. Financial risk management (continued):

Currency risk

The Company is exposed to currency risk on 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.

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.

As at September 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:

	September 30, 2013 US$	December 31, 2012 US$
Cash, restricted cash and cash equivalents	$ 5,378	$ 62,531
Amounts receivable	-	250,095
Accounts payable and accrued liabilities	(300,247)	(89,727)
Notional amount of U.S. dollar forward contracts	-	(230,000)
Net exposure in U.S. dollars	$ (294,869)	$ (7,101)

11. Financial risk management (continued):

Sensitivity analysis

A 10% strengthening (weakening) of the Canadian dollar against the U.S. dollar would have increased (decreased) equity and profit and loss by approximately $29,500 as at September 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 September 30, 2013, a one percent point increase (decrease) in the money market instruments which the Company invests would increase (decrease) interest income by approximately $700,000 for a twelve month period (2012 - $565,000).

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 the following matters:

a) As described in note 30(b) to the financial statements mentioned above, the Company has filed a claim against Mr. John Bennett in the amount of $10,340,550. The claim had been stayed, with the consent of both parties, until June of this year when Mr. Bennett withdrew his consent to the stay in order to serve the Company with a statement of defence and counterclaim in the amount of $30 million. 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.

   As a result of recent developments described in note 5(b), the Company has accepted Mr. Bennett's lifting of the stay and has filed a motion which seeks to strike his counterclaim and obtain judgement on the Company's claim.

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.