Consolidated Financial Statements

March 31, 2012

Collins Barrow
Chartered Accountants

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Aquarius Coatings Inc.

We have audited the accompanying consolidated financial statements of Aquarius Coatings Inc. and its subsidiaries, which comprise the consolidated balance sheets as at March 31, 2012, March 31, 2011, and April 1, 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aquarius Coatings Inc. and its subsidiaries, as at March 31, 2012, March 31, 2011 and April 1, 2010, and its financial performance and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes material uncertainties that cast significant doubt about the Company's ability to continue as going concern.

Collins Barrow Toronto LLP

Collins Barrow Toronto LLP
Licensed Public Accountants

July 27, 2012
Toronto, Ontario

Collins Barrow
Chartered Accountants

Aquarius Coatings Inc.
Consolidated Balance Sheets
(Expressed in Canadian dollars)
(See Note 2 - Going Concern)
(See Note 14 - Commitments)

	March 31, 2012	March 31, 2011 (Note 3a/19)	April 1, 2010 (Note 3a/19)
ASSETS			
Current Assets			
Accounts Receivable (Note 4)	$ 47,690	$ 65,905	$ 51,995
Inventories (Note 5)	68,054	94,299	83,380
Prepaid Expenses	6,282	6,283	42,999
	122,026	166,487	178,374
Long-term investments (Note 9)	112,171	109,106	2
Equipment (Note 6)	2,702	3,653	4,418
	$ 236,899	$ 279,246	$ 182,794
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Liabilities			
Bank indebtedness	$ 10,850	$ 7,615	$ 19,490
Accounts payable and other current liabilities	526,271	516,109	504,247
Note Payable (Note 8)	200,000	200,000	200,000
Amount due to related parties (Note 7)	3,067,329	2,850,379	2,618,580
	3,804,450	3,574,103	3,342,317
Shareholders' Deficiency			
Share Capital (Note 10)	10,340,865	10,340,865	10,340,865
Contributed surplus	5,193,806	5,193,806	5,193,806
Accumulated other comprehensive income	112,170	109,105	-
Deficit	(19,214,392)	(18,938,633)	(18,694,194)
	(3,567,551)	(3,294,857)	(3,159,523)
	$ 236,899	$ 279,246	$ 182,794

See accompanying notes to consolidated financial statements

Approved on behalf of the Board:

"David J. Hennigar"
David J. Hennigar

"N. Gary Van Nest"
N. Gary Van Nest

Aquarius Coatings Inc.

Consolidated Statements of Comprehensive Income

(Expressed in Canadian dollars)

	Year Ended	
	March 31, 2012	March 31, 2011
		(Note 3a/19)
Sales	$ 277,470	$ 302,331
Cost of sales (Note 5)	193,891	198,180
Gross Margin	83,579	104,151
Expenses		
Selling, general and administrative	319,146	340,656
Bank charges and interest expenses	39,241	22,498
Depreciation	951	2,278
Write off of accounts payable from prior years	-	(16,842)
Net loss	(275,759)	(244,439)
Other comprehensive income (Note 9)	3,065	109,105
Total comprehensive loss	(272,694)	(135,334)
Loss per share (Note 13)	$ 0.0026	$ 0.0023
Shares outstanding (Note 10)	107,948,144	107,948,144

See accompanying notes to consolidated financial statements

Aquarius Coatings Inc.

Consolidated Statements of Changes in Equity

(Expressed in Canadian dollars)

for the years ended March 31, 2012 and 2011

	Share Capital				Accumulated Other Comprehensive	
	Number of Shares	**Amount**	**Contributed Surplus**	**Deficit**	**Income**	**Total**
					(Note 3a/19)	
Balance April 1, 2010	107,948,144	$ 10,340,865	$ 5,193,806	$(18,694,194)	$ -	$ (3,159,523)
Net loss	-	-	-	(244,439)	-	(244,439)
Other comprehensive income	-	-	-	-	109,105	109,105
Balance March 31, 2011	107,948,144	$ 10,340,865	$ 5,193,806	$(18,938,633)	$ 109,105	$ (3,294,857)
Net loss	-	-	-	(275,759)	-	(275,759)
Other comprehensive income	-	-	-	-	3,065	3,065
Balance March 31, 2012	107,948,144	$ 10,340,865	$ 5,193,806	$(19,214,392)	$ 112,170	$ (3,567,551)

See accompanying notes to consolidated financial statements

Aquarius Coatings Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

		Year Ended		
		March 31, 2012		March 31, 2011
Cash flows were provided by (used in)				
Operating activities				
Net loss	$	(275,759)	$	(244,439)
Depreciation		951		2,278
Loss on sale of equipment		-		396
Write-off long term investment		-		1
Inventories provision		21,465		-
Allowance for doubtful accounts		-		30,257
Accounts Receivable		18,215		(44,167)
Inventories		4,780		(10,919)
Prepaid Expenses		1		36,716
Accounts payable and other current liabilities		10,162		11,864
		(220,185)		(218,013)
Financing activities				
Advances from related party		216,950		231,799
Increase (decrease) in bank indebtedness		3,235		(11,875)
		220,185		219,924
Investment activities				
Purchase of equipment		-		(1,911)
		-		(1,911)
Increase (Decrease) in cash during the period		-		-
Cash, beginning of year		-		-
Cash, end of year	$	-	$	-
Supplemental cash flow information				
Interest paid	$	-	$	-

Interest expense is classified in operating activities in the statement of cash flows.

See accompanying notes to consolidated financial statements

1. NATURE OF OPERATIONS

Aquarius Coatings Inc. (the "Company") was incorporated under the Business Corporations Act (Ontario) in 1986 with its office located at 190 Marycroft Avenue Unit 5, Woodbridge, Ontario, L4L 5Y1. Its shares are listed on the Toronto Stock Exchange Venture. The Company markets a broad line of protective coatings for steel, concrete and manufactured goods with distribution throughout North America. Trade names include Blue Steel Primer, Armaglaze, Armabrite, Armacote, Armakleen123, Sure Tred and Saf-T-Seal.

2. GOING CONCERN

The consolidated financial statements were prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company currently has limited operating revenues and during the years ended March 31, 2012 and March 31, 2011 incurred losses of $275,759 and $244,439, respectively. At March 31, 2012, March 31, 2011 and April 1, 2010 the Company had a working capital deficiency of $3,682,424, $3,407,616 and $3,163,943, respectively. Also, at March 31, 2012, March 31, 2011 and April 1, 2010, the Company had a shareholders' deficiency of $3,567,551, $3,294,857 and $3,159,523, respectively. Consequently, the Company's ability to continue as a going concern is dependent on the support of its creditors, the ability to obtain additional financing, and ultimately, the attainment of profitable operations. The Company's lenders, whom are significant shareholders, have indicated that their support will continue over the forthcoming year. However, material uncertainties as mentioned above cast significant doubt upon the entity's ability to continue as a going concern.

If the going concern assumption were not appropriate for these consolidated financial statements, adjustments would be necessary to the carrying values of assets and liabilities, the reported loss for the period and balance sheet classifications.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The consolidated financial statements are presented in Canadian dollars which is also the Company and its subsidiaries' functional currency.

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, and the Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). As these financial statements represent the Company's initial presentation of its annual results and financial position under IFRS, they were prepared in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. These accounting policies are based on the IFRS standards and IFRIC interpretations that are applicable at March 31, 2012.

Previously the Company prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). An explanation of how the transition from GAAP to IFRS has affected the Company's consolidated financial position and results of operations is set out in Note 19 to the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(b) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned Canadian subsidiaries, Scotiachemco Holdings Limited, Scotiachemco Inc., and Trend Coatings Limited. Inter-company transactions and balances have been eliminated.

(c) Basis of preparation

The consolidated financial statements are prepared on the historical cost basis except for certain assets, liabilities and financial instruments which are measured at their fair values, as explained in the relevant accounting policies set out below.

(d) Accounting estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, revenue and expenses and the accompanying notes. Actual results could differ from these estimates under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. The areas that management makes critical estimates, assumptions and judgments are allowance for doubtful accounts, inventories provision, fair value of long-term investments, recoverability of deferred tax assets, and impairment of assets.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of product is recognized upon shipment, when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods; the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the Company; and the costs incurred or to be incurred in respective of the transaction can be measured reliably. The transfer of risks and rewards occurs based on the terms of the sales contract. The Company sells its products at agreed upon prices to its customers, which reflect prevailing market prices.

(f) Inventories

Inventories include raw materials and finished goods. Inventories are stated at the lower of cost and net realizable value. Cost is determined on a first-in-first-out basis and includes material, subcontract cost, and net realizable value is the anticipated selling price over costs to sell and replacement cost for raw materials. Reversal of previous write-downs is required when there is a subsequent increase in the value of inventories.

(g) Equipment

Depreciation is provided on equipment over the estimated useful life using the following rates and methods:

Computer equipment	-	50% declining balance
Plant equipment	-	20% declining balance

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(h) Income taxes

Income taxes are calculated using the liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate deferred income tax liabilities or assets. Deferred income tax liabilities or assets are calculated using the substantively enacted rates and laws that are expected to be in effect in the periods that the temporary differences are expected to reverse. The effect of changes in rates is included in the statement of comprehensive income in the period which included the substantive enactment date. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(i) Foreign currency

Foreign currency transactions are translated into Canadian dollars at the rate prevailing on the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the rates of exchange in effect at the end of the period. Translation gains and losses are recorded in the statement of comprehensive income.

(j) Provisions

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(k) Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share amounts are calculated by dividing the net profit attributable to common shareholders by the weighted average number of shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into common shares.

(l) Impairment of assets

Equipment is tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value (less costs to sell) is the amount obtainable from the sale of the asset or group of assets in an arm's length transaction between knowledgeable and willing parties, less costs to sell. Value in use is equal to the present value of future cash flows expected to be derived from the use and sale of the asset.

Impairment losses may be reversed, in a subsequent period where the impairment no longer exists or has decreased. The carrying amount after a reversal must not exceed the carrying amount (net of depreciation) that would have been determined had no impairment loss been recognized.

Impairment of financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(l) Impairment of assets (cont'd)

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The amount of the cumulative loss that is recognized in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

(m) Financial instruments

The Company recognizes a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Such financial assets or financial liabilities are initially recognized at fair value and the subsequent measurement depends on their classification.

All financial assets are classified into one of the following four categories: held for trading, held to maturity, loans and receivables or available for sale. All financial liabilities are classified into one of the following two categories: held for trading or other financial liabilities. The classification determines the accounting treatment of the instrument. The classification is determined by the Company when the financial instrument is initially recorded, based on the underlying purpose of the instrument.

The Company has elected to apply the following classifications to each of its significant categories of financial instruments:

Financial Asset/Liability	Classification	Measurement
Accounts receivable	Loans and receivables	Amortized cost
Long-Term Investments	Available-for-sale	Fair value
Bank indebtedness	Other liabilities	Amortized cost
Accounts payable and other current liabilities	Other liabilities	Amortized cost
Note payable	Other liabilities	Amortized cost
Amount due to related party	Other liabilities	Amortized cost

Held-for-trading financial investments are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. When available-for-sale financial assets are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss. Loans and receivables, investments held to maturity and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, impairment write-downs and foreign exchange translation adjustments are recognized immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(n) Fair value measurement

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.
Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1.
Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

(o) Recent accounting pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after March 31, 2012. Those pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from the table below. The following have not yet been adopted and are being evaluated to determine the resultant impact on the Company.

(i) IFRS 9 *Financial Instruments* was issued by the IASB in October 2010 and will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. Earlier application is permitted.

(ii) IFRS 10 *Consolidated Financial Statements* was issued by the IASB in May 2011. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation—Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(iii) IFRS 11 *Joint Arrangements* was issued by the IASB in May 2011. IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*, and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(iv) IFRS 12 *Disclosure of Interests in Other Entities* was issued by the IASB in May 2011. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(o) Recent accounting pronouncements (cont'd)

(v) IFRS 13 *Fair Value Measurement* was issued by the IASB in May 2011. IFRS 13 provides a consistent and less complex definition of fair value, establishes a single source of guidance for determining fair value and introduces consistent requirements for disclosures related to fair value measurement. The new standard clarifies that fair value is 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 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(vi) IFRS 7 *Financial Instruments: Disclosures* was amended by the IASB in December 2011 to provide additional information about offsetting of financial assets and financial liabilities. Additional disclosures will be required to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position. The amendments are effective for annual periods beginning on or after January 1, 2013.

(vii) IAS 1 *Presentation of Financial Statements* was amended by the IASB in June 2011 requires companies to group items presented within Other Comprehensive Income based on whether they may be subsequently reclassified to profit or loss. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. Earlier application is permitted.

4. ACCOUNTS RECEIVABLE

	March 31, 2012	March 31, 2011	April 1, 2010
Accounts receivables	$ 94,675	$ 112,890	$ 68,723
Allowance for doubtful debts	(46,985)	(46,985)	(16,728)
	$ 47,690	$ 65,905	$ 51,995

Allowance for doubtful debts:

	Year ended	
	March 31, 2012	March 31, 2011
Balance at beginning of year	$ 46,985	$ 16,728
Additional bad debt provision	-	30,257
Balance at ending of year	$ 46,985	$ 46,985

(Expressed in Canadian dollars)

5. INVENTORIES

Inventories are comprised as follows:

	March 31, 2012	March 31, 2011	April 1, 2010
Raw Materials	$ 70,769	$ 64,398	$ 53,814
Finished Goods	18,750	29,901	29,566
	$ 89,519	$ 94,299	$ 83,380
Less: Provision for slow-moving inventories	(21,465)	-	-
	$ 68,054	$ 94,299	$ 83,380

The amount of inventory recognized as expense during the year ended March 31, 2012 was $193,891 (2011: $198,180). The Company recorded a provision of $21,465 (2011: $0) for slow-moving inventories, which was charged to cost of sales. Inventories are pledged as security to the note payable to the related party (Note 7).

6. EQUIPMENT

Equipment is comprised of:

	Computer equipment	Plant equipment	Total
Cost:			
Balance April 1, 2010	$ 6,706	$ 1,450	$ 8,156
Additions	1,513	-	1,513
Balance March 31, 2011	$ 8,219	$ 1,450	$ 9,669
Additions	-	-	-
Balance March 31, 2012	$ 8,219	$ 1,450	$ 9,669
Accumulated Depreciation:			
Balance April 1, 2010	$ 3,738	$ -	$ 3,738
Charge for the year	2,278	-	2,278
Balance March 31, 2011	$ 6,016	$ -	$ 6,016
Charge for the year	$ 661	$ 290	951
Balance March 31, 2012	$ 6,677	$ 290	$ 6,967
Net Book Value:			
Balance April 1, 2010	$ 2,968	$ 1,450	$ 4,418
Balance March 31, 2011	$ 2,203	$ 1,450	$ 3,653
Balance March 31, 2012	$ 1,542	$ 1,160	$ 2,702

(Expressed in Canadian dollars)

7. RELATED PARTY TRANSACTIONS

Amount due to related parties and related party transactions:

	March 31, 2012	March 31, 2011	April 1, 2010
Note payable to Forest Lane Holdings Limited, a company controlled by a shareholder, is non-interest bearing with no specific terms of repayment. The amount is secured by a general security agreement.	$3,067,329	$2,850,379	$2,618,580

The Company also had a note payable to another related party, whose Vice President is also the Chief Financial Officer of the Company, as at March 31, 2012, March 31, 2011 and April 1, 2010 (Note 8).

The compensation expense associated with key management and directors for employment service or similar is as follows:

	Year ended	
	March 31, 2012	March 31, 2011
Salaries and other benefits	$ 93,306	$ 67,693
Directors' fees	-	-
	$ 93,306	$ 67,693

8. NOTE PAYABLE

	March 31, 2012	March 31, 2011	April 1, 2010
Subordinated promissory note payable to a related party, non-interest bearing, unsecured and payable on demand.	$200,000	$200,000	$200,000

9. LONG-TERM INVESTMENTS

Certified Emission Reductions Inc. ("CER")

On May 21, 2003, the Company loaned $500,000 to CER. Interest of 15% per annum was payable and the principal was due on or before December 31, 2003. Following receipt of interest of $16,792, CER discontinued payments and defaulted on the payment of principal. As a condition of this default, CER issued Class A common shares which comprises 51% of its share capital to the Company. At March 31, 2004, the investment was written-down to $1 as CER was inactive. In 2011, the Company became aware that CER had been dissolved in 2006 and accordingly, the investment was written off.

(Expressed in Canadian dollars)

9. LONG-TERM INVESTMENTS (Cont'd)

Woodland Biofuels Inc. ("Woodland")

In November 2006, the Company received an equity interest of 7.5%, representing 1,418,919 shares of Bioversion Industries Inc. ("Bioversion") of Mississauga, Ontario, a privately held company. The shares were received for services rendered by directors of the Company on behalf the Company. In December 2006 these shares were exchanged for 112,272 shares, representing a 1.1% interest, in Woodland, another privately held company.

These shares were included in the transition date balance sheet at a nominal price of $1 as Bioversion is a privately held company and up to the transition date, the value of the investment could not be reliably measured.

Woodland completed a private placement of 4,000,000 shares in December 2010 at a price of US$1.00 per share, and completed another private placement of 100,000 shares in September 2011 at a price of $1.00 per share. The Company has used these two valuations as the basis for the fair value measurement of the investment in Woodland. The changes between the values on the balance sheet dates are recorded in other comprehensive income for the years ended March 31, 2012 and March 31, 2011.

Further details are outlined in Note 19 regarding the valuation and designation of the long-term investment under IFRS.

10. SHARE CAPITAL

Share capital consists of the following:

Authorized
Unlimited number of non-voting, non-cumulative preference shares, issuable in series, convertible into one common share and redeemable at their stated capital amount
Unlimited number of common shares

	Number of Shares			Dollar Value		
	March 31, 2012	March 31, 2011	April 1, 2010	**March 31, 2012**	March 31, 2011	April 1, 2010
Issued						
Common	**107,948,144**	107,948,144	107,948,144	**$ 10,340,865**	$ 10,340,865	$ 10,340,865

(Expressed in Canadian dollars)

11. INCOME TAX

The Company's income taxes have been calculated as follows:

	Year ended	
	March 31, 2012	March 31, 2011
Net loss	$ (275,759)	$ (244,439)
Income tax recovery at Canadian Federal and provincial statutory rates of 28.25% (2011: 32%)	$ (77,902)	$ (78,220)
Non-deductible expenses	8,196	8,717
Deferred tax asset not recognized	69,706	69,503
Provision for income taxes	$ -	$ -

Deferred tax assets:

	March 31, 2012	March 31, 2011	April 1, 2010
Non-capital loss carry forwards	$ 753,631	$ 800,320	$ 670,400
Long-term investment	(31,688)	(34,914)	-
	721,943	765,406	670,400
Less: deferred tax assets not recognized	(721,943)	(765,406)	(670,400)
Balance	$ -	$ -	$ -

Non-capital loss carry-forwards:

At March 31, 2012, the Company and its subsidiaries had approximately $2,667,722 of non-capital losses carried forward to reduce future years' taxable income. The deferred tax benefit of these tax losses has not been recognized. The non-capital losses expire as follows:

2014	$ 246,746
2015	394,002
2026	303,096
2027	183,097
2028	327,325
2029	409,661
2030	348,264
2031	217,199
2032	238,332
	$ 2,667,722

(Expressed in Canadian dollars)

12. PERSONNEL COSTS

	Year ended	
	March 31, 2012	March 31, 2011
Salaries and allowance	$ 151,937	$ 142,883
Social welfare contributions	9,898	29,380
	$ 161,835	$ 172,263

13. LOSS PER SHARE

The loss per share is calculated based upon the weighted average number of common shares outstanding during the period of 107,948,144 (2011 – 107,948,144).

14. COMMITMENTS

The Company rents premises on a monthly basis and has no long term lease commitments and has no capitalized lease commitments.

15. FINANCIAL INSTRUMENTS

Fair Values

The estimated fair values of accounts receivables, bank indebtedness, accounts payable and other current liabilities, note payable and amount due to related party approximate their carrying values due to the relatively short-term nature of the instruments and/or floating interest rates on the instruments.

The following table allocates financial assets which are measured at fair value to the three levels of the fair value hierarchy, as defined in note 3 (n):

	Level 1	Level 2	Level 3	Total
March 31, 2012	$ -	$ 112,171	$ -	$ 112,171
March 31, 2011	$ -	$ 109,106	$ -	$ 109,106
April 1, 2010	$ -	$ -	$ 2	$ 2

During the years ended March 31, 2012 and 2011, there was no transfer of financial assets between Level 1 and Level 2.

During the year ended March 31, 2011, the long-term investment in Woodland was transferred out from Level 3 to Level 2. Transfer in and out of Level 3 is due to the change in the observability of market data, such as a recent new transaction or due to the passage of time. The following table summarizes the changes in Level 3 financial assets for the year ended March 31, 2012 and 2011:

15. FINANCIAL INSTRUMENTS (Cont'd)

	Year ended	
	March 31, 2012	March 31, 2011
Total Level 3 fair value beginning of year	$ -	$ 2
Purchased	-	-
Sold/written-off	-	(1)
Transfer out to Level 2	-	(1)
Net change in unrealized appreciation (depreciation) in the value of investment	-	-
Net realized gain (loss) on the sale of investment	-	-
Total Level 3 fair value, end of year	$ -	$ -

16. FINANCIAL RISKS

The main risks the Company's financial instruments are exposed to are credit risk, foreign currency risk, liquidity risk and market risk.

Credit Risk

The Company's credit risk is primarily attributable to its accounts receivable. The amounts disclosed in the consolidated balance sheets are net of allowances for doubtful accounts, estimated by the Company's management based on prior experience and their assessment of the current economic environment. The Company establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of accounts receivable. The main components of this allowance are a specific loss component that relates to individually significant exposures.

In the year ended March 31, 2012, two customers accounted for approximately 29% (2011 – 37%) of sales. As at March 31, 2012 the two customers accounted for approximately 65% (2011 – 59%) of total trade receivables.

Foreign Currency Risk

The Company has some revenue and raw material purchases denominated in US funds. The foreign currency risk is therefore hedged to a degree and the foreign currency risk in minimized.

Liquidity Risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation. To the extent that the Company does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through debt or equity transactions. The Company manages its liquidity risk by continuously monitoring forecast and actual cash flows from operations. In recent years, additional loans from directors/shareholders have provided the necessary liquidity required.

Market Risk

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Company. The Company is not exposed to any fair value fluctuations on bank term loan or finance lease obligation.

16. FINANCIAL RISKS (Cont'd)

Interest Rate Risk

The amount due to related parties and note payable (Notes 7 and 8, respectively) are non-interest bearing and, as such, are not subject to interest rate price risk resulting from changes in fair value from market fluctuations in interest rates.

The Company's financial instruments consist of bank indebtedness, accounts receivable, long term investments, accounts payable and other current liabilities, amount due to related party and note payable. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments as discussed above.

17. MANAGEMENT OF CAPITAL

The Company defines capital that it manages as the aggregate of its note payable to a related party, amount due to related party, share capital, contributed surplus, other comprehensive income and deficit. Its objectives when managing capital are to ensure that the Company will continue as a going concern, so that it can provide returns to its shareholders.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will make changes to its capital structure as deemed appropriate under the specific circumstances.

The Company is not subject to any externally imposed capital requirements or debt covenants, and does not presently utilize any quantitative measures to monitor its capital. The Company's overall strategy with respect to management of capital remains unchanged from the year ended March 31, 2011.

18. SEGMENTED INFORMATION

Management has determined that the Company carries on business in one operating segment only. All capital assets are located in Canada. Sales other than to Canadian customers for the year ended March 31, 2012 were export sales to the United States of US$30,351 (2011 – US$30,948). Accounts receivable from United States customers at March 31, 2012 amounted to US$671 (March 31, 2011 – US$13,976, April 1, 2010 – US$9,067).

19. FIRST TIME ADOPTION OF IFRS

As stated in Basis of Presentation (Note 3a), the Company's first consolidated financial statements prepared in accordance with IFRS are for the fiscal year commencing April 1, 2011. The accounting policies set out in this note have been applied in preparing the consolidated financial statements for the year ended March 31, 2012, the comparative information presented for the year ended March 31, 2011, and in the preparation of an opening IFRS balance sheet at April 1, 2010.

IFRS 1 First-time Adoption of International Financial Reporting Standards sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional balance sheet date with all adjustment to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company has applied the following exemptions and mandatory exception to its opening balance sheet dated April 1, 2010:

19. FIRST TIME ADOPTION OF IFRS (Cont'd)

(i) Exemption for business combinations

IFRS 1 provides the option to apply IFRS 3, *Business Combinations,* prospectively from the transition date or from a specific date prior to the transition date. This provides relief from full retrospective application that would require restatement of all business combinations prior to the transition date. The Company has elected to apply IFRS 3 prospectively to business combinations occurring after its transition date. Business combinations occurring prior to the transition date have not been restated.

(ii) Extinguishing financial liabilities with equity instruments

IFRS 1 provides the option to apply the transitional provisions of IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments. This provides relief from full retrospective application that would require restatement of all debt to equity swap transactions prior to the transition date. The Company has elected not to retrospectively apply IFRIC 19 to all the debt to equity swap transactions that occurred prior to its transition date.

(iii) Compound financial instruments

The Company has elected to apply IAS 32, Financial Instruments – Presentation retrospectively only to compound financial instruments where the liability portion is still outstanding as of the transition date.

(iv) Share-based payment

IFRS 2, Share-based Payment, permits the application of this standard only to equity instruments granted after November 7, 2002 that had not vested by February 1, 2010. Accordingly, the Company has applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested on the date of transition.

(v) Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of April 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

Reconciliation of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods.

Under Canadian GAAP, investments in equity instruments that do not have a quoted market price in an active market shall be measured at cost. Under IFRS, investment in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, shall be measured at cost. Further, under IFRS, if the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

As at April 1, 2010, the Company had incorrectly designated its investment in Woodland's equity instruments as held to maturity under Canadian GAAP. The investment should have been classified as available-for-sale financial asset under Canadian GAAP and IFRS. However, this has no impact in the carrying value of the investment under Canadian GAAP and IFRS as the fair value of this investment could not be reliably measured prior to and as at April 1, 2010.

(Expressed in Canadian dollars)

19. FIRST TIME ADOPTION OF IFRS (Cont'd)

As at March 31, 2012 and March 31, 2011, under IFRS, the management used the recent private placements share price to value the investment as management believes that the private placement price is a reasonable and reliable fair value available at that time. As a result, a change in the carrying value of the investment from transition date carrying value, which was $1, to fair value of approximately $112,171 at March 31, 2012 and $109,106 at March 31, 2011 was recognized, with fair value adjustment difference recognized in other comprehensive income.

There were no adjustments to assets, liabilities, and equity at April 1, 2010 as reported under Canadian GAAP.

The following are reconciliations of the consolidated balance sheet as at March 31, 2011 and consolidated statement of comprehensive income for the year then ended previously presented under Canadian GAAP to the balances prepared under IFRS:

Consolidated Balance Sheet as at March 31, 2011		Canadian GAAP balance	IFRS transition adjustment		IFRS balance
ASSETS					
Current Assets					
Accounts Receivable	$	65,905		$	65,905
Inventory		94,299			94,299
Prepaid Expenses		6,283			6,283
		166,487			166,487
Long-term investment		1	109,105		109,106
Equipment		3,653			3,653
	$	170,141	109,105	$	279,246
LIABILITIES AND SHAREHOLDERS' DEFICIENCY					
Liabilities					
Bank indebtedness	$	7,615		$	7,615
Accounts payable and other current liabilities		516,109			516,109
Note Payable		200,000			200,000
Amount due to related party		2,850,379			2,850,379
		3,574,103			3,574,103
Shareholders' Deficiency					
Share Capital		10,340,865			10,340,865
Contributed surplus		5,193,806			5,193,806
Accumulated other comprehensive income		-	109,105		109,105
Deficit		(18,938,633)			(18,938,633)
		(3,403,962)	109,105		(3,294,857)
	$	170,141	109,105	$	279,246

(Expressed in Canadian dollars)

19. FIRST TIME ADOPTION OF IFRS (Cont'd)

Consolidated Statement of Comprehensive Income		Canadian GAAP balance	IFRS transition adjustment	IFRS balance
Sales		$ 302,331		$ 302,331
Cost of sales		198,180		198,180
Gross Margin		104,151		104,151
Expenses				
	Selling, general and administrative	340,656		340,656
	Bank charges and interest expenses	22,498		22,498
	Depreciation	2,278		2,278
	Write off of accounts payable from prior years	(16,842)		(16,842)
Net loss		(244,439)		(244,439)
Other comprehensive income		-	109,105	109,105
Total comprehensive loss		(244,439)	109,105	(135,334)
Loss per share		$ (0.0023)		$ (0.0023)
Shares outstanding		107,948,144		107,948,144

There was no impact on the statement of cash flows on transition to IFRS.

20. APPROVAL OF FINANCIAL STATEMENTS

The Directors approved the financial statements on July 27, 2012.

DIRECTORS AND OFFICERS

David J. Hennigar	Chairman, Acting Chief Executive Officer and Director
J. T. MacQuarrie, Q.C.	Director
N. Gary Van Nest	Director
Michael G Ryan	Director
Lorne S. MacFarlane	Chief Financial Officer and Secretary

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