

**FILING STATEMENT**

**of**

**BELLAIR VENTURES INC.**

with respect to a Qualifying Transaction involving the acquisition of  
all of the issued and outstanding shares of  
CleanEnergy Developments Corp.

**July 12, 2012**

*Neither the TSX Venture Exchange Inc. (the “**Exchange**”) nor any securities  
regulatory authority has in any way passed upon the merits of the  
Qualifying Transaction described in this filing statement.*

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## NOTICE CONCERNING FORWARD-LOOKING STATEMENTS

This filing statement contains forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects” or “does not expect”, “is expected”, “estimates”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Issuer (as defined below), CleanEnergy (as defined below), or the Resulting Issuer (as defined below) to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Examples of such statements include: (A) the intention to complete the Transaction (as defined below); (B) the description of the Resulting Issuer that assumes completion of the Qualifying Transaction (as defined below); and (C) the intention to grow the business and operations of the Resulting Issuer. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this filing statement. Such forward-looking statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to: the ability of the Issuer, CleanEnergy, or the Resulting Issuer, as the case may be, to obtain necessary financing; to satisfy conditions under the Offer and Sale Agreement (as defined below); to satisfy the requirements of the Exchange (as defined below) with respect to the Qualifying Transaction; the economy generally; consumer interest in the services and products of the Resulting Issuer; competition; and anticipated and unanticipated costs. While the Issuer, CleanEnergy, or the Resulting Issuer, as the case may be, anticipates that subsequent events and developments may cause its views to change, the Issuer, CleanEnergy, or the Resulting Issuer, as the case may be, specifically disclaims any obligation to update these forward-looking statements. These forward-looking statements should not be relied upon as representing the Issuer’s, CleanEnergy’s or the Resulting Issuer’s views as of any date subsequent to the date of this filing statement. Although the Issuer, CleanEnergy and the Resulting Issuer have attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the Issuer, CleanEnergy or the Resulting Issuer. Additional factors are noted under “Risk Factors” in this filing statement.

These forward-looking statements are made as of the date of the filing statement, and the Issuer assumes no obligation to update or revise them to reflect new events or circumstances.

## **GENERAL DISCLOSURE INFORMATION**

Unless otherwise stated, the information contained in this filing statement is given as of July 12, 2012.

No person has been authorized by the Issuer or CleanEnergy to give any information or make any representations in connection with the transactions herein described other than those contained in this filing statement and, if given or made, any such information or representation must not be relied upon as having been authorized by the Issuer or CleanEnergy, as applicable.

All information contained in this filing statement with respect to the Issuer has been supplied by the Issuer for inclusion herein, and with respect to that information, CleanEnergy and its directors and officers have relied solely on the Issuer. Based on its due diligence conducted in this respect, CleanEnergy has no reason to believe that such information is not accurate.

All information contained in this filing statement with respect to CleanEnergy has been supplied by CleanEnergy for inclusion herein, and with respect to that information, the Issuer and its directors and officers have relied solely on CleanEnergy. Based on its due diligence conducted in this respect, the Issuer has no reason to believe that such information is not accurate.

### **Definitions and Selected Abbreviations**

Various terms used in this filing statement, including the cover pages, are defined under "Glossary of Terms". Unless the context otherwise requires, use in this filing statement of the "Resulting Issuer", "we", "us" or "our" means the Resulting Issuer and assumes that the steps outlined under "Qualifying Transaction" have been completed and that the Resulting Issuer is directly or indirectly carrying on the business currently conducted by CleanEnergy.

### **Certain Information**

Unless otherwise indicated or the context otherwise requires, all dollar amounts in this filing statement are in Canadian dollars. Aggregated figures in graphs, charts and tables contained in this filing statement may not add due to rounding. Historical statistical data and/or historical returns do not necessarily indicate future performance. Unless otherwise indicated, the market and industry data contained in this filing statement is based upon information from industry and other publications and the knowledge of management of and experience of the Issuer and

CleanEnergy in the markets in which CleanEnergy operates. While management of the Issuer and CleanEnergy believes this data is reliable, market and industry data is subject to variations and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. Neither the Issuer nor CleanEnergy has independently verified any of the data from third-party sources referred to in this filing statement or ascertained the underlying assumptions relied upon by such sources.

Words importing the singular number include the plural and vice versa, and words importing any gender include all genders.

## GLOSSARY OF TERMS

Unless the context otherwise provides, the following terms used in this filing statement and the schedules hereto have the meanings set forth below:

**“Affiliates”** means a Company that is affiliated with another Company as described as follows: a Company is an **“Affiliate”** of another Company if: (a) one of them is the subsidiary of the other, or (b) each of them is controlled by the same Person. A Company is **“controlled”** by a Person if: (a) voting securities of the Company are held, other than by way of security only, by or for the benefit of that Person, and (b) the voting securities, if voted, entitle the Person to elect a majority of the directors of the Company. A Person beneficially owns securities that are beneficially owned by: (a) a Company controlled by that Person, or (b) an Affiliate of that Person or an Affiliate of any Company controlled by that Person;

**“Agency Agreement”** means the agency agreement among CleanEnergy, the Issuer and the Agent dated June 6, 2012 with respect to the Private Placement;

**“Agent”** means Portfolio Strategies Securities Inc., as agent to CleanEnergy in connection with the Private Placement;

**“Agent Commission”** means the commission payable to the Agent in connection with the Private Placement, being a fee equal to 10% of the aggregate gross proceeds raised pursuant to the Private Placement, which is deposited in escrow and forms part of the Escrowed Funds;

**“Agent Options”** means the options to purchase Resulting Issuer Units issued to the Agents in connection with the Private Placement, representing 10% of the Subscription Receipts sold pursuant to the Private Placement. Each Agent Option entitles the holder thereof to acquire one Resulting Issuer Unit at an exercise price of \$0.50 for a 24 month period following the Completion of the Qualifying Transaction;

**"Alter"** means Alter NRG Corp., a corporation incorporated pursuant to the laws of the Province of Alberta;

**"Approval"** means the final acceptance by the Exchange of the Private Placement and the Acquisition as the "Qualifying Transaction" of the Issuer, as defined in the Policy, and the reactivation of the Purchaser as a Tier 2 issuer on the TSXV;

**"Associate"** when used to indicate a relationship with a Person or Company, means (a) an issuer of which the Person or Company beneficially owns or controls, directly or indirectly, voting securities entitling him to more than 10% of the voting rights attached to outstanding securities of the issuer, (b) any partner of the Person or Company, (c) any trust or estate in which the Person or Company has a substantial beneficial interest or in respect of which a Person or Company serves as trustee or in a similar capacity, (d) in the case of a Person, a relative of that Person, including (i) that Person's spouse or child, or (ii) any relative of the Person or of his spouse who has the same residence as that Person; but (e) where the Exchange determines that two Persons shall, or shall not, be deemed to be associates with respect to a Member firm, Member corporation or holding Company of a Member corporation, then such determination shall be determinative of their relationships in the application of Rule D with respect to that Member firm, Member corporation or holding Company;

**"Bellair Options"** means the 170,440 outstanding stock options of the Issuer, as adjusted for any exercise after the date hereof, granted to the directors and officers of the Issuer pursuant to the Stock Option Plan, each entitling the holder to purchase one Bellair Share at an exercise price of \$0.50 per share until November 24, 2013, in accordance with the terms of the Stock Option Plan;

**"Bellair Shares"** means the common shares in the capital of the Issuer, as presently constituted on the date hereof, and **"Bellair Share"** means one of the Bellair Shares;

**"Bridgepoint"** means Bridgepoint Group Ltd., a corporation incorporated pursuant to the laws of Ontario;

**"Business Day"** means any day of the year, other than a Saturday or Sunday or statutory holiday or any day on which major banks are closed for business in Toronto, Ontario or Calgary, Alberta;

**"Canadian GAAP"** means generally accepted accounting principles in Canada, as set out in Part V of the CICA Handbook;

**"CleanEnergy"** means CleanEnergy Developments Corp., a corporation incorporated pursuant to the laws of the Province of Ontario, and a wholly-owned subsidiary of Alter and which, for greater certainty, does not include its subsidiary, CleanEnergy Investments Corp.;

**“CleanEnergy Shares”** means the common shares in the capital of CleanEnergy, as presently constituted on the date hereof, and **“CleanEnergy Share”** means one of the CleanEnergy Shares;

**“CleanEnergy Warrants”** means the common share purchase warrants of CleanEnergy partially comprising the CleanEnergy Units, and **“CleanEnergy Warrant”** means one of the CleanEnergy Warrants. Each CleanEnergy Warrant entitles the holder thereof to acquire one CleanEnergy Share at an exercise price of \$0.75 for a 24 month period following the Completion of the Qualifying Transaction;

**“CleanEnergy Units”** means the units, each comprised of one CleanEnergy Share and one CleanEnergy Warrant, issuable upon exercise of the Subscription Receipts, and **“CleanEnergy Unit”** means one of the CleanEnergy Units;

**“Closing”** means the closing of the Transaction as contemplated in the Offer and Sale Agreement;

**“Closing Date”** means 10 Business Days following the date on which the Issuer receives the Approval, but in any event shall be no later than 90 days following the Private Placement Closing Date, or such later date as the Issuer and Alter may agree in writing;

**“Closing Escrow Agreement”** means the Exchange Form 2F - “CPC Escrow Agreement” dated as of the Closing Date among the Issuer, the Escrow Agent and the Principals of the Resulting Issuer upon Completion of the Qualifying Transaction, excluding those already subject to the Initial Escrow Agreement;

**“Company”** unless specifically indicated otherwise, means a corporation, incorporated association or organization, body corporate, partnership, trust, association or other entity other than an individual;

**“Completion of the Qualifying Transaction”** means the date the Final Exchange Bulletin is issued by the Exchange in connection with proposed Qualifying Transaction;

**“Consulting Agreement”** means the consulting agreement dated October 12, 2011 between the Issuer and Bridgepoint;

**“Control Person”** means any Person that holds or is one of a combination of Persons that holds a sufficient number of securities of an issuer so as to materially affect the control of that issuer, or that holds more than 20% of the outstanding voting securities of an issuer except where there is evidence showing that the holder of those securities does not materially affect the control of the issuer;

**“CPC”** or **“Capital Pool Company”** means a corporation: (a) that has been incorporated or organized in a jurisdiction in Canada; (b) that has filed and obtained a receipt for a preliminary prospectus from one or more of the securities regulatory authorities in compliance with the Policy; and (c) in regard to which the Completion of the Qualifying Transaction has not yet occurred;

**“Engagement Letter”** means the engagement letter between the Agent and CleanEnergy dated March 9, 2012 in connection with the Private Placement;

**“Escrow Agent”** means Equity Financial Trust Company (formerly Equity Transfer & Trust Company);

**“Escrowed Funds”** mean the gross proceeds from the Private Placement delivered to and deposited in escrow by the Escrow Agent pursuant to the Subscription Receipt Agreement together with all interest and other income earned thereon;

**“Exchange”** means TSX Venture Exchange Inc.;

**“Final Exchange Bulletin”** means the Exchange bulletin issued following Closing and the submission of all required documentation and that evidences the final Exchange acceptance of the Qualifying Transaction;

**“GeoStar”** means GeoStar Geothermal Systems, a division of WaterFurnace International, Inc.;

**“Government Authority”** means any foreign national, provincial, local or state government, any political subdivision or any governmental, judicial, public or statutory instrument, court, tribunal, agency (including those pertaining to health, safety or the environment), authority, body or entity, or other regulatory bureau, authority, body or entity having legal jurisdiction over the activity or Person in question and, for greater certainty, includes the Exchange;

**“IFRS”** means International Financial Reporting Standards, as set out in Part I of the CICA Handbook and as amended from time to time;

**“Initial Escrow Agreement”** means the Exchange Form 2F - “CPC Escrow Agreement” dated October 7, 2008 among the Issuer, the Escrow Agent and the initial shareholders of the Issuer;

**“Initial Public Offering”** or **“IPO”** means a transaction that involves an issuer issuing securities from its treasury pursuant to its first prospectus;

**“Insider”** means, if used in relation to an issuer: (a) a director or senior officer of the issuer; (b) a director or senior officer of a Company that is an Insider or subsidiary of the issuer; (c) a Person that beneficially owns or controls, directly or indirectly,

voting shares carrying more than 10% of the voting rights attached to all outstanding voting shares of the issuer; or (d) the issuer itself if it holds any of its own securities;

**“Interim Issuer Financial Statements”** means the unaudited financial statements of the Issuer for the six months ended February 29, 2012, consisting of a balance sheet and the accompanying statements of income, retained earnings and changes in financial position for the year then ended and all notes thereto;

**“Issuer”** means Bellair Ventures Inc., a corporation incorporated pursuant to the laws of Canada;

**“Issuer Financial Statements”** means the audited financial statements of the Issuer for the fiscal years ending August 31, 2011, 2010 and 2009, respectively, consisting in each case of a balance sheet and the accompanying statements of income, retained earnings and changes in financial position for the year then ended and all notes thereto, together with a report of the auditors, MSCM LLP;

**“Member”** means a Person who has executed a member’s agreement among the Exchange and each Person who, from time to time, is accepted as and becomes a member of the Exchange under Exchange requirements;

**“NEX Board”** means the NEX board of the Exchange.

**“Non-Arm’s Length Party”** means in relation to a Company, a promoter, officer, director, other Insider or Control Person of that Company and any Associates or Affiliates of any of such Persons. In relation to an individual, means any Associate of the individual or any Company of which the individual is a promoter, officer, director, Insider or Control Person;

**“Non-Arm’s Length Qualifying Transaction”** means a proposed Qualifying Transaction where the same party or parties or their respective Associates and Affiliates are Control Persons in both the CPC and in relation to the Significant Assets which are to be the subject of the proposed Qualifying Transaction;

**“Offer and Sale Agreement”** means the offer and sale agreement dated January 5, 2012 between the Issuer and Alter, as amended by the first amendment to the Offer and Sale Agreement dated February 28, 2012 and by the second amendment to the Offer and Sale Agreement dated as of April 30, 2012 and by the third amendment to the Offer and Sale Agreement dated as of May 31, 2012 and by the fourth amendment to the Offer and Sale Agreement dated as of June 30, 2012;

**“Person”** means a Company or individual;

**“Policy”** means Policy 2.4 – *Capital Pool Companies* of the Exchange’s Corporate Finance Manual;

**“Principal”** means:

- (a) a Person who acted as a promoter of the issuer within two years or their respective Associates or Affiliates, before the IPO prospectus or Final Exchange Bulletin;
- (b) a director or senior officer of the issuer or any of its material operating subsidiaries at the time of the IPO prospectus or Final Exchange Bulletin;
- (c) a 20% holder – a Person that holds securities carrying more than 20% of the voting rights attached to the issuer’s outstanding securities immediately before and immediately after the issuer’s IPO or immediately after the Final Exchange Bulletin for non-IPO transactions; or
- (d) a 10% holder – a Person that:
  - (i) holds securities carrying more than 10% of the voting rights attached to the issuer’s outstanding securities immediately before and immediately after the issuer’s IPO or immediately after the Final Exchange Bulletin for non-IPO transactions; and
  - (ii) has elected or appointed, or has the right to elect or appoint, one or more directors or senior officers of the issuer or any of its material operating subsidiaries.

A Principal’s spouse, and relatives that live at the same address as the Principal, will also be treated as Principal(s) and any securities of the issuer held will be subject to escrow requirements.

**“Private Placement”** means the brokered private placement offering of 4,788,000 Subscription Receipts at purchase price of \$0.50 per Subscription Receipt for aggregate gross proceeds of \$2,394,000. Each Subscription Receipt is exercisable by the holder thereof, without payment of additional consideration, into one CleanEnergy Unit, subject to adjustment in certain events;

**“Private Placement Closing Date”** means the date of closing of the Private Placement being June 6, 2012;



**“Purchase Price”** means an amount equal to an aggregate of \$5,000,000, (representing a deemed price of \$0.50 per Bellair Share), payable in 10,000,000 Bellair Shares.

**“Qualifying Transaction”** means a transaction where a CPC acquires Significant Assets other than cash, by way of purchase, amalgamation, merger or arrangement with another company or by other means, and with respect to the Issuer, means the share purchase and exchange transaction described herein, which, if approved by the Exchange, will constitute the Issuer’s Qualifying Transaction pursuant to the Policy;

**“Regulatory Approval”** means any approval, consent, waiver, permit, order or exemption from any Government Authority having jurisdiction or authority over any of the Issuer, CleanEnergy, which is required or advisable to be obtained in order to permit the Transactions to be effected, including, without limitation, approval of the Exchange, and **“Regulatory Approvals”** means all such approvals, consents, waivers, permits, orders or exemptions.

**“Resulting Issuer”** means the Issuer upon Completion of the Qualifying Transaction;

**“Resulting Issuer Shares”** means the common shares in the capital of the Resulting Issuer, and **“Resulting Issuer Share”** means one of the Resulting Issuer Shares;

**“Resulting Issuer Warrants”** means the common share purchase warrants of the Resulting Issuer to be issued in exchange for the CleanEnergy Warrants pursuant to the Transaction, and **“Resulting Issuer Warrant”** means one of the Resulting Issuer Warrants. Each Resulting Issuer Warrant entitles the holder thereof to acquire one Resulting Issuer Share at an exercise price of \$0.75 for a 24 month period following the Completion of the Qualifying Transaction;

**“Resulting Issuer Warrant Shares”** means the Resulting Issuer Shares issuable upon exercise of the Resulting Issuer Warrants and **“Resulting Issuer Warrant Share”** means one of the Resulting Issuer Warrant Shares;

**“Resulting Issuer Units”** means units comprised of one Resulting Issuer Share and one Resulting Issuer Warrant, to be issued in exchange for the CleanEnergy Units pursuant to the Transaction, and **“Resulting Issuer Unit”** means one of the Resulting Issuer Units;

**“SEDAR”** means the System for Electronic Document Analysis and Retrieval and its website maintained by CDS Inc. at [www.sedar.com](http://www.sedar.com);

**"Seed Shares"** has the meaning set forth herein under the heading "Information Concerning the Issuer – Selected Consolidated Financial Information and Management's Discussion and Analysis – Company Overview";

**"Significant Assets"** means one or more assets or businesses which, when purchased, optioned or otherwise acquired by the CPC, together with any other concurrent transactions, would result in the CPC meeting the minimum listing requirements of the Exchange;

**"Stock Option Plan"** means the stock option plan dated November 7, 2008 of the Issuer. The Stock Option Plan will be implemented as the stock option plan of the Resulting Issuer, assuming Completion of the Qualifying Transaction, according to the terms of the Offer and Sale Agreement, subject to Exchange approval;

**"Subscription Receipt"** means the subscription receipts issued pursuant to the Private Placement with each subscription receipt exercisable by the holder thereof, without payment of additional consideration, for one CleanEnergy Unit, subject to adjustment in certain events;

**"Subscription Receipt Agreement"** means the subscription receipt agreement entered into among the Escrow Agent, the Issuer, CleanEnergy and the Agent on the Private Placement Closing Date in connection with Private Placement;

**"Target Company"** means a Company to be acquired by the CPC as its Significant Asset pursuant to a Qualifying Transaction, and with respect to the Issuer, means CleanEnergy; and

**"Transaction"** means the purchase by the Issuer of all of the issued and outstanding CleanEnergy Shares from Alter, pursuant to the terms and conditions set forth in the Offer and Sale Agreement.

## SUMMARY OF FILING STATEMENT

*The following is a summary of information relating to the Issuer, CleanEnergy and the Resulting Issuer (assuming Completion of the Qualifying Transaction) and should be read together with the more detailed information and financial data and statements contained elsewhere in this filing statement.*

### **Bellair Ventures Inc.**

The Issuer is a Capital Pool Company and was incorporated on August 22, 2008 under the *Canada Business Corporations Act*. On November 24, 2008, the Issuer completed an initial public offering of Bellair Shares for aggregate gross proceeds of \$678,300, which amount was intended to provide the Issuer with funds with which to identify and evaluate businesses or assets with a view to completing a Qualifying Transaction. As of the date hereof and prior to the Completion of the Qualifying Transaction, the Issuer has not and will not have commenced any commercial operations and does not and will not have any assets, other than a minimal amount of cash, net of expenses. Since November 26, 2008, the issued and outstanding Bellair Shares, excluding Bellair Shares that are subject to escrow pursuant to the Policy, have been listed on the Exchange under the symbol "BVI.P". On March 3, 2011, the Issuer announced that trading of the Bellair Shares would be transferred to the NEX Board, effective immediately, as the Issuer had not completed a Qualifying Transaction within the timeframe prescribed by the Exchange. In accordance with the Policy, 600,000 Bellair Shares were cancelled in connection with the transfer to the NEX Board. Trading commenced on the NEX Board under the symbol "BVI.H". See "*Information Concerning the Issuer*".

### **CleanEnergy Developments Corp.**

CleanEnergy is a wholly-owned subsidiary of Alter, and was incorporated on December 23, 2003 under the *Business Corporations Act* (Ontario). CleanEnergy is a geoexchange company that provides heating and cooling solutions and equipment for homes and commercial buildings using energy from the earth. CleanEnergy provides complete design and build solutions for commercial projects and also equipment sales through its dealer network across Canada. Additionally, CleanEnergy is a distributor of a line of GeoStar heat pumps to a network of more than 100 dealers across Canada.

Geoexchange is the industry's term used to describe an alternative to traditional oil, gas, or coal-fired heating, ventilation and air conditioning ("HVAC") systems.

Geoexchange technology uses the relatively constant temperature (between 4°C and 10°C year-round) beneath the surface of the earth to heat and cool buildings. Heat

energy from beneath the earth's surface can be captured using proven geoexchange technologies and harnessed to provide space heating and cooling. The advantages of geoexchange technology include:

- the ability to save the developer or consumer up to 70% on their current heating bills, by transferring existing heat without combustion;
- the ability to pay for itself in less time than a traditional HVAC system, depending on current building heat/cool use, soil types, size of installation, and other factors;
- qualifying as a renewable energy - a typical two bedroom house-sized installation is equivalent to taking two cars off the road or planting one acre of trees;
- systems that involve no combustion, making them cleaner and safer to handle than either oil or gas; and
- generally taking up less space than traditional HVAC systems, and being particularly suitable for situations where space is at a premium and/or aesthetics matter.

An active corporation since 2006, CleanEnergy began completing larger heating and cooling projects for schools, hockey rinks, hospitals, civic centers and other large commercial complexes having revenues per transaction of between \$0.5 million and \$1.5 million in 2010-2011. CleanEnergy is also currently providing geoexchange solutions for the Calgary International Airport pursuant to a \$4.5 million contract ending in early 2013.

For more information, see *"Information Concerning CleanEnergy"*.

### **The Transaction**

Pursuant to the terms of the Offer and Sale Agreement, the Issuer intends to acquire all of the issued and outstanding CleanEnergy Shares from Alter, the sole shareholder of CleanEnergy as at the date of the Offer and Sale Agreement. The consideration payable by the Issuer to Alter for such shares is \$5,000,000, subject to adjustment in accordance with the Offer and Sale Agreement, which will be satisfied by the issuance to Alter of 10,000,000 Bellair Shares, valued at \$0.50 per Bellair Share. The consideration to be paid to Alter was determined pursuant to arm's length negotiations between the management of each of the Issuer and Alter.

It is intended that the Transaction will constitute the Issuer's Qualifying Transaction pursuant to the Policy. The Completion of the Qualifying Transaction will be effected pursuant to the terms of the Offer and Sale Agreement and receipt of the necessary Regulatory Approvals. See *"Qualifying Transaction"*.

Following Completion of the Qualifying Transaction, CleanEnergy will be a wholly-owned subsidiary of the Issuer and CleanEnergy.

### **Private Placement**

On June 6, 2012, CleanEnergy completed the Private Placement pursuant to which 4,788,000 Subscription Receipts were issued and sold on a brokered, private placement basis for gross proceeds of \$2,394,000 at a purchase price of \$0.50 per Subscription Receipt pursuant to the terms of the Agency Agreement. Each Subscription Receipt is exercisable by the holder thereof, without payment of additional consideration, into one CleanEnergy Unit, each CleanEnergy Unit being comprised of one CleanEnergy Share and one CleanEnergy Warrant, subject to adjustment in certain events. Each CleanEnergy Unit issuable on exercise of the Subscription Receipts will be exchanged for one Resulting Issuer Share and one Resulting Issuer Warrant pursuant to the Transaction. The Resulting Issuer Warrants will be exercisable to acquire one Resulting Issuer Warrant Share for a period of 24 months following the Completion of the Qualifying Transaction at an exercise price of \$0.75 per Resulting Issuer Share, subject to adjustment in certain events.

The Subscription Receipts were created and issued pursuant to the Subscription Receipt Agreement among the Escrow Agent, the Issuer, CleanEnergy and the Agent. The specific attributes of the Subscription Receipts are set forth in the Subscription Receipt Agreement.

On the Private Placement Closing Date, the Escrowed Funds were delivered to and deposited in escrow by the Escrow Agent and invested in short term investment grade debt obligations as determined by CleanEnergy.

The Subscription Receipts will automatically convert into CleanEnergy Units upon receipt of the Approval, without any further action on the part of the holders thereof. Upon receipt of the Approval, the Agent Commission will be released to the Agent and the balance of the Escrowed Funds will be released to CleanEnergy. If the Approval has not been received prior to 5:00 p.m. (Eastern Standard Time) on the date that is 90 days following the Private Placement Closing Date, or such later date as may be agreed to in writing by the Issuer and Alter, the Escrowed Funds plus accrued interest shall be used by CleanEnergy to repurchase the Subscription Receipts for cancellation at a redemption price per Subscription Receipt of \$0.50. To the extent that the Escrowed Funds (plus accrued interest) are not sufficient to purchase all of the Subscription Receipts, the Issuer will contribute such amounts as are necessary to satisfy any shortfall.

Immediately following the conversion of the Subscription Receipts, the Escrow Agent will tender to the Issuer all of the CleanEnergy Shares and CleanEnergy

Warrants issued upon exercise of the Subscription Receipts in exchange for the Resulting Issuer Shares and Resulting Issuer Warrants.

The Agent acted as agent to CleanEnergy in connection with the Private Placement, and received or will receive on upon receipt of the Approval, as compensation: (i) a cash commission of \$239,400, being an amount equal to 10% of the aggregate gross proceeds of the Private Placement; (ii) 478,800 Agent Options, being equal to 10% of the Subscription Receipts sold pursuant to the Private Placement; and (iii) the payment of its reasonable expenses, including legal fees. Each Agent Option entitles the holder to acquire one Resulting Issuer Unit, each comprised of one Resulting Issuer Share and one Resulting Issuer Warrant, at an exercise price of \$0.50 for a 24 month period following the Completion of the Qualifying Transaction. See *"Qualifying Transaction – Private Placement"*.

### **Conditions of the Transaction**

The Offer and Sale Agreement contains a number of conditions precedent, which may or may not be customary for a transaction of this nature. Unless all of the conditions precedent are satisfied or waived by the party for whose benefit such conditions exist, to the extent they may be capable of waiver, the transactions contemplated by the Offer and Sale Agreement will not proceed. There is no assurance that the conditions precedent will be satisfied or waived, as necessary, on a timely basis, or at all. See *"Qualifying Transaction – Conditions of the Qualifying Transaction"*.

### **Benefits of the Qualifying Transaction**

The Qualifying Transaction is expected to yield benefits to the shareholders of both the Issuer and CleanEnergy. The principal purposes of the Qualifying Transaction are to provide CleanEnergy with a platform to have access to capital through public markets, to have a dedicated senior management team focused on the geoexchange market and to provide a pure play geoexchange company in the public markets.

Prior to the Qualifying Transaction, CleanEnergy was a subsidiary of Alter, whose primary business was plasma gasification and converting waste into energy. Management of the Issuer believes that the geoexchange market segment is a growth industry as it reduces the use of fossil fuels in a building by up to 80% which is beneficial to the environment and also provides energy savings to the customer. Management of the Issuer also believes that with a focus solely on geoexchange it can grow the revenue base and become the industry leading geoexchange company in the Canadian market. See *"Qualifying Transaction – Benefits of the Qualifying Transaction"*.

## Effective Date of the Closing

It is anticipated that the Transaction will close after the requisite Regulatory Approvals have been obtained and all other conditions to the Closing have been satisfied or waived, which is anticipated to occur in mid-July, 2012. It is anticipated that the Completion of the Qualifying Transaction will occur as soon as is reasonably practical thereafter. See *"Qualifying Transaction – Effective Date of the Closing"*.

## Interests of Insiders, Promoters or Control Persons

The following table sets forth the number of: (i) Bellair Shares held by the proposed directors, officers and Insiders of the Resulting Issuer and their Associates and Affiliates as of the date hereof; and (ii) the Resulting Issuer Shares anticipated to be beneficially held by the proposed directors, officers and Insiders of the Resulting Issuer and their Associates and Affiliates upon Completion of the Qualifying Transaction.

Proposed Directors, Officers and Insiders	Number of Bellair Shares held as of July 12, 2012 <sup>(1)</sup>	Number and Percentage of Resulting Issuer Shares Controlled Upon Completion of the Qualifying Transaction <sup>(2)</sup>
Emlyn J. David President, Chief Executive Officer, Secretary, Chairman and Director	300,000	300,000 (1.73%)
Frank Carnevale <sup>(3)</sup> Chief Operating Officer	-	564,000 (3.26%)
Jonathan Leong Chief Financial Officer	-	-
Michael Galloro <sup>(4)</sup> Director	10,000	10,000 (0.06%)
Rajiv Rai <sup>(5)</sup> Director	90,000	90,000 (0.52%)
Daniel R. Hay <sup>(6)</sup> Director	-	-
Nancy Laird <sup>(6)</sup> Director	-	-
Alter <sup>(7)</sup>	-	10,000,000 (57.77%)
Robert van Duynhoven <sup>(8)</sup> President of CleanEnergy	-	40,000 (0.23%) <sup>(9)</sup>

Notes:

- (1) Assumes 1,956,600 Bellair Shares issued and outstanding as at the date hereof, but does not include warrants, options or other convertible securities held.
- (2) Assumes 17,308,600 Resulting Issuer Shares issued and outstanding, which includes the CleanEnergy Shares issued upon exercise of the Subscription Receipts in connection with the Private Placement and the 564,000 Resulting Issuer Shares to be issued to Bridgepoint pursuant to

the Consulting Agreement, and does not include warrants, options or other convertible securities held.

- (3) To be issued pursuant to the Consulting Agreement. Mr. Carnevale is the sole shareholder of Bridgepoint and is the Principal behind the Consulting Agreement.
- (4) These Bellair Shares are held by Duck Capital Inc., a private company wholly-owned by Michael Galloro.
- (5) These Bellair Shares are held by R3 Concepts Inc., a private company wholly-owned by Rajiv Rai.
- (6) Mr. Hay and Ms. Laird are Insiders of Alter, but neither is a Control Person.
- (7) In accordance with the terms of the Offer and Sale Agreement, Alter has irrevocably agreed that where it owns greater than 50% of the issued and outstanding Resulting Issuer Shares, Alter will only vote a maximum of 49.9% of the issued and outstanding Resulting Issuer Shares voted in respect of any matter at any given time.
- (8) Mr. van Duynhoven is to be appointed President of CleanEnergy upon Closing.
- (9) Mr. van Duynhoven subscribed for 40,000 Subscription Receipts pursuant to the Private Placement and will therefore be issued 40,000 Resulting Issuer Shares and 40,000 Resulting Issuer Warrants upon receipt of the Approval.

### Arm's Length Qualifying Transaction

The Qualifying Transaction is not a Non-Arm's Length Qualifying Transaction.

### Available Funds and Principal Purposes

The following table sets forth the estimated, pro forma consolidated sources and uses of funds of the Resulting Issuer as at the Closing Date, not including revenue generated from operations in the normal course:

Source of Funds	Amount
Consolidated Working Capital	\$1,488,935 <sup>(1)</sup>
Gross Proceeds of the Private Placement	\$2,394,000
<b>TOTAL</b>	<b>\$3,882,935</b>
<hr/>	
Uses of Funds	Amount
Issuer's Transaction costs <sup>(2)</sup>	(\$200,000)
Private Placement costs and other expenses	(\$239,400)
General and administrative expenses	(\$450,000)
Alter payment for working capital in excess of \$nil	(\$1,488,311)
<b>TOTAL.....</b>	<b>(\$2,377,711)</b>
<hr/>	
<b>Remainder of Available Funds as at Closing</b>	<b>\$1,505,224</b>

Notes:



- (1) Projected working capital for the Resulting Issuer, upon consolidation of the Issuer's and CleanEnergy's working capital.
- (2) Transaction costs and related fees for the Qualifying Transaction.

For more information on the estimated available funds and the sources and uses of such funds, see *"Information Concerning the Resulting Issuer - Available Funds and Principal Purposes"*.

### **Selected Pro Forma Consolidated Financial Information**

The table below sets out certain pro forma financial data for the Resulting Issuer as at February 29, 2012, assuming the Completion of the Qualifying Transaction, in respect of the periods for which financial information is provided elsewhere in this filing statement. The summary unaudited pro forma consolidated financial information below is derived from the pro forma financial statements and should be read in conjunction with the pro forma financial statements, related notes and other financial information appearing elsewhere in this filing statement.

	<b>Issuer</b>	<b>CleanEnergy</b>	<b>Adjustments</b>	<b>Pro Forma Consolidated</b>
Current Assets	\$68,763	\$2,055,378	\$466,289	\$2,590,430
Total Assets	\$68,763	\$2,920,967	\$4,602,188	\$7,591,918
Total Liabilities	\$68,139	\$16,476,703	\$(15,908,148)	\$636,694
Shareholders' Equity	\$624	\$(13,555,736)	\$20,510,336	\$6,955,224

For more information on the selected pro forma consolidated financial information, see *"Information Concerning the Resulting Issuer - Pro Forma Consolidated Capitalization"* and Schedule "E".

### **Dividends**

No dividends have been paid on any Bellair Shares since the date of the Issuer's incorporation, and it is not contemplated that any dividends will be paid in the immediate or foreseeable future.

If the Resulting Issuer generates earnings in the foreseeable future, it expects that such earnings will be retained to finance growth, if any, and, when appropriate, retire debt. The directors of the Resulting Issuer will determine if and when dividends should be declared and paid in the future based on the Resulting Issuer's financial position at the relevant time. All of the Resulting Issuer Shares will be entitled to an equal share of any dividends declared and paid. See *"Information Concerning the Resulting Issuer - Available Funds and Principal Purposes - Dividends"*.

### **Listing on the Exchange and Public Market**

The Bellair Shares were first listed on the Exchange on November 26, 2008 and are listed on the NEX Board under the trading symbol "BVI.H". It is anticipated that the Bellair Shares will resume trading on the Exchange upon Completion of the Qualifying Transaction, under the symbol "BVI".

The trading of the Bellair Shares was halted on November 25, 2010. Subsequently, the trading of Bellair Shares was suspended, effective November 26, 2010.

On March 3, 2011, the Issuer announced that trading of the Bellair Shares would be transferred to the NEX Board, effective immediately, as the Issuer had not completed a Qualifying Transaction within the timeframe prescribed by the Exchange. In accordance with the Policy, 600,000 Bellair Shares, representing 50% of the Seed Shares sold to non-arm's length parties, were cancelled in connection with the transfer to the NEX Board. The Issuer obtained the requisite shareholder approval for both its transfer to the NEX Board and the cancellation of the Seed Shares. Trading commenced on the NEX Board under the symbol "BVI.H".

There is no public market for the CleanEnergy Shares.

See *"Information Concerning the Issuer – General Development of the Business"*.

### **Market Price**

The last public trade of Bellair Shares occurred on November 25, 2010 at a market price of \$0.65 per Bellair Share. Trading of the Bellair Shares remains halted pending receipt and review by the Exchange of acceptable documentation regarding the Qualifying Transaction. See *"Information Concerning the Issuer – Stock Exchange Price"*.

There is currently no public market for the CleanEnergy Shares.

### **Agent and Sponsor Relationships**

In accordance with the terms of the Engagement Letter and the Agency Agreement, the Agent assisted CleanEnergy with the preparation of all materials relating to, and the structuring of, the Private Placement and such other services as were reasonably ancillary to the Private Placement. In consideration for the services provided, the Agent received 478,800 Agent Options and will receive the Agent Commission upon receipt of the Approval. See *"Qualifying Transaction – Private Placement"*.

In accordance with the terms of the Consulting Agreement, Bridgepoint will be issued 564,000 Resulting Issuer Shares on Completion of the Qualifying Transaction for services rendered to the Issuer in connection with the identification and evaluation of the Qualifying Transaction. Mr. Frank Carnevale, the President and

Chief Executive Officer of Bridgepoint, shall act as Chief Operating Officer of the Resulting Issuer following completion of the Qualifying Transaction.

### **Conflicts of Interest**

There are potential conflicts of interest to which the directors and officers of the Issuer and CleanEnergy will be subject in connection with the operations of the Resulting Issuer. Some of the directors and officers have been and will continue to be engaged in the identification and evaluation, with a view to potential acquisition of interests in businesses and corporations on their own behalf and on behalf of other corporations, and situations may arise where the directors and officers will be in direct competition with the Resulting Issuer. Conflicts, if any, will be subject to the procedures and remedies under the *Canada Business Corporations Act*.

See *"Information Concerning the Resulting Issuer – Conflicts of Interest"*.

### **Interests of Experts**

No Person or Company who is named as having prepared or certified a part of the filing statement or prepared or certified a report or valuation described or included in the filing statement has, or will have upon Completion of the Qualifying Transaction, any direct or indirect interest in the Resulting Issuer. For more information, see *"Information Concerning the Resulting Issuer – General Matters - Experts"*.

### **Risk Factors**

An investment in the Resulting Issuer following Completion of the Qualifying Transaction involves a certain degree of risk and should be regarded as speculative due to the nature of the business of the Resulting Issuer. The risks faced by the Resulting Issuer include, but are not limited to, the following: (i) revenue risk; (ii) sales cycle and fixed costs; (iii) reliance on management and key personnel; (iv) business and project risk; (v) growth; (vi) loss of contracts; (vii) competition; (viii) dependence on suppliers; (ix) commodity price volatility; (x) prices for end products; (xi) regulatory and political; (xii) environmental liability; (xiii) operating risk and insurance; (xiv) reliance on technology; (xv) limited operating history of Resulting Issuer; (xvi) litigation; (xvii) surety bonds, letters of credit and insurance; (xviii) leverage, restrictive covenants and capital requirements; (xix) accounting estimates; (xx) dilution and future sales of shares; (xxi) unpredictability and volatility of the Resulting Issuer Share price; (xxii) dividends; (xxiii) interest rates; (xxiv) financial and market turmoil; and (xxv) economic downturn in the global economy.

For a more detailed description of certain risk factors relating to the Transactions, see *"Risk Factors"*.

**Conditional Listing Approval**

The Exchange has conditionally accepted the Qualifying Transaction subject to the Issuer fulfilling all of the requirements of the Exchange on or before September 28, 2012.

## **QUALIFYING TRANSACTION**

Pursuant to the terms of the Offer and Sale Agreement, the Issuer intends to acquire the CleanEnergy Shares from Alter. The parties to the Offer and Sale Agreement agreed that the enterprise value for the CleanEnergy Shares held by Alter is \$5,000,000, subject to adjustment in accordance with the Offer and Sale Agreement, and will be satisfied by the issuance of \$5,000,000 of Bellair Shares to Alter. The consideration to be paid to Alter was determined pursuant to arm's length negotiations between the management of each of the Issuer and Alter.

The Qualifying Transaction assumes that the Resulting Issuer will have a zero dollar working capital balance upon closing. If the working capital of CleanEnergy is greater than the closing schedule and/or more working capital is left in CleanEnergy in the form of receivables or other current assets, Bellair is to repay such excess working capital within 120 days of Closing.

It is intended that the Transaction will constitute the Issuer's Qualifying Transaction pursuant to the Policy. The Transaction will be effected pursuant to the terms of the Offer and Sale Agreement, following the closing of the Private Placement and receipt of the necessary Regulatory Approvals.

Following Completion of the Qualifying Transaction, CleanEnergy will be a wholly-owned subsidiary of the Resulting Issuer.

### **Conditions of the Transaction**

The Offer and Sale Agreement contains a number of conditions precedent, which may or may not be customary for a transaction of this nature including obtaining all necessary regulatory approvals, including Exchange approval of the Transaction, additional conditions precedent, including no material adverse change in the business, affairs or operations of the Issuer and certain other conditions customary for transactions of this nature. Unless all of the conditions precedent are satisfied or waived by the party for whose benefit such conditions exist, to the extent they may be capable of waiver, the transactions contemplated by the Offer and Sale Agreement will not proceed. There is no assurance that the conditions precedent will be satisfied or waived, as necessary, on a timely basis, or at all.

### **Private Placement**

As a condition to Closing, CleanEnergy completed the Private Placement on June 6, 2012, issuing an aggregate of 4,788,000 Subscription Receipts on a brokered, private placement basis for gross proceeds of \$2,394,000 at a purchase price of \$0.50 per Subscription Receipt pursuant to the terms of the Agency Agreement. Each

Subscription Receipt is exercisable by the holder thereof, without payment of additional consideration, into one CleanEnergy Unit, subject to adjustment in certain events.

The Subscription Receipts were created and issued pursuant to the Subscription Receipt Agreement among the Escrow Agent, CleanEnergy, the Issuer and the Agent. The specific attributes of the Subscription Receipts are set forth in the Subscription Receipt Agreement.

On the Private Placement Closing Date, the Escrowed Funds were delivered to and deposited in escrow by the Escrow Agent and invested in short term investment grade debt obligations determined by CleanEnergy.

The Subscription Receipts will automatically convert into CleanEnergy Units upon receipt of the Approval, without any further action on the part of the holders thereof. Upon receipt of the Approval, the Agent Commission will be released to the Agent and the balance of the Escrowed Funds will be released to CleanEnergy. If the Approval has not been received prior to 5:00 p.m. (Eastern Standard Time) on the date that is 90 days following the Private Placement Closing Date, or such later date as may be agreed to in writing by the Issuer and Alter, the Escrowed Funds plus accrued interest shall be used by CleanEnergy to repurchase the Subscription Receipts for cancellation at a redemption price per Subscription Receipt of \$0.50. To the extent that the Escrowed Funds (plus accrued interest) are not sufficient to purchase all of the Subscription Receipts, the Issuer will contribute such amounts as are necessary to satisfy any shortfall.

Immediately following the exercise of the Subscription Receipts, the Escrow Agent will tender to the Issuer all of the CleanEnergy Shares and CleanEnergy Warrants issued upon exercise of the Subscription Receipts in exchange for the Resulting Issuer Shares and Resulting Issuer Warrants comprising the Purchase Price.

The completion of each of the Transaction is subject to certain conditions, including obtaining all necessary regulatory approvals, including the approval of the Exchange. The approval of the Exchange shall be subject to, among other things, the Exchange being satisfied that after the Completion of the Qualifying Transaction the Resulting Issuer will satisfy the Exchange's minimum listing requirements as prescribed by Exchange Policy 2.1 - *Minimum Listing Requirements*. The proposed Qualifying Transaction is not a Non-Arm's Length Qualifying Transaction within the meaning of the Policy.

### **Benefits of the Qualifying Transaction**

The Qualifying Transaction is expected to yield benefits to the shareholders of both the Issuer and CleanEnergy. The principal purposes of the Qualifying Transaction are to provide CleanEnergy with a platform to have access to capital through public

markets, to have a dedicated senior management team focused on the geoexchange market and to provide a pure play geoexchange company in the public markets.

Prior to the Qualifying Transaction, CleanEnergy was a subsidiary of Alter, whose primary business was plasma gasification and the conversion of waste into energy. Management of CleanEnergy believes that the geoexchange market segment is a growth industry as it reduces the use of fossil fuels in a building by up to 80%, which is beneficial to the environment and also provides energy savings to the customer. Management of CleanEnergy also believes that with a focus solely on geoexchange solutions, CleanEnergy can grow its revenue base and become the industry leading geoexchange company in the Canadian market.

### **Effective Date of the Closing**

It is anticipated that the Transaction will close after the requisite Regulatory Approvals have been obtained and all other conditions to the Closing have been satisfied or waived. It is anticipated that the Closing will occur in mid-July, 2012 and that the Completion of the Qualifying Transaction will occur as soon as is reasonably practical thereafter.

## **RISK FACTORS**

The following risk factors should be carefully considered in evaluating the Issuer, CleanEnergy, the Resulting Issuer and the Transaction. Upon Completion of the Qualifying Transaction, the Resulting Issuer will carry on the business of CleanEnergy. Accordingly, the Resulting Issuer's business will consist of geoexchange products and services which provide heating and cooling for homes and commercial buildings using energy from the earth, in Ontario. There are a number of inherent risks associated with this sector.

The following are certain risk factors related to the business to be carried on by the Resulting Issuer, which should be carefully considered. It is believed that these are the factors that could cause actual results to be different from expected and historical results, but the risks presented below may not be all of the risks that the Resulting Issuer and CleanEnergy may face. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this filing statement.

Other sections of this filing statement include additional factors that could have an effect on the business and financial performance of the business following the Completion of the Qualifying Transaction. The markets in which CleanEnergy currently competes are very competitive and change rapidly. New risks may emerge and management may not be able to predict all of them, or be able to predict

how they may cause actual results to be different from those contained in any forward-looking statements. You should not rely upon forward-looking statements as a prediction of future results. For a description of the risk factors facing the Issuer as a CPC, please see the Issuer's prospectus, dated November 28, 2008, available from the Issuer upon request or on SEDAR.

## **Risks Related to the Combined Business**

### ***Revenue Risk***

The Resulting Issuer may experience delays in achieving revenues. Revenues may be delayed or negatively impacted by issues encountered by the Corporation or its customers including:

- unforeseen engineering and environmental problems;
- delays or inability to obtain required financing, licenses, permits and regulatory approvals;
- supply interruptions or labour disputes;
- foreign exchange fluctuations and collection risk; and
- competition from other geoexchange suppliers or alternate less capital intensive energy solutions.

There is no assurance that the business will perform as expected or that returns from the business will support the expenditures needed to develop it.

### ***Sales Cycle and Fixed Price Contracts***

The Resulting Issuer may enter into sales contracts with fixed pricing, which may be impacted by changes over the period of implementation. The success of sales execution will require collaboration between the Resulting Issuer and its customers. There is no assurance that delays or problems in the implementation process used for all customers will not adversely affect the Resulting Issuer's activities, operating results or financial position.

### ***Sensitivity to Fixed Costs***

Fixed costs, including costs associated with operating losses, leases, labour costs and depreciation will account for a significant portion of the Resulting Issuer's costs and expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, weather or other factors could significantly affect financial results.

### ***Reliance on Management and Key Personnel***

The Resulting Issuer's success and future operations are dependent upon the



abilities, expertise, experience, judgment and efforts of senior management and key technical and field personnel of the Resulting Issuer. Any loss of the services of these personnel could have a materially adverse impact on the Resulting Issuer's business, technical capabilities, operating results or financial condition or could result in delays to or abandonment of the Resulting Issuer's projects.

### ***Business and Project Risk***

The Resulting Issuer will be in the early stage of development and there is a risk that the Resulting Issuer's anticipated milestones and/or projects, including those described under will not be achieved or completed on time, on budget or at all. The Resulting Issuer will also be subject to a variety of risks, including delays, increased construction or operational costs, and interruption of operations due to many factors including, without limitation the following:

- inability to raise or otherwise obtain necessary funds to participate in projects;
- finding suitable project partners and resources to devote to the projects;
- challenges and issues related to the Resulting Issuer 's proprietary technology;
- delays in obtaining regulatory approvals or conditions imposed by regulatory bodies;
- breakdown or failure of equipment or processes;
- construction performance falling below expected levels of output or efficiency;
- design errors;
- contractor or operator error;
- labour disputes, disruptions or declines in productivity;
- non-performance by third-party contractors;
- inability to attract a sufficient number of qualified workers;
- increases in material or labour costs;
- changes in the scope of the Resulting Issuer 's business;
- violation of patents;
- disruption in the supply of energy; and
- major incidents or catastrophic events such as fires, earthquakes, storms or explosions.

### ***Growth***

The Resulting Issuer may not be able to successfully manage its growth. The Resulting Issuer's growth strategy will place significant demands on its financial, operational and management resources. In order to continue its growth, it will need

to add administrative, management and other personnel, and make additional investments in operations and systems. The success of the Resulting Issuer will depend, in a large part, on the expertise, ability, judgment, discretion, integrity and good faith of its management. The Resulting Issuer may not be able to find and train qualified personnel, or do so on a timely basis and expand its operations and systems.

### *Loss of Contracts*

The Resulting Issuer may lose contracts or customer arrangements through competitive bidding or early termination, which would cause its revenue and profitability to decline. In addition, some customers of the Resulting Issuer may terminate their contracts or arrangements before the end of the contract term. If the Resulting Issuer loses contracts or customer arrangements through competitive bidding, early termination or other competitive pressures, it may not be able to replace the lost revenue, which will result in a decrease in its revenue. Whether the Resulting Issuer will be the successful bidder for any particular contract is subject to significant uncertainty.

### *Competition*

The geoexchange industry is competitive; however, it is anticipated that the Resulting Issuer will be the only public company offering a turn-key solution. There are smaller privately-owned companies which are providing segments of the geoexchange process but not a complete solution. There can be no assurance that such competitors will not substantially increase the resources devoted to the development and marketing of a complete solution that competes with those of the Resulting Issuer or that new or existing competitors will not enter the various markets in which the Resulting Issuer will be active.

There can be no assurance that the Resulting Issuer's competitors will not develop new and unknown technologies, with which the Resulting Issuer may have difficulty competing. As well, without remaining cost competitive there is also a risk that the Resulting Issuer may lose business to its competitors.

### *Dependence on Suppliers*

The ability of the Resulting Issuer to compete and grow will be dependent on the Resulting Issuer having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. Failure of suppliers to deliver such skilled labour, equipment, parts and components at a reasonable cost and in a timely manner would be detrimental to the Resulting Issuer's ability to compete and grow. No assurances can be given that the Resulting Issuer will be successful in maintaining its required supply of skilled labour, equipment, parts and components.

### *Commodity Price Volatility*

The geoexchange industry is impacted by downward trends in the costs of commodities such as oil and natural gas. The lower the current costs for heating and cooling houses the longer the payback period for implementing a geoexchange solution which may discourage potential customers.

### *Prices for End Products*

The prices the Resulting Issuer will receive for its end products will be dependent on the demand for them. While there is a proven market for geoexchange products, there can be no assurance that the pricing of these products will be at levels anticipated by the Resulting Issuer. All such estimates for the pricing of the Resulting Issuer's end products are, to some degree, uncertain. For this reason, estimates of future net revenues prepared by the Resulting Issuer compared to actual net revenues may vary substantially.

### *Regulatory and Political*

The Resulting Issuer's operations will be subject to a variety of federal, provincial, state and local laws, regulations and guidelines, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment and the manufacture, management, transportation, storage and disposal of certain materials that will be used in the Resulting Issuer's operations. It is anticipated that the Resulting Issuer will be in compliance with such laws, regulations and guidelines; however, changes to such laws, regulations and guidelines due to environmental changes, unforeseen environmental effects, general economic conditions and other matters beyond the control of the Resulting Issuer may cause adverse effects to the Resulting Issuer's operations.

### *Environmental Liability*

The Resulting Issuer will be subject to various environmental laws and regulations enacted in the jurisdictions in which it operates which govern the manufacture, processing, importation, transportation, handling and disposal of certain materials used in the Resulting Issuer's operations. The Resulting Issuer anticipates establishing procedures to address compliance with current environmental laws and regulations and monitors its practices concerning the handling of environmentally hazardous materials. However, there can be no assurance that the Resulting Issuer's procedures will prevent environmental damage occurring from spills of materials handled by the Resulting Issuer or that such damage has not already occurred. On occasion, substantial liabilities to third parties may be incurred. The Resulting Issuer may have the benefit of insurance maintained by it or the operator, however, the Resulting Issuer may become liable for damages against which it cannot adequately

insure or against which it may elect not to insure because of high costs or other reasons.

The Resulting Issuer's customers are subject to similar environmental laws and regulations, as well as limits on emissions to the air and discharges into surface and subsurface waters. While regulatory developments that may follow in subsequent years could have the effect of reducing industry activity, the Resulting Issuer cannot predict the nature of the restrictions that may be imposed. The Resulting Issuer may be required to increase operating expenses or capital expenditures in order to comply with any new restrictions or regulations.

### *Operating Risk and Insurance*

The Resulting Issuer anticipates having an insurance and risk management program in place to protect its assets, operations and employees in advance of operations. The Resulting Issuer also anticipates having programs in place to address compliance with current safety and regulatory standards. However, the Resulting Issuer's operations will be subject to risks inherent in the geoexchange industry, such as equipment defects, malfunction, failures and natural disasters. These risks and hazards could expose the Resulting Issuer to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution and other environmental damages.

While the Resulting Issuer's anticipates its insurance coverage will address all material risks to which it will be exposed and will be adequate and customary in its state of operations, such insurance will be subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Resulting Issuer will be exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Resulting Issuer's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Resulting Issuer were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Resulting Issuer were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

### *Reliance on Technology*

The Resulting Issuer will depend upon continuous improvements in technology to meet customer demands in respect of performance and cost, and to explore additional business opportunities. There can be no assurance that the Resulting Issuer will be successful in its efforts in this regard or that it will have the resources available to meet this demand.

### *Limited Operating History of Resulting Issuer*

The Resulting Issuer will be a newly consolidated entity, having just completed the Transaction, without a long consolidated operating history. The success of the consolidated Resulting Issuer will be dependent on the managers of those operations to be successful in their attempts to gain new business. There can be no assurance that the Resulting Issuer will be successful in addressing these risks.

### *Litigation*

Although there are currently no material legal proceedings outstanding or, to the best of the knowledge of CleanEnergy or the Issuer, as applicable, contemplated against the Issuer or CleanEnergy, the Resulting Issuer may become party to litigation from time to time in the ordinary course of business which could adversely affect its business.

### *Surety Bonds, Letters of Credit and Insurance*

If the Resulting Issuer is unable to obtain performance or surety bonds, letters of credit or insurance, it may not be able to enter into additional geoexchange contracts. Geoexchange contracts may require performance or surety bonds, letters of credit or other financial assurance to secure contractual performance or comply with provincial or local laws or environmental regulations. Alternatively, the Resulting Issuer may use letters of credit. If the Resulting Issuer were to draw fully upon available credit facilities or were unable to obtain performance or surety bonds or additional letters of credit in sufficient amounts or at acceptable rates, it could be precluded from entering into additional construction and excavation contracts. Any future difficulty in obtaining insurance also could impair the ability of the Resulting Issuer to secure future contracts that are conditional upon the contractor having adequate insurance coverage. Accordingly, the failure of the Resulting Issuer to obtain performance or surety bonds, letters of credit or other financial assurances or to maintain adequate insurance coverage could limit operations and have a materially adverse effect on the business, financial condition and results of operations.

### *Leverage, Restrictive Covenants and Capital Requirements*

The degree to which the Resulting Issuer is leveraged could have important consequences to the Resulting Issuer shareholders including but not limited to: the ability of the Resulting Issuer to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; a significant portion of the Resulting Issuer's cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations; certain of the Resulting Issuer's borrowings will be

subject to variable rates of interest, which will expose the Resulting Issuer to the risk of increased interest rates; and the Resulting Issuer may be more vulnerable to economic downturns and be limited in its ability to withstand competitor pressures.

If the Resulting Issuer undertakes acquisitions or expands its operations, its capital expenditures may increase. The increase in expenditures may reduce working capital and require financing for working capital deficits.

### ***Accounting Estimates***

The Resulting Issuer will be required to make accounting estimates and judgments in the ordinary course of business. Such accounting estimates and judgments will affect the reported amounts of its assets and liabilities at the date of the financial statements and the reported amounts of its operating results during the periods presented. Additionally, the Resulting Issuer will be required to interpret the accounting rules in existence as of the date of the financial statements when the accounting rules are not specific to a particular event or transaction. If the underlying estimates are ultimately proven to be incorrect, or if auditors or regulators subsequently interpret the Resulting Issuer's application of accounting rules differently, subsequent adjustments could have a material adverse effect on its operating results for the period or periods in which the change is identified. Additionally, subsequent adjustments could require the Resulting Issuer to restate its financial statements. A restatement of the Resulting Issuer's financial statements could result in a material change in the price of the Resulting Issuer Shares.

## **Risks Related to an Investment in Resulting Issuer Shares**

### ***Dilution and Future Sales of Shares***

The Resulting Issuer may issue additional Resulting Issuer Shares (including the Resulting Issuer Warrant Shares) in the future, which may dilute a shareholder's holdings in the Resulting Issuer. The Resulting Issuer's articles will permit the issuance of an unlimited number of Resulting Issuer Shares, and shareholders will have no pre-emptive rights in connection with such further issuances. The directors of the Resulting Issuer have the discretion to determine the price and the terms of issue of further issuances of Resulting Issuer Shares. Also, additional Resulting Issuer Shares may be issued by the Resulting Issuer upon the exercise of options to acquire Resulting Issuer Shares under the Stock Option Plan, which may result in dilution to the Shareholders of the Resulting Issuer.

### ***Unpredictability and Volatility of the Resulting Issuer Share Price***

There can be no assurance that a significant public market for Resulting Issuer Shares will develop or be sustained after Completion of the Qualifying Transaction. The deemed price of Bellair Shares in connection with the Transaction and the

Subscription Receipts to be issued in connection with the Private Placement have been determined by negotiation among the Issuer, Alter, CleanEnergy and the Agent and may not be indicative of the market price for Resulting Issuer Shares after Completion of the Qualifying Transaction. If an active public market for Resulting Issuer Shares does not develop, the liquidity of an investment in Resulting Issuer Shares may be limited, the market price could be subject to significant fluctuations and the price per share may decline below the deemed price of the Bellair Shares in connection with the Transaction.

The market price of the Resulting Issuer Shares could fluctuate significantly as a result of many factors, including but not limited to the following: economic and stock market conditions generally, and specifically as they may impact participants in the geoexchange industry; the Resulting Issuer's earnings and results of operations and other developments affecting the Resulting Issuer's businesses; sales of shares in the Resulting Issuer into the market by the Resulting Issuer shareholders and/or Insiders of the Resulting Issuer; changes in financial estimates and recommendations by securities analysts following the Resulting Issuer Shares; earnings and other announcements by, and changes in market evaluations of, competition in the geoexchange industry; changes in business or regulatory conditions affecting participants in the geoexchange industry; trading volume of shares in the Resulting Issuer; additions or departures of key personnel; and competitive pricing pressures in the geoexchange industry.

In addition, the financial markets have experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance of such companies. Accordingly, the market price the Resulting Issuer Shares may decline even if the Resulting Issuer's operating results or prospects have not changed.

### *Dividends*

If the Resulting Issuer generates earnings in the foreseeable future, it expects that such earnings will be retained to finance growth, if any, and, when appropriate, retire debt. The directors of the Resulting Issuer will determine if and when dividends should be declared and paid in the future based on the Resulting Issuer's financial position at the relevant time. All of the Resulting Issuer Shares will be entitled to an equal share of any dividends declared and paid.

### *Interest Rates*

Interest rate fluctuations are beyond the Resulting Issuer's control and there can be no assurance that interest rate fluctuations will not have a significant adverse effect on the Resulting Issuer's financial performance. The Resulting Issuer is subject to interest rate risk on the outstanding balance of the credit facilities.

### *Financial market turmoil*

Global financial market and economic conditions can pose a significant threat to economic growth in almost all sectors and economies, causing a decline in consumer and business confidence, a reduction in credit availability and a dampening in business and household spending.

### *Economic Downturn in the Global Economy*

As a result of the current global economic situation, the Resulting Issuer and its industry peers may have restricted access to capital and increased borrowing costs. The lending capacity of all financial institutions has diminished and risk premiums have increased. As the ability of the Resulting Issuer to meet future capital requirements may depend upon its ability to borrow money from third parties or make additional offerings of securities in the future, the ability of the Resulting Issuer to do so may be limited by, among other factors, the overall state of capital markets and investor demand for investments in the geoexchange industry and the Resulting Issuer's securities in particular.

To the extent that external sources of capital become limited or unavailable or available on onerous terms, the ability of the Resulting Issuer to make capital investments and maintain existing assets may be impaired, and their assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result. Failure to obtain any financing necessary for the capital expenditure plans of the Resulting Issuer may result in a delay of the ability of the Resulting Issuer to carry out its business strategy.

Economic conditions and other factors may also reduce the demand for geoexchange products or services from that forecasted and factors expected to support or increase demand may not have the effect expected. Any reduction in demand may have a material adverse effect on the financial results or condition of the Resulting Issuer.



## INFORMATION CONCERNING THE ISSUER

### Name and Incorporation

Bellair Ventures Inc. was incorporated pursuant to the *Canada Business Corporations Act* on August 22, 2008. The head and registered office of the Issuer is located at 10 Bellair Street, Suite 509, Toronto, Ontario, M5R 3T8.

### General Development of the Business

#### *History*

The Issuer is a CPC pursuant to the Policy, and since its incorporation it has not carried on any business or operations other than the identifying and evaluating business opportunities for the purposes of completing a Qualifying Transaction. The authorized capital of the company consists of an unlimited number of common shares without nominal or par value (previously defined as the “**Bellair Shares**”).

On September 20, 2008, the Issuer issued 1,200,000 Bellair Shares to seed shareholders at an issue price of \$0.25. The Issuer completed its IPO of 1,356,600 common shares, at an issue price of \$0.50 per Bellair Share, on November 24, 2008 and the Bellair Shares were listed for trading on the Exchange on November 26, 2008 under the symbol “BVI.P”. The Issuer is currently a reporting issuer in the provinces of British Columbia, Alberta and Ontario.

On December 8, 2008, the Issuer announced that it had identified and entered into a non-binding letter of intent in respect of a proposed Qualifying Transaction (the “**Proposed Qualifying Transaction**”) with DiBattista Industries Inc. (“**DBI**”), a holding company that was attempting a consolidation of assets in the industrial and environmental waste services, recycling and infrastructure industry.

On December 23, 2008, the Issuer announced that it had entered into a definitive agreement (the “**Agreement**”) in respect of the Proposed Qualifying Transaction. Pursuant to the Agreement, DBI would amalgamate with a newly-created, wholly-owned subsidiary of the Issuer (the “**Amalgamation**”). In consideration for the approval of the Amalgamation, the Issuer was to issue, to the holders of common shares of DBI (the “**DBI Shares**”), two common shares of the Issuer for each DBI Share. Completion of the Proposed Qualifying Transaction was subject to a number of conditions, including approval of the Amalgamation by holders of the DBI Shares and the Exchange and the completion of equity and debt financings.

On April 23, 2009, the Issuer announced that the Agreement between the Issuer and DBI had been terminated. As a result of a variety of factors, including volatile and declining economic conditions, DBI was unable to raise the capital required under the Agreement.

On November 25, 2010, the Issuer and R. DiBattista Investments (“**RDBI**”) entered into a non-binding letter of intent pursuant to which the Issuer was to acquire all of the issued and outstanding common shares in the capital of KNR Management (“**KNR**”) through a share exchange transaction (the “**KNR Transaction**”). If completed, the KNR Transaction was expected to constitute the Issuer’s Qualifying Transaction.

On February 3, 2011, the Issuer announced that it had entered into a definitive agreement for a proposed Qualifying Transaction with RDBI in respect of the KNR Transaction. Closing of the KNR Transaction was subject to a number of conditions, including: (i) the completion of a private placement for gross proceeds of not less than \$500,000; (ii) KNR successfully closing a term loan facility in the amount of approximately \$2,250,000; (iii) confirmation of a definitive valuation for KNR; (iv) completion of customary due diligence; and (v) the parties obtaining all necessary approvals and consents, including the approval of the Exchange.

Subsequent to August 31, 2011, the Issuer terminated all discussions regarding the KNR Transaction.

As a result of not completing a qualifying transaction within 24 months of the date of listing the Bellair Shares on the Exchange, pursuant to the CPC Policy, the Exchange suspended trading in the Bellair Shares pending completion of a Qualifying Transaction.

On March 3, 2011, the Issuer announced that trading of Bellair Shares would be transferred to the NEX Board, a separate trading board of the Exchange, effective immediately, as the Issuer had not completed a Qualifying Transaction within the timeframe prescribed by the Exchange. In accordance with the Policy, 600,000 Bellair Shares of the Issuer, representing 50% of the Seed Shares sold to non-arm’s length parties, were cancelled in connection with the transfer to the NEX Board. The Issuer obtained the requisite shareholder approval for both its transfer to the NEX Board and the cancellation of the Seed Shares. Trading commenced on the NEX Board under the symbol “BVI.H”.

As announced on March 23, 2012, Michael Cooper resigned as a director of the Issuer on March 19, 2012. The board of directors of the Issuer appointed Michael Galloro as a director of the Issuer on March 21, 2012, subject to the approval of the Exchange.

As at the date of this filing statement, 1,956,600 Bellair Shares were issued and outstanding as fully paid and non-assessable. In addition, 170,440 Bellair Shares are reserved for issuance pursuant to the Bellair Options granted to officers and directors of the Issuer.

Upon Completion of the Qualifying Transaction, it is anticipated that the Bellair Shares will be reinstated to trading on the Exchange, while trading under the symbol "BVI".

### *Private Placement*

In connection with, and as a condition to, the Closing, CleanEnergy completed the Private Placement on June 6, 2012, issuing an aggregate of 4,788,000 Subscription Receipts on a brokered, private placement basis for gross proceeds of \$2,394,000 at a purchase price of \$0.50 per Subscription Receipt pursuant to the terms of the Agency Agreement. Each Subscription Receipt is exercisable by the holder thereof, without payment of additional consideration, into one CleanEnergy Unit, subject to adjustment in certain events.

The Subscription Receipts were created and issued pursuant to the Subscription Receipt Agreement among the Escrow Agent, CleanEnergy, the Issuer and the Agent. The specific attributes of the Subscription Receipts are set forth in the Subscription Receipt Agreement.

On the Private Placement Closing Date, the Escrowed Funds were delivered to and deposited in escrow by the Escrow Agent and invested in short term investment grade debt obligations determined by CleanEnergy.

The Subscription Receipts will automatically convert into CleanEnergy Units upon receipt of the Approval, without any further action on the part of the holders thereof. Upon receipt of the Approval, the Agent Commission will be released to the Agent and the balance of the Escrowed Funds will be released to CleanEnergy. If the Approval has not been received prior to 5:00 p.m. (Eastern Standard Time) on the date that is 90 days following the Private Placement Closing Date, or such later date as may be agreed to in writing by the Issuer and Alter, the Escrowed Funds plus accrued interest shall be used by CleanEnergy to repurchase the Subscription Receipts for cancellation at a redemption price per Subscription Receipt of \$0.50. To the extent that the Escrowed Funds (plus accrued interest) are not sufficient to purchase all of the Subscription Receipts, the Issuer will contribute such amounts as are necessary to satisfy any shortfall.

Immediately following the exercise of the Subscription Receipts, the Escrow Agent will tender to the Issuer all of the CleanEnergy Shares and CleanEnergy Warrants issued upon exercise of the Subscription Receipts in exchange for the Resulting Issuer Shares and Resulting Issuer Warrants comprising the Purchase Price.

The Agent acted as agent to CleanEnergy to sell the Subscription Receipts in connection with the Private Placement, and received or will receive upon receipt of the Approval, as compensation: (i) a cash commission of \$239,400, being an amount

equal to 10% of the aggregate gross proceeds of the Private Placement; (ii) 478,800 Agent Options, being equal to 10% of the Subscription Receipts sold pursuant to the Private Placement; and (iii) the payment of its reasonable expenses, including legal fees. Each Agent Option entitles the holder to acquire one Resulting Issuer Unit, each comprised of one Resulting Issuer Share and one Resulting Issuer Warrant, at an exercise price of \$0.50 for a 24 month period following the Completion of the Qualifying Transaction.

## **Selected Consolidated Financial Information and Management's Discussion and Analysis**

### ***Consulting Fees***

Pursuant to the Consulting Agreement, Bridgepoint will receive an aggregate of 564,000 Resulting Issuer Shares upon Completion of the Qualifying Transaction. Mr. Frank Carnevale, the President and Chief Executive Officer of Bridgepoint, shall act as Chief Operating Officer of the Resulting Issuer following Completion of the Qualifying Transaction.

### ***Information from Inception***

The following information is taken from and should be read in conjunction with the Issuer Financial Statements and Interim Issuer Financial Statements and related notes thereto included as Schedule "B" to this filing statement.

The total expenses incurred for the period commencing September 1, 2008 and ending August 31, 2009 for the Issuer were \$430,515, with \$16,126 of interest income. The total expenses incurred for the period commencing September 1, 2009 to August 31, 2010 for the Issuer were \$59,562, with \$27,653 of interest income. The total expenses incurred for the period commencing September 1, 2010 to August 31, 2011 for the Issuer were \$378,120, with \$27,000 of interest income. The total expenses incurred for the six month period ending February 29, 2012 were \$84,275. Costs were incurred in completing the Issuer's IPO; in seeking, evaluating and negotiating potential Qualifying Transactions; and in meeting the disclosure obligations required for a reporting issuer listed for trading on the Exchange.

No amounts have been deferred in connection with the Qualifying Transaction.

### ***Management's Discussion and Analysis***

This management discussion and analysis (the "MD&A") of the financial condition and results of operations of the Issuer is for the six month period ending February 29, 2012. It is supplemental to, and should be read in conjunction with the Issuer Financial Statements and the notes thereto included as Schedule "B" to this filing statement and the Issuer's final prospectus dated November 7, 2008 (the

“Prospectus”), which includes the audited financial statements of the Issuer for the period from inception to September 30, 2008, and all of the notes, risk factors and information contained therein. The Issuer Financial Statements are prepared in accordance with International Financial Reporting Standards. All amounts presented herein are stated in Canadian dollars, unless otherwise indicated.

### *Significant Accounting Policies*

A detailed summary of the Issuer’s significant accounting policies is included in Note 2 of the Issuer Financial Statements attached as Schedule “B” to this filing statement.

### *Cautionary Statements*

Certain statements contained in this MD&A constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to our future outlook and anticipated events or results and may include statements regarding the future financial position, business strategy, budgets, litigation, projected costs, capital expenditures, financial results, taxes and plans and objectives of or involving the Issuer. Particularly, statements regarding our future operating results and economic performance are forward-looking statements. In some cases, forward-looking information can be identified by terms such as “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “intend”, “estimate”, “predict”, “potential”, “continue” or other similar expressions concerning matters that are not historical facts. Examples of such statements include the Issuer’s intention to complete a Qualifying Transaction and to complete future financings, acquisitions or investments. Forward looking-information is subject to certain factors, including risks and uncertainties, which could cause actual results to differ materially from what we currently expect. These factors include the ability of the Issuer to obtain necessary financing, satisfaction of the conditions under any definitive agreement in connection with a Qualifying Transaction and satisfaction of Exchange requirements with respect to a Qualifying Transaction. For more exhaustive information on these risks and uncertainties you should refer to the prospectus, which is available at [www.sedar.com](http://www.sedar.com). Forward-looking information contained in this MD&A is based on our current estimates, expectations and projections, which we believe are reasonable as of the current date. You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While we may elect to, we are under no obligation and do not undertake to update this information at any particular time.

### *Company Overview*

The Issuer is a Capital Pool Company. The principal business of the Issuer is the identification and evaluation of potential opportunities with a view to completing a Qualifying Transaction.

The Issuer was incorporated on August 22, 2008 under the *Canada Business Corporations Act*. The authorized capital of the Issuer consists of an unlimited number of common shares without nominal or par value. On September 20, 2008, the Issuer issued 1,200,000 common shares (the “**Seed Shares**”) to seed shareholders for cash consideration of \$300,000. The Seed Shares are subject to escrow in accordance with Exchange requirements and will be released in accordance with the terms and conditions of an escrow agreement dated October 7, 2008 among the Issuer, Equity Financial Trust Company (as the escrow agent) and the holders of the Seed Shares.

On November 24, 2008 and pursuant to the Prospectus, the Issuer completed its IPO by issuing 1,356,600 common shares at a price of \$0.50 per common share for aggregate gross proceeds of \$678,300 to be used to identify and evaluate assets or businesses with a view to completing a Qualifying Transaction. In connection with the IPO, the Issuer also granted: (i) to Canaccord Capital Corporation (as the Issuer’s agent in respect of the IPO), a non-transferable agent’s option to purchase an aggregate of 135,660 common shares of the Issuer at \$0.50 per common shares, exercisable for a period of two years from the date of listing of the common shares of the Issuer on the Exchange (which options expired unexercised during the year ended August 31, 2011); and (ii) to the directors of the Issuer, incentive stock options to purchase an aggregate of 255,660 common shares of the Issuer at \$0.50 per common share, exercisable for a period of five years from the date of grant. On November 26, 2008, the common shares of the Issuer commenced trading on the Exchange under the symbol “BVI.P”.

On March 3, 2011, the Issuer announced that trading of the Issuer’s common shares would be transferred to the NEX Board, a separate trading board of the Exchange, effective immediately, as the Issuer had not completed a Qualifying Transaction within the timeframe prescribed by the Exchange. In accordance with the Policy, 600,000 common shares of the Issuer, representing 50% of the Seed Shares sold to non-arm’s length parties, were cancelled in connection with the transfer to the NEX Board. The Issuer obtained the requisite shareholder approval for both its transfer to the NEX Board and the cancellation of the Seed Shares. Trading commenced on the NEX Board under the symbol “BVI.H”.

The Issuer has no operations and is currently seeking new business opportunities. On January 5, 2012, the Issuer entered into the Offer and Sale Agreement with Alter to acquire all of the issued and outstanding shares of CleanEnergy. If completed,

the proposed Transaction will constitute the Issuer's Qualifying Transaction. The Transaction is subject to a number of conditions and there can be no assurance that the Issuer will be successful in completing the proposed Transaction under the terms proposed or at all.

### *Overall Performance*

During the first half of fiscal 2012, the Issuer completed its IFRS conversion from Canadian Generally Accepted Accounting Principles. In addition, the board of directors and management of the Issuer have sought out and reviewed merger and acquisition opportunities, resulting in the signing of the Offer and Sale Agreement with Alter on January 5, 2012.

For the three and six month period ended February 29, 2012, the Issuer has a net loss of \$60,975 and \$84,275, respectively, as a result of the following expenditures associated with ongoing administrative and general expenses and certain costs relating to the proposed Transaction:

	For the three months ended February 29, 2012	For the six months ended February 29, 2012
Professional Fees	\$ 53,514	\$ 75,046
Filing Fees	\$ 6,476	\$ 8,205
Office Expense	\$ 985	\$ 1,024
<b>TOTAL</b>	<b>\$ 60,975</b>	<b>\$ 84,275</b>

### *Results of Operations*

The net loss of \$60,975 and \$84,275, respectively, for the three and six month period ended February 29, 2012 were for expenses incurred in such period as follows:

	For the 3 months ended February 29, 2012	For the 6 months ended February 29, 2012
Professional Fees	\$ 53,514	\$ 75,046
Filing Fees	\$ 6,476	\$ 8,205
Office Expense	\$ 985	\$ 1,024
<b>TOTAL</b>	<b>\$ 60,975</b>	<b>\$ 84,275</b>

### *Six months ended February 29, 2012, compared with six months ended February 28, 2011*

For the six months ended February 29, 2012, the Issuer reported a loss of \$84,275 versus a loss of \$33,819 in the corresponding period in 2011. This increase is primarily due to an increase in professional fees related to the proposed Transaction and assistance with the conversion to IFRS from Canadian GAAP.

Three months ended February 29, 2012, compared with three months ended February 28, 2011

For the three months ended February 29, 2012, the Issuer reported a loss of \$60,975 versus a loss of \$32,698 in the corresponding period in 2011. This increase is primarily due to an increase in professional fees related to the proposed Transaction that was entered on January 5, 2012.

*Selected Quarterly Financial Information*

	<u>2012 (IFRS)</u>		<u>2011 (IFRS)</u>				<u>2010 (Canadian GAAP)</u>	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net loss	\$60,975	\$23,300	\$190,313	\$126,988	\$32,698	\$1,121	\$22,951	\$1,724
Basic loss per share	\$0.03	\$0.01	\$0.08	\$0.05	\$0.01	\$0.00	\$0.01	\$0.00

*Liquidity and Capital Resources*

As at February 29, 2012, the Issuer had working capital of \$624. The Issuer has \$68,346 in cash, which is sufficient to meet current liabilities of \$68,139.

Existing working capital may not be adequate to fund costs and expenses associated with pursuing the Proposed Transaction. It is anticipated that further financing may be required for working capital expenditures beyond February 29, 2012 if the proposed Transaction is not completed or delayed. There can be no assurance that should additional financing from shareholders or others be required, it will be available or on terms acceptable to the Issuer.

The ability of the Issuer to continue as a going concern is dependent upon, among other things, its being able to obtain additional financing, and maintaining positive cash flows.

*Significant Corporate Events*

*DiBattista Industries Inc. and KNR Management Transactions*

On December 8, 2008, the Issuer announced that it had identified and entered into a non-binding letter of intent in respect of the Proposed Qualifying Transaction with DBI, a holding company that was attempting a consolidation of assets in the industrial and environmental waste services, recycling and infrastructure industry.



On December 23, 2008, the Issuer announced that it had entered into a definitive agreement in respect of the Proposed Qualifying Transaction. Pursuant to the Agreement, DBI would amalgamate with a newly-created, wholly-owned subsidiary of the Issuer. In consideration for the approval of the Amalgamation, the Issuer was to issue, to the holders of DBI Shares, two common shares of the Issuer for each DBI Share. Completion of the Proposed Qualifying Transaction was subject to a number of conditions, including approval of the Amalgamation by holders of the DBI Shares and the Exchange and the completion of equity and debt financings.

On April 23, 2009, the Issuer announced that the Agreement between the Issuer and DBI had been terminated. As a result of a variety of factors, including volatile and declining economic conditions, DBI was unable to raise the capital required under the Agreement.

On November 25, 2010, the Issuer and RDBI entered into a non-binding letter of intent pursuant to which the Issuer was to acquire all of the issued and outstanding common shares in the capital of KNR through a share exchange transaction. If completed, the KNR Transaction was expected to constitute the Issuer's Qualifying Transaction.

On February 3, 2011, the Issuer announced that it had entered into a definitive agreement for a proposed Qualifying Transaction with RDBI in respect of the KNR Transaction. Closing of the KNR Transaction was subject to a number of conditions, including: (i) the completion of a private placement for gross proceeds of not less than \$500,000; (ii) KNR successfully closing a term loan facility in the amount of approximately \$2,250,000; (iii) confirmation of a definitive valuation for KNR; (iv) completion of customary due diligence; and (v) the parties obtaining all necessary approvals and consents, including the approval of the Exchange.

The Issuer terminated all discussions regarding the KNR Transaction during Q1 of fiscal 2012.

*Clean Energy Developments Corp.*

On January 5, 2012, the Issuer entered into the Offer and Sale Agreement with Alter to acquire all of the issued and outstanding shares of CleanEnergy. The purchase price of \$5,000,000 is to be satisfied by the issuance of 10,000,000 Resulting Issuer Shares. If completed, the proposed acquisition will constitute the Issuer's Qualifying Transaction.

#### ***Movement to the NEX Board and Share Capital Reduction***

On March 3, 2011, the Issuer announced that trading of the Issuer's common shares would be transferred to the NEX Board, a separate trading board of the Exchange, effective immediately, as the Issuer had not completed a Qualifying Transaction

within the timeframe prescribed by the Exchange. In accordance with the CPC Policy, 600,000 common shares of the Issuer, representing 50% of the Seed Shares sold to non-arm's length parties, were cancelled in connection with the transfer to the NEX Board. The Issuer obtained the requisite shareholder approval for both its transfer to the NEX Board and the cancellation of the Seed Shares. Trading commenced on the NEX Board under the symbol "BVI.H".

### *Notes Receivable*

As part of the proposed Qualifying Transaction Agreement with DBI, the Issuer advanced \$225,000 to DBI in fiscal 2009. The loan bore interest at 12%, was originally due on January 15, 2010 and was personally guaranteed by a principal of DBI. On April 23, 2009, the Issuer announced that it had terminated its definitive Agreement with DBI. On January 18, 2010, the Issuer and DBI agreed to extend the repayment date of the loan to May 31, 2010.

On June 16, 2010, DBI made an interest payment of \$39,279. On June 30, 2010, the Issuer, DBI and a guarantor agreed to further extend the maturity date of the loan and obligations under the guarantee to August 31, 2010.

On November 25, 2010, the Issuer and DBI entered into a non-binding letter of intent pursuant to which the Issuer was to acquire all of the issued and outstanding common shares in the capital of KNR. If completed, the KNR Transaction was expected to constitute the Issuer's Qualifying Transaction. Subsequent to August 31, 2011, the Issuer terminated the proposed KNR Transaction. As a result, the balance of the note receivable of \$225,000, and unpaid accrued interest of \$31,500 at August 31, 2011, has been written down to \$Nil as collection is not reasonably assured.

### *Disclosure of Outstanding Share Data*

As more specifically described above under "Company Overview", there are 1,956,600 issued and outstanding common shares in the capital of the Issuer and the Issuer has granted options to purchase an aggregate of 170,440 common shares in the capital of the Issuer.

### *Risk Factors*

The Company's overall performance and results of operations are subject to a number of risks and uncertainties. Please refer to the risk factors outlined in this filing statement and the Prospectus.

### *Related Party Transactions*

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount which is the amount of consideration established and approved by the related parties.

There were no related party expenses for the period ended February 29, 2012.

### *Transition to IFRS*

The unaudited condensed interim financial statements for the quarter ended February 29, 2012 have been prepared in accordance with IFRS. For the transition to IFRS, the Issuer has followed the recommendations in IFRS-1 First-time adoption of IFRS, in preparing its transitional condensed interim financial statements.

In preparing its opening IFRS statement of financial position, the Issuer did not adjust the amounts reported previously in its financial statements prepared in accordance with Canadian GAAP. There was no financial statement impact resulting from the transition from Canadian GAAP to IFRS.

### *Future Accounting Pronouncements*

Pursuant to IFRS, 'Fair Value Measurement' defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 Share-based Payment; leasing transactions within the scope of IAS 17 Leases; measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

### *Additional Information*

Additional information relating to the Issuer is available under its profile on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Description of the Securities**

The Issuer is authorized to issue an unlimited number of common shares (previously defined as "**Bellair Shares**"), and as at the date of this filing statement, 1,956,600 Bellair Shares were issued and outstanding as fully paid and non-assessable. In addition, 170,440 Bellair Shares are reserved for issuance pursuant to the Bellair Options granted to officers and directors of the Issuer. Of the issued and

outstanding shares, 600,000 shares are subject to escrow restrictions pursuant to the Escrow Agreement.

Holders of Bellair Shares are entitled to dividends, if, as and when declared by the board of directors of the Issuer, to one vote per share at meetings of the shareholders of the Issuer and, upon liquidation, dissolution or winding-up of the Issuer to receive such assets of the Issuer as are distributable to the holders of the Bellair Shares. All of the Bellair Shares to be outstanding on completion of the Qualifying Transaction will be fully paid and non-assessable.

### Stock Option Plan

The Issuer adopted the Stock Option Plan on November 7, 2008 which provides that the board of directors may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers and technical consultants to the Issuer, non-transferable options to purchase Bellair Shares. The Issuer has issued the Bellair Options under the Stock Option Plan.

The following table sets out the Bellair Options as of the date of this filing statement:

Name of Optionee	Number of Bellair Shares Under Option	Exercise Price Per Bellair Share under Option	Expiration Dates of the Options <sup>(1)</sup>
Emlyn J. David	85,220	\$0.50	November 24, 2013
Rajiv Rai	85,220	\$0.50	November 24, 2013
<b>Total:</b>	<b>170,440</b>		

Notes:

- (1) The Bellair Options held by optionees who do not continue as a director, officer, employee or consultant of the Resulting Issuer have a maximum term of the later of 12 months after Completion of the Qualifying Transaction and 90 days after the optionee ceases to be a director, officer, employee or consultant of the Resulting Issuer.

The purpose of the Stock Option Plan is to advance the interests of the Issuer by encouraging the directors, officers, employees and consultants of the Issuer to acquire Bellair Shares, thereby increasing their proprietary interest in the Issuer, encouraging them to remain associated with the Issuer and furnishing them with additional incentive in their efforts on behalf of the Issuer in the conduct of its affairs.

Pursuant to the Stock Option Plan, the maximum number of Bellair Shares reserved for issuance may not exceed 10% of the total issued and outstanding Bellair Shares at the date of the grant. The maximum number of Bellair Shares reserved for issuance in any 12 month period to any one optionee other than a consultant may not exceed 5% of the issued and outstanding Bellair Shares at the date of grant. The maximum

number of Bellair Shares reserved for issuance in any 12 month period to any one consultant may not exceed 2% of the issued and outstanding Bellair Shares at the date of the grant and the maximum number of Bellair Shares reserved for issuance in any 12 month period to persons engaged in investor relations activities may not exceed 2% of the issued and outstanding Bellair Shares at the date of the grant. The maximum term during which an optionee may exercise an option granted under the Stock Option Plan is 10 years from the date of grant. If the Issuer is classified as a “**Tier 2**” issuer by the Exchange, the maximum term during which an optionee may exercise an option granted under the Stock Option Plan is 10 years from the date of grant. However, if an optionee shall cease to be a director, officer, consultant, employee or management company employee for any reason (other than death) and if the Issuer is classified as a “**Tier 2**” issuer at the time of grant to such optionee, such optionee must exercise such grant within 90 days of such cessation, unless such optionee was engaged in investor relations activities, in which case such exercise must occur within 30 days after cessation of such optionee’s services to the Issuer. In the event of death of an optionee, the optionee’s heirs or administrators may exercise any portion of the optionee’s outstanding option no later than 1 year from the date of the optionee’s death.

The exercise price of options issued under the Stock Option Plan may not be less than the market price of the Bellair Shares at the time the option is granted, subject to any discounts permitted by applicable legislative and regulatory requirements.

### Prior Sales

Since the Issuer’s date of incorporation, 2,556,600 Bellair Shares have been issued as follows:

Date	Number of Bellair Shares	Issue Price per Bellair Share	Aggregate Gross Proceeds	Nature of Consideration
September 20, 2008	1,200,000 <sup>(1)(3)</sup>	\$0.25	\$300,000	Cash
November 24, 2008	1,356,600 <sup>(2)</sup>	\$0.50	\$678,300	Cash
TOTAL	2,556,600 <sup>(3)</sup>	n/a	\$978,300	Cash

Notes:

- (1) Held in escrow pursuant to the Escrow Agreement.
- (2) Issued pursuant to the Issuer’s IPO.
- (3) In connection with the transfer to the NEX Board, the Issuer cancelled an aggregate of 600,000 of the Bellair Shares issued to directors, officers and 10% shareholders of Bellair on March 3, 2011, as required by the policies of the Exchange. The balance of such “Seed Shares”, being 600,000 Bellair Shares, remain subject to the Initial Escrow Agreement.

### Stock Exchange Price

The Bellair Shares are listed on the NEX Board of the Exchange under the trading symbol “BVI.H”. The Bellair Shares were first listed on the Exchange on November

26, 2008. When a Qualifying Transaction was announced on December 8, 2008, the market price of the Bellair Shares on the Exchange was \$0.65. Trading of the Bellair Shares was halted with the announcement that the Issuer was pursuing a Qualifying Transaction with DBI. Trading of the Bellair Shares remains halted pending receipt and review by the Exchange of acceptable documentation regarding the Transaction. The last recorded trade for Bellair Shares was completed on November 25, 2010 at \$0.65.

### **Arm's Length Qualifying Transaction**

The proposed Qualifying Transaction is not a Non-Arm's Length Qualifying Transaction.

### **Legal Proceedings**

There are no actual or, to the knowledge of the Issuer, contemplated legal proceedings to which the Issuer is a party or of which any of its assets are the subject matter.

### **Auditor, Transfer Agent and Registrar**

The auditor of the Issuer is MSCM LLP, Chartered Accountants, 701 Evan Avenue, 8<sup>th</sup> Floor, Toronto, Ontario, M9C 1A3.

The transfer agent and registrar of the Issuer is Equity Financial Trust Company (formerly Equity Transfer & Trust Company), 200 University Avenue, Suite 400, Toronto, Ontario, M5H 4H1.

### **Material Contracts**

The only material contracts entered into by the Issuer since its incorporation and prior to the date hereof, or to be entered into in connection with the Qualifying Transactions, other than contracts entered into in the ordinary course of business or contracts subsequently terminated, are as follows:

1. The Transfer Agent, Registrar and Disbursing Agent Agreement dated as of October 7, 2008 between the Issuer and Equity Financial Trust Company.
2. The Escrow Agreement dated as of October 7, 2008 among the Issuer, the Escrow Agent and those shareholders that executed such agreement.
3. The Consulting Agreement.
4. The Offer and Sale Agreement.
5. The Agency Agreement. See "Qualifying Transaction - Private Placement".
6. The Subscription Receipt Agreement. See "Qualifying Transaction - Private Placement".

While the Issuer is not a party to the Subscription Receipt Agreement, such agreement is considered material to the Issuer as the completion of the transactions contemplated thereunder are conditions to the completion of the Qualifying Transaction. See "*Qualifying Transaction*".

Copies of these agreements are available for inspection, without charge, at the head and registered office of the Issuer, located at 10 Bellair Street, Suite 509, Toronto, Ontario, M5R 3T8, during ordinary business hours, until Completion of the Qualifying Transaction and for a period of thirty (30) days thereafter.

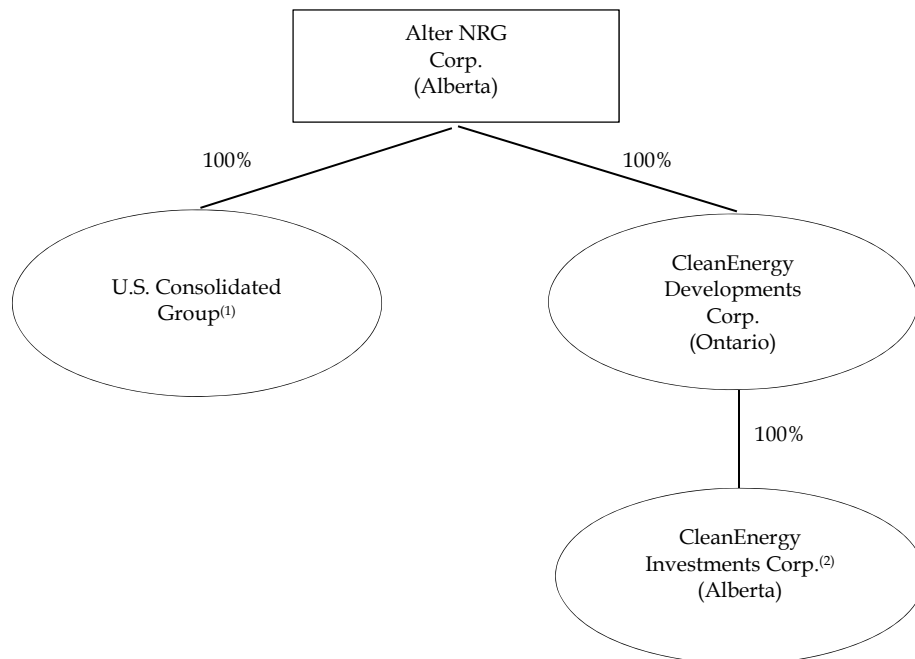
## INFORMATION CONCERNING CLEANENERGY DEVELOPMENT CORP.

### Name and Incorporation

Alter acquired CleanEnergy Developments Corp., a company incorporated under the *Business Corporations Act* (Ontario) which began doing business on October 2, 2009. The head offices of Alter are located at Suite 215, 4000 – 4<sup>th</sup> Street SE, Calgary, Alberta, T2G 2W3.

### Intercompany Relationships

The simplified organizational structure of Alter, including the material subsidiaries of Alter, is set forth below:



Notes:

- (1) Comprised of the subsidiaries of Alter operating in the United States, including Westinghouse Plasma Corporation.
- (2) Clean Energy Investments Corp. shall be spun-off prior to the Completion of the Qualifying Transaction.

### General Development of the Business

#### *History*

CleanEnergy is in the business of providing geoexchange heating and cooling applications for both new construction and retrofits in the residential, commercial and industrial markets, as well as equipment sales.



CleanEnergy began active operation in 2006 in the geoexchange industry and built a platform to serve the geoexchange industry through two distribution methods:

- i) a complete engineered geoexchange solution for larger commercial, industrial and municipal buildings; and
- ii) a dealer network selling equipment and, previously, drilling services relating to residential geoexchange installations.

Through a design build team, CleanEnergy offers a “turn-key” or a total wrapped solution that is designed to mitigate the project execution risk for the end customers. The total wrapped solution runs across the geoexchange value chain, including project management, engineering, drilling and equipment installation, commissioning services, and full-system warranties. Additionally, CleanEnergy is a distributor of a line of GeoStar heat pumps to a network of more than 100 dealers across Canada.

CleanEnergy increased its presence in the industry and resulting revenue base steadily until 2008 when it had grown to \$6.3 in total revenues. CleanEnergy was acquired by Alter on October 2, 2009 and, thereafter, CleanEnergy prioritized the larger commercial and municipal building geoexchange solutions market. This strategy was successful and in 2010 and 2011 CleanEnergy completed larger scale jobs with installation revenues between \$0.5 million and \$1.5 million, including hockey rinks, a condominium complex, a hospital, an elementary school and other commercial applications in various parts of Canada. Management of CleanEnergy believes its commercial experience in larger jobs positions CleanEnergy as a leading geoexchange provider in the Canadian market.

During 2011, Alter began a strategic process to re-capitalize its balance sheet through the sale of non-core assets. At this point, CleanEnergy was determined to be non-core by Alter as Alter’s business plan was focused exclusively on the Westinghouse Plasma Corporation gasification solution which provides waste to energy solutions worldwide. On January 5, 2012, Alter entered into the Offer and Sale Agreement to sell all of the issued and outstanding shares of CleanEnergy.

### **Private Placement**

In connection with, and as a condition to, the Closing, CleanEnergy completed the Private Placement of 4,788,000 Subscription Receipts, at a purchase price of \$0.50 per Subscription Receipt, for gross proceeds of \$2,394,000 on June 6, 2012. Each Subscription Receipt is exercisable by the holder thereof, without payment of additional consideration, for one CleanEnergy Unit, subject to adjustment in certain events. See “*Qualifying Transaction – Private Placement*”.

## **Significant Acquisitions and Dispositions**

No significant acquisitions or dispositions were completed by CleanEnergy within the most recently completed financial year.

## **Narrative Description of the Business**

### *General*

In operation since 2006, CleanEnergy is a geoexchange company that provides heating and cooling for homes and commercial buildings using energy from the earth. CleanEnergy provides complete design and build solutions for commercial projects and also equipment sales through its dealer network across Canada.

Geoexchange is the industry's term used to describe an alternative to traditional oil, gas, or coal-fired HVAC systems. Geoexchange systems have also been referred to as earth energy systems, or geothermal heat pump systems.

Geoexchange technology uses the relatively constant temperature (between 4°C and 10°C year-round) beneath the surface of the earth to heat and cool buildings. Geoexchange technology takes advantage of the ground's heating and cooling properties (the same properties that make any basement cooler in the summer and warmer in the winter) to heat or cool entire buildings. This heat 'exchange' between the ground and the building is accomplished by using standard pump and compressor technology. Heat energy from beneath the earth's surface can be captured using proven geoexchange technologies and harnessed to provide space heating and cooling. Electricity is required to pump that energy out of the ground, but geoexchange systems are still able to produce three to four units of free thermal energy from the earth for every one unit of electrical energy used.

A geoexchange system is comprised of three basic components: (i) energy supply comes from the ground loop (or vertical or lake loop), the system through which water (in a lake loop), solar heat from near-surface soil or magmatic heat from deeper areas (in a vertical loop) is exchanged; (ii) the conversion of heat occurs in the heat pump and compressor; and (iii) the warmed energy is delivered through the circulation system (ductwork or in-floor radiant heating).

The advantages of geoexchange technology include:

- Geoexchange technology can save the developer or consumer up to 70% on their current heating bills, because it transfers existing heat without combustion.
- Geoexchange often pays for itself in less time than a traditional HVAC system depending on current building heat/cool use, soil types, size of installation, and other factors.

- Geoexchange qualifies as a renewable energy - a typical two bedroom house-sized installation is equivalent to taking two cars off the road or planting one acre of trees.
- Geoexchange systems involve no combustion, so they are cleaner and safer to handle than either oil or gas.
- Geoexchange systems generally take up less space than traditional HVAC systems, and are particularly suitable for situations where space is at a premium and/or aesthetics matter.

Through a design build team, CleanEnergy offers a “turn-key” or a total wrapped solution that is designed to mitigate the project execution risk for the end customers. The total wrapped solution runs across the geoexchange value chain, including project management, engineering, drilling and equipment installation, commissioning services, and full-system warranties. Additionally, CleanEnergy is a distributor of a line of GeoStar heat pumps to a network of more than 100 dealers across Canada. GeoStar heat pumps, manufactured by WaterFurnace International Inc., are at the core of a geoexchange system, providing energy compression and transfer as required by the heating and cooling system. Approximately 25% of CleanEnergy’s revenue is derived from the sale of heat pumps and associated equipment.

CleanEnergy empowers its existing dealer network in the residential market through mutually-beneficial, industry-leading programs. CleanEnergy’s dealers are both geothermal and mechanical contractors. They are supported with national marketing campaigns, marketing co-op programs, lead generation, design and engineering, and sales and technical training.

### *Principal Products and Services*

CleanEnergy provides geoexchange solutions and equipment, with key target markets in Vancouver, the Greater Toronto Area, the Eastern coast of Canada, as well as Northern communities. The customers are supported regionally from CleanEnergy’s offices in Calgary and Toronto.

### *Solutions Sales*

CleanEnergy offers a “turn-key” or a total wrapped solution that mitigates the project execution risk for the end customers. The total wrapped solution runs across the geoexchange value chain, including project management, engineering, drilling and equipment installation, commissioning services, and full-system warranties.

### *Design/Build Solutions*

The Design/Build Solutions includes the following services that are procured either as a total package or individually:

- **Project Management.** Qualified professionals manage each project to ensure they are completed on time and on budget.
- **Engineering.** CleanEnergy's engineering team utilizes modern software tools and extensive practical experience in an effort to optimize efficiencies and economics during the design process of a geoexchange system. CleanEnergy backs its geoexchange systems with up to a 10 year warranty on equipment and 50 year limited warranty on the ground loop – or exchange system.
- **Systems.** Best in class geoexchange equipment agreements in place with industry leading equipment manufactured by WaterFurnace International Inc. CleanEnergy has extensive representation of select equipment in specific geographic areas across Canada.
- **Geo Services.** Experienced geoexchange field design, drilling and tie-in services, access to drilling services through existing relationships.

### *Equipment Sales*

CleanEnergy is a distributor of a line of GeoStar heat pumps and accessories to over 100 dealers across Canada. CleanEnergy empowers its existing dealer network in the residential market through mutually-beneficial industry-leading programs.

### *Operations*

CleanEnergy operates out of offices in Calgary, Alberta and Mississauga, Ontario.

The management of equipment sales through the dealer network is managed out of the Calgary office, specifically the sale of heat pumps to dealers and management of customer's service calls regarding those heat pumps. Equipment sales through distributors are either shipped directly from the equipment manufacturer to the customer or through the dealer's location or CleanEnergy's office depending on the needs of the end customer. Typical payment terms of the dealers are net 30 days, but they can be negotiated for specific orders.

In addition, each design/build geoexchange project requires on the ground project management and installation resources that remain on site for the duration of the project managing the drilling, tie-in and commissioning of the geoexchange system. Geoexchange projects are managed like any construction project, with local sourcing of required tools and equipment. CleanEnergy has relationships with tool and equipment suppliers in each region and is offered preferred pricing based on

volume. The primary raw material used in constructing a geoexchange system is the geothermal pipe used for the ground loop which is readily available and purchased in bulk from approved suppliers.

Payment terms are project dependent but are typically progress or milestone related.

CleanEnergy must comply with the typical rules and regulations normally applicable on a construction project, including building code based environmental regulations. There are not any unique rules or regulations that apply to the geoexchange technology.

The geoexchange project business operates year round but closely mirrors the activity level related to the construction industry which is mostly affected by detrimental weather conditions.

### *Market*

Currently, CleanEnergy is focused on the low adoption rate of geoexchange technology in North America of approximately 1% compared to the roughly 75% adoption rate in Europe (Source: SP Technical Institute of Sweden).

Specifically, CleanEnergy is focused on the emerging Canadian geoexchange market, the provision of “turn-key” solutions and larger geoexchange installations.

There is a \$6.5 billion annual new build market opportunity in Canada, including:

- |                                                             |               |
|-------------------------------------------------------------|---------------|
| • Residential Homes                                         | \$2.7 billion |
| • Commercial, light industrial and condominiums             | \$1.7 billion |
| • Municipal buildings, universities, schools, and hospitals | \$1.0 billion |

(Sources: CMHC Q3 2009 report, STDC & NRCan, Ontario Government).

Management believes that there is a significant retrofit opportunities in the above-noted markets, as well.

Within the broader opportunities in Canada, target markets are broken down by:

- regional energy costs;
- electricity vs. fossil fuels pricing; and
- northern Canada and east coast are lucrative markets for fuel oil replacement.

Ideal solution sales targets are:

- buildings with balanced heating and cooling loads benefit most;
- ground loop used as “thermal storage bank”;

- commercial buildings/grocery stores; and
- ice rinks with community centers or large heated areas.

### *Marketing Plans and Strategies*

Management believes CleanEnergy is building a competitive advantage through its “turn-key” product offering. Built on strong engineering, equipment and operations experience, CleanEnergy solutions are designed to improve profit margins by capturing a greater portion of the value chain by interacting directly with the end customer. CleanEnergy is proposing to consolidate the market by offering a turn-key solution resulting in critical sales volumes required to be accepted as the market leader.

In addition, CleanEnergy is proposing to create strategic alliances to maximize revenue, including:

- joint venture alliances with developers/real estate required to demonstrate increased market value and revenue from energy cost savings;
- improved relationships with large general contractors by meeting their requirements for a bondable geoexchange contractor;
- demonstrate to electric and gas utilities the ability to reduce demand and improve conservation; and
- additional equipment distribution rights, thus expanding and growing the dealer network.

CleanEnergy’s primary marketing initiative is educating potential customers through participation in trade shows and conferences, either directly or through its dealer network. These trade shows include the following:

EVENT	LOCATION	DATE
<b>WEST</b>		
Ground Source Energy (DENTON)	Calgary, AB	<i>Feb 26-28</i>
Earthnet Geothermal	Edmonton, AB	<i>Mar 25-28</i>
Interior Plumbing + Heating - Home Show	Kamloops, BC	<i>April 28-30</i>
Prostar Mechanical	Victoria, BC	<i>Apr 23-25</i>
Danielson Refrigeration	Fort St John, BC	<i>Apr 15-17</i>
Danielson Refrigeration	Dawson Creek, BC	<i>Apr 23-25</i>
Danielson Refrigeration	Peace River, AB	<i>Apr 9-11</i>
Earthnet Geothermal	Edmonton, AB	<i>Mar 23-24</i>
Recreation facilities association AB	Fort McMurray	<i>May 6-9</i>
RFABC Conference	Campbell River, BC	<i>May 28-29</i>
Canwell 2010	Winnipeg, MB	<i>May 26-29</i>
Calgary Log and Cottage Show 2010	Calgary, AB	<i>Oct 22-24</i>
CIPHEX West	Calgary, AB	<i>Nov 7-8</i>
Buildex show	Calgary, AB	<i>Nov 6-7</i>
<b>CENTRAL</b>		
Home Expression Home & Garden show	Winnipeg, MB	<i>Mar 30- Apr 1</i>
Cottage Country Show	Winnipeg, MB	<i>Apr 20-22</i>
<b>EAST</b>		
London farm Show-(Primemax Energy)	London, Ontario	<i>Mar 10-12</i>
CMX/ CIPHEX 2012	Toronto, ON	<i>Mar 22-24</i>
Kitchener Home + Garden Show- (Primemax Energy)	Kitchener, ON	<i>Mar 26-28</i>
Cambridge Home + Garden Show- (Primemax Energy)	Cambridge, ON	<i>Apr 9-11</i>
London poultry show- (Primemax Energy)	London, Ontario	<i>Apr 14-15</i>
Practical Energy - Caledon Home show	Toronto, ON	<i>Apr 16-18</i>
Recreation facilities association ON	Guelph, ON	<i>April 30-31</i>
Practical Energy - Erin Home Show	Toronto, ON	<i>May 1-2</i>
Recreation Facilities Association of Nova Scotia	Dartmouth, NS	<i>May 17-18</i>
Recreation Newfoundland	Newfoundland	<i>June 11-12</i>
CRF	Dartmouth, NS	<i>July 2-3</i>
Recreation New Brunswick	Bathurst, NB	<i>Sep 23-24</i>
Canada Outdoor Farm Show - Primemax Energy	Toronto, ON	<i>Sep 14-16</i>
Construct Canada 2012	Toronto, ON	<i>Nov 28-30</i>
National GreenBuilding Conference & Exhibition	Toronto, ON	<i>Nov 28-29</i>
<b>FORUM &amp; CONFERENCES</b>		
SET 11th International Conference on Sustainable Energy Technologies	Vancouver, BC	<i>Sept 2-5</i>
eSim (building simulation conference)	Halifax, NS	<i>May 1-4</i>
CMHC conferences - different provinces		
Quest- Quality Urban Energy Systems of Tomorrow.	Winnipeg, MB	<i>Nov 18-21</i>

### *Competitive Conditions*

In a highly fragmented and immature market, CleanEnergy is building a competitive advantage through its “turn-key” product offering which is built on strong engineering, equipment and operations experience. The turn-key approach is designed to offer value to the customer and improve CleanEnergy’s profit margins by capturing a greater portion of the geoexchange value chain by interacting directly with the end customer. Management believes that consolidating the market by offering a turn-key solution will result in the critical sales volumes required to be accepted as the market leader.

CleanEnergy is (through Alter) the only publically traded, national provider of geoexchange solutions in Canada. Competition in the geoexchange market is largely regional and is typically focused on engineering, ground loop or heat pump equipment. Most competitive companies in the industry are smaller organizations that do not have the financial means or technical resources to support larger commercial projects.

The principal national competitors to CleanEnergy are GeoEnergy Solutions Inc., Underground Sonic Drilling Services Inc., Geo-Parr Group Ltd. and GeoSmart Energy. Both of these companies are primarily focused on equipment sales, mostly in respect of residential applications, through their respective dealer networks. They have limited experience in the commercial sector, where CleanEnergy has demonstrated market leadership.

### *Future Developments*

CleanEnergy will continue to grow its indirect channel by adding new dealers and providing them with an expanded offering. Management of CleanEnergy believes that there is an appetite to supplemental geoexchange heat pump equipment and peripheral sales with other required HVAC equipment that may be used on geoexchange projects. This new sales channel will also welcome similar energy efficient technologies in an effort to leverage CleanEnergy’s investment in its sales infrastructure.

### *Proprietary Protection*

CleanEnergy does not own or license any material patents, copyrights or trademarks. CleanEnergy’s success in commercial projects is due to professional and creative design and installation quality. Management believes that the geoexchange design experience and intelligence that CleanEnergy has collected, in particular in respect of larger, commercial projects, is unique in the industry. CleanEnergy is able to propose proprietary system designs that are superior in both financial and performance efficiencies.



## Selected Consolidated Financial Information

### *Annual Information (unless stated otherwise)*

	Three months ended March 31, 2012 <sup>(1)</sup>	December 31, 2011 <sup>(1)</sup>	December 31, 2010 <sup>(1)</sup>	December 31, 2009 <sup>(2)</sup>	December 31, 2008 <sup>(2)</sup>
Total Revenues	\$1,553,781	\$5,158,062	\$6,863,987	\$4,770,500	\$6,261,995
Loss from Continuing Operations	\$(532,157)	\$(5,546,518)	\$(7,096,118)	\$(2,694,733)	\$(631,352)
Net Loss in Total	\$(538,014)	\$(5,546,518)	\$(7,096,118)	\$(2,694,733)	\$(631,352)
Total Assets	\$2,920,967	\$3,091,987	\$4,384,696	\$2,680,458	\$2,878,729
Total Liabilities	\$16,476,703	\$15,213,912	\$10,994,698	\$2,841,204	\$193,827
Cash Dividends Declared	\$nil	\$nil	\$nil	\$nil	\$nil

(1) Prepared in accordance with IFRS.

(2) Prepared in accordance with Canadian GAAP.

## Management's Discussion and Analysis

Please refer to Schedule "D" for MD&A of CleanEnergy for the three months ended March 31, 2012 and the financial years ended December 31, 2011, 2010 and 2009.

## Description of the Securities

The authorized capital of CleanEnergy is comprised of an unlimited number of common shares (previously defined as the "**CleanEnergy Shares**"). As at the date hereof, 14,827,082 CleanEnergy Shares are issued and outstanding. The material attributes and characteristics of the CleanEnergy Shares are as follows:

### *Voting Rights*

Each CleanEnergy Share confers upon the holder thereof the right to one vote at a meeting of the shareholders of CleanEnergy or on any resolution of the CleanEnergy Shareholders, the right to an equal share in any dividend paid by CleanEnergy, and the right to an equal share in the distribution of the surplus assets of CleanEnergy on its liquidation.

### *Dividends*

No dividends have been paid on the CleanEnergy Shares in the past three fiscal years and it is not contemplated that any dividends will be paid in the immediate or foreseeable future.

## Consolidated Capitalization

The following table sets forth the consolidated capitalization of CleanEnergy as at the date for the most recent statement of financial position contained in the filing statement and at the date hereof:

Designation of Security	Amount Authorized or to be Authorized	Amount Outstanding as of March 31, 2012 <sup>(1),(2)</sup>	Amount Outstanding as of the Date of this Filing Statement
Common Shares	unlimited	14,827,082	14,827,082

Notes:

- (1) The deficit of CleanEnergy of March 31, 2012 is \$13,555,739.
- (2) Not including the Subscription Receipts issued in connection with the Private Placement which, upon satisfaction of the Escrow Release Conditions, shall be automatically exercised for CleanEnergy Units.

In connection with, and as a condition to, the Closing, CleanEnergy completed the Private Placement of 4,788,000 Subscription Receipts, at a purchase price of \$0.50 per Subscription Receipt, for gross proceeds of \$2,394,000 on June 6, 2012. Each Subscription Receipt is exercisable by the holder thereof, without payment of additional consideration, for one CleanEnergy Unit, subject to adjustment in certain events. See “*Qualifying Transaction – Private Placement*”.

### Prior Sales

There have been no prior sales of CleanEnergy securities in the 12 months preceding the date of this Filing Statement, other than the following:

Date	Number and Type of Securities	Issue Price per Security
June 6, 2012 <sup>(1)</sup>	4,788,000 Subscription Receipts	\$0.50

Notes:

- (1) CleanEnergy completed the Private Placement of 4,788,000 Subscription Receipts on June 6, 2012. Each Subscription Receipt is for one CleanEnergy Unit, subject to adjustment in certain events.

### Executive Compensation

The following compensation discussion and analysis outlines all the elements of CleanEnergy’s executive compensation, as well as documenting the decision makers involved in the current executive compensation program. Throughout this discussion and analysis, the disclosure will refer to the Named Executive Officers (“NEOs”) as one group. The NEOs have been determined in accordance with Form 51-102F6 guidelines. In the discussion and analysis, the terms Executive and NEO are used interchangeably. In 2011, CleanEnergy’s NEOs were Messrs. Robert van Duynhoven, President and Director, Solution Sales and Trent Theaker, Director, Engineering.

#### *Compensation Discussion and Analysis*

The CleanEnergy executive compensation program is designed to maintain a competitive framework appropriate for CleanEnergy’s stage of growth.

CleanEnergy's intention is to support the retention and the engagement of CleanEnergy's existing talent and allow for the attraction of high-caliber executives in the future while CleanEnergy continually monitors costs.

The executive compensation program of CleanEnergy is currently overseen, on an ongoing basis, by the compensation committee of Alter (the "**Compensation Committee**").

In order to balance the need to attract and retain executives with the desire to limit fixed cash compensation, CleanEnergy's executive compensation philosophy is to target base salary at the market's 25<sup>th</sup> percentile, while executives have the opportunity to realize total direct compensation levels, which includes cash compensation and long-term incentives, at or above the market's 75<sup>th</sup> percentile. For this purpose, in 2011 the Compensation Committee relied on the market information published by professional associations such as the Alberta Professional Engineers, Geologists and Geophysicists Association and where the NEO was not a member of this association used benchmarks provided by [www.salary.com](http://www.salary.com) and [www.payscale.com](http://www.payscale.com) (inclusively referred to as "**Survey**").

The CleanEnergy executive compensation plan is designed to deliver its objectives by maintaining pace with the marketplace and rewarding individual performance. The basic elements of CleanEnergy's compensation program include salary, a short-term incentive program ("**STIP**") and a benefits program. When reviewing the NEO compensation program, the Compensation Committee considers elements separately and makes recommendations based on the cumulative effect to the total direct compensation for each NEO.

### *Salary*

CleanEnergy has set all NEO salaries on pace with industry standards in order to support the NEOs through long sales and production cycles. Initial compensation is determined by balancing elements such as Survey results, the NEO's current salary, region of residence and internal comparisons. In order to narrow the scope of the Survey results, the Compensation Committee focused on results published for roles in similar regions, title and years of experience. Salary changes are not pre-determined and the Compensation Committee reviews the growth and achievement of the Corporation annually and awards merit increases as deemed appropriate.

### *Short-Term Incentives*

Cash bonuses are paid to NEOs to reward and recognize successful performance in their roles. CleanEnergy has no guaranteed bonus plans. Mr. van Duynhoven and Mr. Theaker had target bonuses equal to 20% and 25% of their base salary, respectively. Bonuses are determined using a weighted scale of performance related goal categories (corporate, operational and individual) with weighted adjustments based on seniority. Performance is measured in each category using a scale of below threshold, threshold, target and outstanding performance. When threshold performance is deemed to be achieved, the bonus for that goal is calculated as 25% of the target. Target level performance results in the bonus for that goal being calculated at 100% of the target for that goal. When outstanding performance is deemed to be achieved, the bonus for that goal is calculated as 200% of the target.

The Compensation Committee recommended, and the board of directors of Alter (the “**Board of Directors**”) approved, corporate goals that were based 50% on actual earnings before interest, taxes, depreciation and amortization (“**EBITDA**”) relative to budgeted EBITDA. CleanEnergy calculates EBITDA by taking the net income from the financial statements and adding back the interest, taxes, depreciations and amortization. The remaining 50% of the corporate goals were based on a share price change measured against a comparator group. For 2011, the Compensation Committee approved a comparator group that included the following organizations: Algonquin Power Income Unit Trust, Western Wind Energy Corp., Nevada Geothermal Power Inc., Plutonic Power Corporation, Waterfurnace Inc., Synthesis Energy Systems, Rentech Inc., Run of River Power Inc., Connacher Oil and Gas Ltd., Maxim Power Corp., EmberClear Inc., Boralex Power Income Fund, Cinch Energy Corp., Arsenal Energy Inc. and Rock Energy Inc. The Compensation Committee chose this comparator group as it reflects the size and various interests of CleanEnergy. When calculating the proportionate corporate bonus relative to the comparator group, CleanEnergy assembled and weighted the comparator group as two thirds alternative energy and one third energy and energy service companies.

In 2011, for the operational goal category, the Compensation Committee recommended for approval by the Board of Directors a number of operational and sales goals to guide the organization based on CleanEnergy’s strategy. NEO performance was measured relative to the performance metrics associated with these goals based on the weighting assigned the NEO’s role.

In general, NEO individual goals were to provide compensation for executive project management including the identification, evaluation and negotiation of opportunities. NEOs are expected to foster an action oriented corporate culture, steward the budget and educate the market on the activities of CleanEnergy. The Compensation Committee reviews the recommendations of the management, the

growth and achievement of CleanEnergy and recommends bonus awards to the NEOs, for approval by the Board of Directors.

A 2011 sales commission program was established that rewards designated roles within the sales team and also contains a variable pool for discretionary distribution to any individual, including NEOs. The pool is calculated using actual gross margins and based on received revenues and actual costs incurred. The sales commission program is revised and approved annually by the Board of Directors.

### ***Benefits Program***

To ensure that CleanEnergy remains competitive within the marketplace, CleanEnergy offers standard health programs to its NEOs. Sun Life Financial is the insurance carrier of CleanEnergy. CleanEnergy's benefits program includes standard extended health, dental, short-term disability and life insurance. A long term disability program is offered through RBC Insurance.

### ***Summary Compensation Table***

The following table contains information about the compensation paid to, or earned by the NEOs during past financial periods.

Name	Year	Salary (\$)	Share-based Awards (\$)	Option-based Awards (\$)	Non-equity Incentive Plan Compensation (\$)		Pension Value (\$)	All Other Compensation <sup>(2)</sup> (\$)	Total Compensation (\$)
					Annual Incentive Plans <sup>(1)</sup>	Long-Term Incentive Plans			
Robert van Duynhoven, Director Solutions Sales <sup>(3)</sup>	Q1 2012	26,875	Nil	Nil	33,811	Nil	Nil	Nil	60,686
	2011	107,500	Nil	Nil	69,326	Nil	Nil	28,125	204,951
	2010	79,500	Nil	Nil	18,000	Nil	Nil	Nil	97,500
	2009	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Trent Theaker, Director, Engineering <sup>(4)</sup>	Q1 2012	5,577	Nil	Nil	21,750	Nil	Nil	3,290	30,617
	2011	145,000	Nil	Nil	7,500	Nil	Nil	21,750	174,250
	2010	92,600	Nil	Nil	Nil	Nil	Nil	Nil	92,600
	2009	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Notes:

- (1) Includes cash bonuses and commissions earned in the year and paid in the first quarter of the subsequent year.
- (2) Retention bonus of 15% of base salary was earned in 2011 and paid in January, 2012. Mr. van Duynhoven also received a one-time salary top-up of \$12,000 in 2011.
- (3) Mr. van Duynhoven hire date was March 15, 2010.
- (4) Mr. Theaker's hire date was April 26, 2010.

*Outstanding share-based awards and option-based awards*

There were no outstanding share-based awards or option-based awards of CleanEnergy outstanding as at March 31, 2012.

*Incentive plan awards – value to be vested or earned during the year*

CleanEnergy has not granted any option-based awards, share-based awards or non-equity incentive plan compensation.

*Long-Term Incentive Plan*

CleanEnergy does not have a long-term incentive plan in place and has not, in the most recently completed financial period, made any awards under any such plans to the executive officers of CleanEnergy.

*Option Grants*

CleanEnergy has not granted any options or other convertible securities during the most recently completed financial period.

*Aggregated Option Grants and Exercises*

CleanEnergy has not granted any stock options to the NEOs during the most recently completed financial period.

*Pension Plan Benefits and Deferred Compensation Plan*

CleanEnergy has not established a pension plan or deferred compensation plan during the most recently completed financial period.

*Termination of Employment, Change in Responsibilities and Employment Contracts*

During the most recently completed financial period, CleanEnergy did not have any employment contracts between the NEOs and CleanEnergy, or any compensatory plan, contract or arrangement, where a NEO is entitled to receive any compensation from CleanEnergy in the event of the resignation, retirement or any other termination of employment of a NEO or from a change of control of CleanEnergy.

**Indebtedness of Directors and Officers**

No director or officer of CleanEnergy, nor any Associate of any such director or officer, has been indebted, other than routine indebtedness, to CleanEnergy, or to any other entity that is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by CleanEnergy.

### **Interest of Informed Persons in Material Transactions**

Other than as disclosed herein, CleanEnergy's management is not aware of any material interest in any matter to be acted upon, or any material transaction, direct or indirect, of any director, senior officer or informed person of CleanEnergy, or of any Person beneficially owning, directly or indirectly, more than 10% of CleanEnergy's voting securities or any Associate or Affiliate thereof, other than the interest which any such Person may have as a securityholder of CleanEnergy, and upon Completion of the Qualifying Transaction, as a securityholder of the Resulting Issuer.

### **Management Contracts**

CleanEnergy has no management contracts or other arrangements in place where a Person other than the directors or officers of CleanEnergy, performs management functions.

### **Non-Arm's Length Party Transactions**

Except as otherwise disclosed in the sections "*Information Concerning CleanEnergy – Management's Discussion and Analysis – Related Party Transaction*", the directors and senior officers of CleanEnergy and any Associates and Affiliates thereof have not had any direct or indirect material interest in any transaction or proposed transaction since its date of incorporation to the date of this Filing Statement.

### **Legal Proceedings**

CleanEnergy is not aware of any legal proceedings, contemplated or actual, involving CleanEnergy which are likely to materially affect CleanEnergy.

### **Material Contracts**

The following are the agreements, understandings and contracts that have been entered into by CleanEnergy that are presently considered by management to be material:

1. The Agency Agreement. See "*Qualifying Transaction – Private Placement*".
2. The Subscription Receipt Agreement. See "*Qualifying Transaction – Private Placement*".
3. Geoexchange services agreement dated June 28, 2011 between Ellisdon Corporation and CleanEnergy in respect of engineering and project management services provided by CleanEnergy to Ellisdon Corporation.
4. Distributor agreement dated May 4, 2007 between WFI Industries Ltd. ("**WFI**") and CleanEnergy in respect of the purchase and resale of Waterfurnace and Geolink goods by CleanEnergy from WFI.

5. Geoexchange services agreement dated November 18, 2010 between PeoElectric Inc. and CleanEnergy in respect of engineering and project management services provided by CleanEnergy to ProElectric Inc.
6. Geoexchange services agreement dated February 9, 2011 between Ellisdon Corporation and CleanEnergy in respect of engineering and project management services provided by CleanEnergy to Ellisdon Corporation.
7. Geoexchange services agreement dated October 25, 2010 between PCL Contractors Canada Inc. and CleanEnergy for CleanEnergy to provide an ice rink refrigeration and heat recovery system to PCL Contractors Canada Inc.

Copies of these agreements are available for inspection at the head office of the CleanEnergy during ordinary business hours until the Completion of the Qualifying Transaction and for a period of thirty (30) days thereafter.



## INFORMATION CONCERNING THE RESULTING ISSUER

### General

Upon Completion of the Qualifying Transaction, all of the operations, assets and liabilities of each of the Issuer and CleanEnergy will continue and/or be assumed by the Resulting Issuer. Accordingly, the Resulting Issuer will be subject to the same risk factors associated with the current business of such entities. For a discussion of the business, assets and operations of the Issuer and CleanEnergy, see “*Information Concerning the Issuer*” and “*Information Concerning CleanEnergy*”, respectively. For a discussion of the risks associated with a Qualifying Transaction and the business of the Resulting Issuer, see “*Risk Factors*”.

### Name and Incorporation

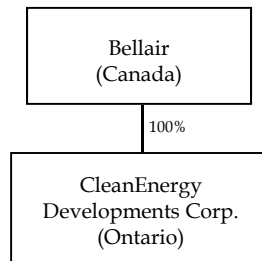
Each of the Issuer’s and CleanEnergy’s names will remain the same following Completion of the Qualifying Transaction. The Resulting Issuer’s head and registered office will be the same as that of the Issuer.

Bellair Ventures Inc. was incorporated pursuant to the *Canada Business Corporations Act* on August 22, 2008.

See “*Information Concerning the Issuer*”.

### Intercorporate Relationships

Following Completion of the Qualifying Transaction, the Issuer will hold 100% of the issued and outstanding CleanEnergy Shares, and CleanEnergy will be a wholly-owned subsidiary of the Issuer. The following diagram illustrates the Resulting Issuer’s intercorporate relationships following the Completion of the Qualifying Transaction:



### Narrative Description of the Business

#### *Business Objectives*

The Resulting Issuer’s business objectives will include the following:

- to fulfill the expected rise in projected demand for environmentally friendly and energy efficient technologies with a key focus on turn-key projects and larger installations such as subdivisions, commercial buildings, etc.;
- focus on developing the Canadian market for geexchange heating and cooling systems;
- expand the existing dealer network and continue to build a strong reputation within geothermal or heat pump applications; and
- create year-over-year accretive growth.

### *Milestones*

In order for the Resulting Issuer to accomplish the business objectives stated above, a number of specific events (in addition to the Completion of the Qualifying Transaction) must first take place, including:

- the Resulting Issuer will successfully complete the build out of the project at the Calgary International Airport;
- the Resulting Issuer will announce new joint ventures/strategic partnerships with real estate developers for residential, commercial or industrial projects;
- the Resulting Issuer will on bid new projects via large general contractors and meet their requirements for a bondable geexchange contractor; and
- the Resulting Issuer will secure equipment distribution rights, thus expanding and growing CleanEnergy's existing dealer network.

For more information, see *"Information Concerning CleanEnergy – Narrative Description of the Business"*.

### **Description of the Securities**

The Resulting Issuer's share capital will be identical to the Issuer's. See *"Information Concerning the Issuer – Description of Securities"*.

### **Pro Forma Consolidated Capitalization**

The following table sets forth the pro forma share and loan capitalization of the Resulting Issuer as at the date hereof, on a consolidated basis, based on the pro forma consolidated financial statements contained in this filing statement, after Completion of to the Qualifying Transaction, the Private Placement and all matters ancillary thereto.

Designation of Security	Amount Authorized	Amount After Giving Effect to the Transaction
Common shares	unlimited	17,308,600 <sup>(1)</sup>
Warrants	-	5,266,800 <sup>(2)</sup>

Options	1,730,860 <sup>(3)</sup>	1,199,240 <sup>(4)</sup>
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Notes:

- (1) Upon Closing, the number of Bellair Shares will be as follows: (i) 1,956,600 Bellair Shares currently issued and outstanding; (ii) 10,000,000 Bellair Shares to be issued to Alter in connection with the Qualifying Transaction; (iii) 4,788,000 Bellair Shares to be issued in connection with the Private Placement; and (iv) 564,000 Resulting Issuer Shares to be issued to Bridgepoint on closing of the Qualifying Transaction pursuant to the Consulting Agreement.
- (2) 4,788,000 Resulting Issuer Warrants to be issued on Closing in exchange for the CleanEnergy Warrants issuable upon exercise of the Subscription Receipts and 478,800 Resulting Issuer Warrants to be issued on exercise of the Agent Options. Each Resulting Issuer Warrant will be exercisable to acquire one Resulting Issuer Warrant Share for an exercise price of \$0.75 per share for a period of 24 months following Completion of the Qualifying Transaction, subject to adjustment in certain events.
- (3) Subject to the approval of the Exchange, the Stock Option Plan of the Issuer will be adopted by the Resulting Issuer. Pursuant to the Stock Option Plan, the maximum number of Bellair Shares reserved for issuance may not exceed 10% of the total issued and outstanding Bellair Shares at the date of the grant.
- (4) The number of Resulting Issuer Shares currently subject to option is 170,440 pursuant to the terms of the Stock Option Plan. Immediately following the Closing, the Resulting Issuer intends to issue and additional 550,000 incentive stock options to directors and officers of the Resulting Issuer. See *"Information Concerning the Resulting Issuer – Options to Purchase Securities"*. In connection with the Private Placement, the Agent was issued an aggregate of 478,800 Agent Options each exercisable to acquire one Resulting Issuer Unit.

## Fully Diluted Share Capital

The following table summarizes the securities of the Resulting Issuer proposed to be issued and outstanding on a fully diluted basis after Completion of the Qualifying Transaction, the Private Placement and all matters ancillary thereto.

Description of Issue	# of Resulting Issuer Shares	% of Total
Currently issued and outstanding	1,956,600	8.23%
To be issued pursuant to the Transaction	10,000,000	42.06%
To be issued pursuant to the Consulting Agreement	564,000	2.37%
To be issued pursuant to the Private Placement	4,788,000	20.14%
Issuable on exercise of the Resulting Issuer Warrants	5,266,800 <sup>(1)</sup>	22.15%
Issuable on exercise of the Bellair Options	170,440	0.72%
Issuable on exercise of the Resulting Issuer Options	550,000	2.31%
Issuable on exercise of the Agent Options	478,800 <sup>(2)</sup>	2.02%
<b>Fully diluted share capital</b>	<b>23,774,640</b>	<b>100.00%</b>

Notes:

- (1) 4,788,000 Resulting Issuer Warrants to be issued on Closing in exchange for the CleanEnergy Warrants issuable upon exercise of the Subscription Receipts and 478,800 Resulting Issuer Warrants to be issued on exercise of the Agent Options. Each Resulting Issuer Warrant will be exercisable to acquire one Resulting Issuer Warrant Share for an exercise price of \$0.75 per share for a period of 24 months following Completion of the Qualifying Transaction, subject to adjustment in certain events.
- (2) In connection with the Private Placement, the Agent was issued an aggregate of 478,800 Agent Options each exercisable to acquire one Resulting Issuer Unit. The number of Resulting Issuer

Shares indicated above has assumed the exercise of the Agent Options for Resulting Issuer Units; but not the exercise of the Resulting Issuer Warrants comprising a part of the Resulting Issuer Units, which have been accounted for under the heading "Issuable on exercise of the Resulting Issuer Warrants".

## Available Funds and Principal Purposes

### *Funds Available*

Based on the estimated working capital of the Issuer and CleanEnergy, as at February 29, 2012, the estimated consolidated working capital of the Resulting Issuer after Completion of the Qualifying Transaction and the Private Placement, is \$1,955,224.

The following table sets forth the estimated, pro forma consolidated sources and uses of funds of the Resulting Issuer as at the date of Closing:

Source of Funds	Amount
Consolidated Working Capital	\$1,488,935 <sup>(1)</sup>
Gross Proceeds of the Private Placement	\$2,394,000
<b>TOTAL</b>	<b><u>\$3,882,935</u></b>

Notes:

(1) Projected working capital for the Resulting Issuer, upon consolidation of the Issuer's and CleanEnergy's working capital prior to transaction costs.

### *Principal Purposes of Funds*

The following table sets forth the estimated, pro forma consolidated uses of funds of the Resulting Issuer as at the Closing Date:

Uses of Funds	Amount
Issuer's Transaction costs <sup>(1)</sup>	\$200,000
Private Placement costs and other expenses	\$239,400
General and administrative expenses	\$450,000
Vendor payment for working capital in excess of \$nil	\$1,488,311
<b>TOTAL.....</b>	<b><u>\$2,377,711</u></b>

<b>Remainder of Available Funds as at Closing</b>	<b><u>\$1,505,224</u></b>
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Notes:

(1) Transaction costs and related fees for the Qualifying Transaction.

The above use of available funds should be considered estimates only. Assuming Completion of the Qualifying Transaction, management of the Resulting Issuer may seek additional capital by way of debt or equity financing in order to finance its

future development. Notwithstanding the proposed uses of available funds as discussed above, there may be circumstances where, for sound business reasons, a reallocation of funds may be necessary. It is difficult at this time to definitively project the total funds necessary to effect the planned undertakings of the Resulting Issuer. For these reasons, management considers it to be in the best interests of the Resulting Issuer and its shareholders to permit management a reasonable degree of flexibility as to how the Resulting Issuer's funds are employed among the above uses or for other purposes, as the need may arise.

For more information on the estimated costs to achieve the Resulting Issuer's business objectives, see *"Information Concerning the Resulting Issuer – Narrative Description of the Business"*.

### ***Dividends***

There will be no restrictions in the Resulting Issuer's articles or elsewhere which could prevent the Resulting Issuer from paying dividends subsequent to the Completion of the Qualifying Transaction. However, no dividends have been paid on any Bellair Shares since the date of the Issuer's incorporation, and it is not contemplated that any dividends will be paid in the immediate or foreseeable future on the Resulting Issuer Shares.

If the Resulting Issuer generates earnings in the foreseeable future, it is expected that such earnings will be retained to finance growth, if any, and, when appropriate, retire any debt of the Resulting Issuer. The directors of the Resulting Issuer will determine if and when dividends should be declared and paid in the future based on the Resulting Issuer's financial position at the relevant time.

### **Principal Securityholders**

To the best of the knowledge of management of the Issuer and CleanEnergy, the persons who beneficially own, directly or indirectly, or exercise control or direction over (or are expected to beneficially own, directly or indirectly, or exercise control or direction over) more than 10% of the voting rights attached to all of the outstanding Resulting Issuer Shares following Completion of the Qualifying Transaction and the Private Placement and all matters ancillary thereto are as follows:

Shareholder and Municipality of Residence	Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned	
		Issued <sup>(2)</sup>	Fully Diluted <sup>(3)</sup>
Alter <sup>(1)</sup>	10,000,000	57.77%	42.06%

Notes:

- (1) In accordance with the terms of the Offer and Sale Agreement, Alter has irrevocably agreed that where it owns greater than 50% of the issued and outstanding Resulting Issuer Shares, Alter will only vote a maximum of 49.9% of the issued and outstanding Resulting Issuer Shares voted in respect of any matter at any given time.

- (2) Assuming 17,308,600 Resulting Issuer Shares issued and outstanding following Completion of the Qualifying Transaction.
- (3) Assuming 23,774,640 Resulting Issuer Shares, on a fully diluted basis, following Completion of the Qualifying Transaction.

## Directors, Officers and Promoters

### *Resulting Issuer Directors and Officers*

The following table sets out the names of the individuals proposed as directors or officers of the Resulting Issuer, all positions and offices in the Resulting Issuer to be held, such individuals municipality of residence, their principal occupations at the present time and during the preceding five years and the number and percentage of Resulting Issuer Shares that such individuals will own, or over which they will exercise control or direction the Qualifying Transaction:

Name, Proposed Position and Municipality of Residence	Principal Occupation <sup>(1)</sup>	Securities to be Held Upon Completion of Transaction	Percentage of Total Issued and Outstanding Bellair Shares <sup>(2)</sup>
Emlyn J. David President, Chief Executive Officer, Secretary, Chairman and Director (Toronto, Canada)	Managing Partner of Cangap Capital Corp.	300,000 Common Shares	1.73 %
Frank Carnevale Chief Operating Officer (Toronto, Canada)	President and Chief Executive Officer of Bridgepoint	564,000 Common Shares <sup>(4)</sup>	3.26%
Jonathan Leong Chief Financial Officer (Toronto, Canada)	Accountant	-	-
Michael Galloro <sup>(3)</sup> Director (Toronto, Canada)	Accountant	10,000 Common Shares <sup>(5)</sup>	0.06 %
Rajiv Rai <sup>(3)</sup> Director (Toronto, Canada)	Producer, CORE Film Productions	90,000 Common Shares <sup>(6)</sup>	0.52%
Daniel R. Hay <sup>(3)(7)</sup> Director (Calgary, Canada)	Chief Financial Officer of Alter	-	-
Nancy Laird <sup>(7)</sup> Director (Calgary, Canada)	Corporate Director	-	-
Robert van Duynhoven <sup>(8)</sup> President of CleanEnergy (Toronto, Canada)	Director Solution Sales of CleanEnergy	40,000 Common Shares <sup>(9)</sup> 40,000 Warrants <sup>(9)</sup>	0.23 % <sup>(10)</sup>

Notes:

- (1) See *"Information Concerning the Resulting Issuer - Directors, Officer and Promoters - Management of the Resulting Issuer"* for information regarding the principal occupation of the proposed directors and officers of the Resulting Issuer within the five proceeding years.
- (2) Assuming 17,308,600 Resulting Issuer Shares issued and outstanding following Completion of the Qualifying Transaction.
- (3) Proposed member of the Audit Committee.
- (4) Mr. Carnevale is the President and Chief Executive Officer of Bridgepoint.
- (5) These Resulting Issuer Shares are held by Duck Capital Inc., a private company wholly-owned by Michael Galloro.
- (6) These Resulting Issuer Shares are held by R3 Concepts Inc., a private company wholly-owned by Rajiv Rai.
- (7) Mr. Hay and Ms. Laird are Insiders of Alter, but neither is a Control Person.
- (8) Mr. van Duynhoven is to be appointed President of CleanEnergy upon Closing.
- (9) Mr. van Duynhoven subscribed for 40,000 Subscription Receipts pursuant to the Private Placement and will therefore be issued 40,000 Resulting Issuer Shares and 40,000 Resulting Issuer Warrants upon receipt of the Approval.
- (10) Does not assume exercise of the Warrants held by Mr. van Duynhoven.

Following the Completion of the Qualifying Transaction, the board of directors of the Resulting Issuer will establish an Audit Committee and such other committees of the board as it determines to be appropriate.

The proposed members of the Audit Committee of the Resulting Issuer upon the Completion of the Qualifying Transaction will be:

- Michael Galloro (Chair)
- Rajiv Rai
- Daniel R. Hay

As of the date of this Filing Statement, the Bellair Shares beneficially owned, directly or indirectly, by all promoters, directors, officers and Control Persons of the Issuer, as a group, is 600,000 Bellair Shares or approximately 30.7% of the 1,956,600 currently issued and outstanding Bellair Shares. As of the date of this Filing Statement, Alter owns all of the CleanEnergy Shares.

Upon Completion of the Qualifying Transaction, the number of Resulting Issuer Shares beneficially owned, directly or indirectly, by all promoters, directors, officers, principal shareholders and Control Persons of the Resulting Issuer, as a group, will be 11,004,000 Resulting Issuer shares, or approximately 63.6% of the 17,308,600 Resulting Issuer shares then to be issued and outstanding (including the 10,000,000 to be issued to Alter and the 564,000 Resulting Issuer Shares to be issued to Bridgepoint, each as described herein).

### *Management of the Resulting Issuer*

If Completion of the Qualifying Transaction takes place, the following individuals are anticipated to be the management and key personnel of the Resulting Issuer:

#### **Emlyn J. David, age 47, President, Chief Executive Officer, Secretary, Chairman and Director of the Resulting Issuer and Director of CleanEnergy**

Emlyn J. David has had over 20 years of investment analysis and corporate financial management experience. Since June 2006, Mr. David has been Managing Partner of Cangap Capital Corp., a niche merchant bank providing lending and strategic finance solutions to a wide range of companies, including interests in Transportation, Business Aviation and Media Finance. From October, 2007 to December 2008, Mr. David acted as President of Fareport Capital Inc. (TSXV: FPC) to oversee the restructuring of the company. From August 2008 to August 2010, Mr. David also acted as President and director of Chudleigh Ventures Inc. (a capital pool company listed on the Exchange), overseeing and executing the successful completion of its Qualifying Transaction. Prior to that, Mr. David was actively involved in managing a portfolio of private equity/public equity investments in media and other industries. Mr. David initially began working as a Corporate Financial Manager with Cambridge Shopping Centres, one of the largest public real estate companies in North America, during the restructuring of that industry in the early 90's. During this time he gained merger and acquisition, treasury/cash management, risk management and corporate restructuring experience. Subsequent to that, Mr. David co-founded a niche real estate investment banking group within a large national brokerage firm, CM Oliver and Company. Mr. David will devote approximately 75% of his time to the Resulting Issuer and will be an employee of the Resulting Issuer.

#### **Frank Carnevale, age 39, Chief Operating Officer of the Resulting Issuer**

Mr. Carnevale is the President and Chief Executive Officer of Bridgepoint, a boutique consulting and advisory firm. Bridgepoint focuses on advising companies on the development and management of sustainable energy and infrastructure transactions. Mr. Carnevale is a member of the Council for Clean & Reliable Electricity, and recently served as a member of the board of directors of the Ontario Energy Association. Mr. Carnevale is also a Founding Member of the Clean Economy Network - Toronto Chapter. In 2011, Mr. Carnevale was awarded the "Next Generation Award" for the Business Excellence Awards of the Italian Chamber of Commerce of Ontario. He was also included in the book: "The Next Generation, Made in Canada: The Italian Way", in one of 34 interviews of successful Italian Canadians. Mr. Carnevale graduated from York University with a BA degree in political science. Mr. Carnevale will devote approximately 75% of his time to the Resulting Issuer and will be an employee of the Resulting Issuer.



**Jonathan Leong, age 26, Chief Financial Officer of the Resulting Issuer**

Jonathan Leong is a Chartered Accountant and Chartered Business Valuator with over eight years of experience working in a variety of audit, advisory, M&A and valuation engagements. Mr. Leong has been involved in a number of public and private market transactions, including business acquisitions and reverse take-overs, for both domestic and internationally segmented entities. His experience spans from the operating level to that of the board of directors while engaging relationships with financial service providers. Mr. Leong articulated with Grant Thornton LLP and obtained his Master of Accounting from the University of Waterloo. Mr. Leong will devote approximately 25% of his time to the Resulting Issuer and will be an employee of the Resulting Issuer.

**Michael Galloro, age 37, Director of the Resulting Issuer**

Michael Galloro is a Chartered Accountant with over 17 years of experience, having earned his designation while working for KPMG LLP. While engaged as VP of Finance for a public company listed on the Toronto Stock Exchange, Mr. Galloro gained experience in finance and capital markets, corporate governance, human resources, and administration. Mr. Galloro pursued a consulting career working on various projects in compliance, valuations, mergers and acquisitions and initial public offerings. Mr. Galloro is a founding member of ALOE Financial Inc., a corporate finance and CFO solutions company focused on helping to bring private companies to the public markets. Mr. Galloro obtained his Honours Bachelor of Accounting in 1998 from Brock University.

**Rajiv Rai, age 47, Director of the Resulting Issuer**

Rajiv Rai has over 19 years of business experience with leadership and cross-functional expertise in sales, customer service and operations management in the mobile communications, internet video, computer animation and motion picture sectors. Mr. Rai began his career with Rogers Communications Inc. and helped launch both North America's first high speed cable modem and the first Research in Motion Blackberry device. From 1998 to 2002, Mr. Rai also successfully built Fastvibe, a video streaming business that was eventually sold to Rogers Communications Inc. in 2004. He has also served in executive roles at C.O.R.E Feature Animation, where he co-ordinated the construction of a full functioning computer animation studio for Disney, and C.O.R.E Films Productions, where he is responsible for developing motion pictures and television programs.

**Robert van Duynhoven, age 48, President of CleanEnergy**

Mr. van Duynhoven has been the Director of Sales of CleanEnergy since March 2010. Prior to joining CleanEnergy, Mr. van Duynhoven served as the Chief Operating Officer of Voltaire Power Company, a solar photovoltaic integration company, from December 2008 to March 2010 and as a Business Area Manager for Mettler Toldedo Inc. from June 2000 to December 2008. Mr. van Duynhoven is a LEED accredited Professional Engineer having obtained his designation from the Professional Engineers of Ontario in 1999. Mr. van Duynhoven holds a B. Eng. in Mechanical Engineering from McGill University. He has also completed an executive sales management program from York University and a professional renewable energy program from the Massachusetts Institute of Technology.

**Daniel R. Hay, age 39, Director of the Resulting Issuer**

Mr. Hay has acted as Chief Financial Officer of Alter or its predecessor since May, 2006. Prior thereto, Mr. Hay acted as Chief Financial Officer of Waveform Energy Ltd. from February 2005 to November 2006, as Senior Manager of Grant Thornton LLP from October 2003 to January 2005 and as Manager at Collins Barrow from 1998 to September 2003. Mr. Hay is a chartered accountant and obtained his Bachelor of Commerce degree from in 1997 from the University of Calgary.

**Nancy Laird, age 56, Director of the Resulting Issuer**

Ms. Laird is a corporate director with more than 20 years of experience in the energy industry. Ms. Laird served as Vice President, Marketing and Midstream for PanCanadian Energy. Prior to joining PanCanadian, Ms. Laird was President of NrG Information Services Inc., a joint venture initiative involving four of North America's leading natural gas pipeline companies with a mandate to create a seamless flow of natural gas across North America. Ms. Laird is currently a board member for Alberta Electric System Operator and of Alter, where Ms. Laird serves as the Chair of the Governance and Nominating committee and Compensation Committees and as a member of the Audit Committee. Ms. Laird holds a Bachelor of Arts Degree (Honours) from the University of Western Ontario and an MBA from the Schulich School of Business at York University.

**Employment Agreements**

It is expected that Mr. David, Mr. Carnevale and Mr. Leong will enter into employment agreements with the Resulting Issuer.

Mr. David will enter into an employment agreement for an indefinite term with the Resulting Issuer pursuant to which he will be required to devote a majority of his working time to Resulting Issuer. Pursuant to such agreement, Mr. David would be

entitled to a salary of \$125,000 per year, as well as being eligible for an annual cash performance bonus of up to 20% of his annual base salary to be awarded based on his performance with respect to the execution and achievement of primary objectives to be specified by the board of directors of the Resulting Issuer.

It is expected that Mr. Carnevale will enter into an employment agreement for an indefinite term with the Resulting Issuer pursuant to which he will be required to devote a majority of his working time to Resulting Issuer. Pursuant to such agreement, Mr. Carnevale would be entitled to a salary of \$125,000 per year, as well as being eligible for an annual cash performance bonus of up to 20% of his annual base salary to be awarded based on his performance with respect to the execution and achievement of primary objectives to be specified by the board of directors of the Resulting Issuer.

It is expected that Mr. Leong will enter into an employment agreement for an indefinite term with the Resulting Issuer. Pursuant to such agreement, Mr. Leong would be entitled to a salary of \$60,000 per year.

#### **Corporate Cease Trade Orders or Bankruptcies**

Other than as disclosed below, no director, officer or promoter of the Resulting Issuer or a securityholder anticipated to hold a sufficient number of securities of the Resulting Issuer to affect materially the control of the Resulting Issuer, within 10 years before the date of this filing statement, has been a director, officer or promoter of any person or company that, while that person was acting in that capacity,

- (a) was the subject of a cease trade or similar order, or an order that denied the other issuer access to any exemptions under applicable securities law, for a period of more than 30 consecutive days; or
- (b) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Emlyn J. David was a Director and the Chief Executive Officer of Fareport Capital Inc. when it was cease traded as a reporting issuer on July 26, 2007, for failure to file financial statements, which was then replaced with a Permanent Issuer Cease Trade Order dated July 23, 2008.

#### **Penalties or Sanctions**

Other than as disclosed below, no proposed director of the Resulting Issuer has:

- (a) been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) been subject to any other penalties or sanctions imposed by a court or regulatory body, including a self-regulatory body, that would be likely to be considered important to a reasonable shareholder making a decision about whether to vote for the proposed director.

### **Personal Bankruptcies**

No proposed director, officer or shareholder holding a sufficient number of securities of the Resulting Issuer to affect materially the control of the Resulting Issuer, or a personal holding company of any such person has, within the past ten years, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of such person.

### **Conflicts of Interest**

There are potential material conflicts of interest to which the proposed directors and officers of the Resulting Issuer would be subject to in connection with the operations of the Resulting Issuer. Conflicts of interest, if any, would be subject to and governed by the procedures under the *Canada Business Corporations Act*.

### **Other Reporting Issuer Experience**

The following table sets out the proposed directors, officers and promoters of the Resulting Issuer that are, or have been within the last five years, directors, officers or promoters of other reporting issuers:

<b>Name</b>	<b>Name and Jurisdiction of Reporting Issuer</b>	<b>Market</b>	<b>Position</b>	<b>From</b>	<b>To</b>
Emlyn J. David	Fareport Capital Inc.	TSX-V	President	2007	2008
	Chudleigh Ventures Inc.	TSX-V	President and Director	2008	2010
	Bellair Ventures Inc.	NEX	Chief Executive Officer, President and Director	2008	Present
Michael Galloro	Black Sparrow Capital Corp.	TSX-V	President and Director	2011	Present
	Ethiopian Potash Corp.	TSX-V	Chief Financial Officer	2010	Present
	Organic Potash Corp.	CNSX	Director	2011	Present

Name	Name and Jurisdiction of Reporting Issuer	Market	Position	From	To
	Yangaroo Inc.	TSX-V	Acting Chief Financial Officer	2010	Present
	Bellair	NEX	Director	2012	Present
Rajiv Rai	Zoolander Corp.	TSX-V	Director	2006	2011
	Mint Technology Corp.	TSX-V	Director	2006	Present
	Bellair	NEX	Director	2008	Present
Daniel R. Hay	Alter NRG Corp.	TSX	Chief Financial Officer	2006	Present
	WaveForm Energy Ltd.	TSX-V	Chief Financial Officer	2005	2006
Nancy Laird	Alter NRG Corp.	TSX	Director	2006	Present
	Enerflex Systems Income Fund	TSX	Director	2006	2010
	Enerflex Systems Ltd.	TSX	Director	2005	Present
	Keyera Facilities Income Fund	TSX	Director	2003	2011
	Keyera Corp.	TSX	Director	2011	Present
	Acclaim Energy Trust	TSX	Director	2004	2006
	Canetic Resources Trust	TSX	Director	2006	Present
	Synodon Inc.	TSX-V	Director	2006	Present

## Proposed Executive Compensation

### *Compensation Discussion and Analysis*

It is anticipated that following the completion of the Qualifying Transaction, the objective and approach to executive compensation of the Resulting Issuer will be the same as that of CleanEnergy. See “*Information Concerning CleanEnergy – Executive Compensation*”, having regard to industry standards for companies similar to the Resulting Issuer.

### *Proposed Compensation*

Emlyn J. David will be appointed President, Chief Executive Officer, Secretary and Chairman of the Resulting Issuer, Frank Carnevale will be appointed the Chief

Operating Officer of the Resulting Issuer and Jonathan Leong will be appointed Chief Financial Officer of the Resulting Issuer upon Completion of the Proposed Qualifying Transaction. It is anticipated that Mr. David will receive annual compensation in the amount of \$125,000, Mr. Carnevale will receive annual compensation in the amount of \$125,000 and Mr. Leong will receive annual compensation in the amount of \$60,000. Such compensation will be recommended by the compensation committee of the Resulting Issuer and presented to its board of directors for approval. There are no other officers that are expected to be compensated in their capacities as such.

### ***Option-Based Awards***

Stock option grants will be made on the basis of the number of stock options currently held, position, overall individual performance, anticipated contribution to the Resulting Issuer's future success and the individual's ability to influence corporate and business performance. The purpose of granting such stock options will be to assist the Resulting Issuer in compensating, attracting, retaining and motivating its officers and to closely align the personal interests of such persons to the interests of the shareholders.

The recipients of stock options and the terms of the stock options granted will be determined from time to time by the Resulting Issuer Board. The exercise price of the stock options granted will generally be determined by the market price at the time of grant.

### **Indebtedness of Directors and Officers**

No director or officer of the Resulting Issuer, nor any Associate or Affiliate of any one of them, is or was indebted, directly or indirectly, to the Issuer or to CleanEnergy, at any time since the beginning of each of the Issuer's and CleanEnergy's most recently completed financial years; nor was any of their indebtedness to another entity the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Issuer, CleanEnergy.

### **Investor Relations Arrangements**

No written or oral understanding has been reached with any person to provide promotional or investor relations services for the Resulting Issuer.

### **Options to Purchase Securities**

As of the date of this Filing Statement, there are outstanding options to purchase 170,440 Bellair Shares at a price of \$0.50 per Bellair Share.

Name of Optionee	Number of Bellair Shares Under Option	Exercise Price Per Bellair Share under Option	Expiration Dates of the Options <sup>(1)</sup>
Emlyn J. David	85,220	\$0.50	November 24, 2013
Rajiv Rai	85,220	\$0.50	November 24, 2013
<b>Total:</b>	<b>170,440</b>		

Notes:

- (1) The Bellair Options held by optionees who do not continue as a director, officer, employee or consultant of the Resulting Issuer have a maximum term of the later of 12 months after Completion of the Qualifying Transaction and 90 days after the optionee ceases to be a director, officer, employee or consultant of the Resulting Issuer.

Immediately following the Closing, the Resulting Issuer intends to issue a total of 550,000 stock options to directors and officers of the Resulting Issuer, each such option having an exercise price of \$0.50 per share and a four year term, with the recipients to be as follows: Emlyn David will receive 200,000 options, Frank Carnevale will receive 100,000 stock options, and each of Jonathan Leong, Michael Galloro, Rajiv Rai, Danny Hay and Nancy Laird will receive 50,000 options.

The terms of the Resulting Issuer's incentive stock option plan will be unchanged from the Stock Option Plan, other than for the increase in its available pool of option grants, which will remain a "rolling" calculation based on 10% of the total number of Resulting Issuer Shares issued and outstanding at the time of any particular option grant.

Pursuant to the Private Placement, the Resulting Issuer will also have 478,800 Agent Options outstanding as at the Completion of the Qualifying Transaction.

### ***Stock Option Plan***

Following Completion of the Qualifying Transaction, the Resulting Issuer will continue to adopt the Stock Option Plan reserving 10% of the issued and outstanding Resulting Issuer Shares from time to time as of the date of grant for issuance under stock options. See *"Information Concerning the Issuer – Stock Option Plan"*.

### **Director Compensation**

In addition to receiving incentive stock options, it is anticipated that each director of the Resulting Issuer will receive an annual compensation of \$2,000, with the chairman of the board of directors of the Resulting Issuer to receive \$4,000 per annum.

## Escrowed Securities

As of the date of this filing statement, the 600,000 Bellair Shares issued prior to the Issuer's IPO, at a price of \$0.25 per Bellair Share, are subject to escrow restrictions pursuant to the Initial Escrow Agreement. Bellair Shares held by Principals or acquired by Principals of the Issuer or the Resulting Issuer prior to or in connection with the Completion of the Qualifying Transaction will be deposited with the Escrow Agent under the Closing Escrow Agreement.

In addition, subject to certain exemptions permitted by the Exchange, all Bellair Shares acquired in the secondary market prior to the Completion of the Qualifying Transaction by any person or company who becomes a Control Person of the Issuer or is a Non-Arm's Length Party of the Resulting Issuer are required to be deposited in escrow.

All Bellair Shares acquired on exercise of stock options prior to the Completion of the Qualifying Transaction must also be deposited in escrow and will be subject to escrow until the Final Exchange Bulletin is issued.

The following table sets out the number of Bellair Shares which are and/or will be held in escrow pursuant to the Initial Escrow Agreement and the number of Resulting Issuer Shares anticipated to be held in escrow pursuant to the Closing Escrow Agreement immediately prior to the Completion of the Qualifying Transaction:

Name and Municipality of Residence of Securityholder	Designation of Class	Prior to Giving Effect to the Qualifying Transaction <sup>(1)</sup>		After Giving Effect to the Qualifying Transaction <sup>(2)</sup>	
		Number of Securities held in Escrow	Percentage of Class	Number of Securities held in Escrow <sup>(3)</sup>	Percentage of Class
Emlyn J. David (Toronto, Canada)	Bellair Shares	300,000	15.3%	300,000	1.73%
Limited Intelligence ESL Inc. <sup>(4)</sup> (Ontario, Canada)	Bellair Shares	200,000	10.2%	200,000	1.16%
R3 Concepts Inc. <sup>(5)</sup> (Ontario, Canada)	Bellair Shares	90,000	4.6%	90,000	0.52%
Duck Capital Inc. <sup>(6)</sup>	Bellair Shares	10,000	0.5%	10,000	0.06%
Alter (Canada)	Resulting Issuer Shares	-	-	10,000,000	57.77%
Bridgepoint (Ontario, Canada)	Resulting Issuer Shares	-	-	564,000	3.26%



Robert van Duynhoven <sup>(7)</sup> (Toronto, Canada)	Resulting Issuer Shares	-	-	40,000	0.23% <sup>(8)</sup>
<b>Total</b>		<b>600,000</b>		<b>11,204,000</b>	<b>64.73%</b>

Notes:

- (1) As at the date hereof, there are 1,956,600 Bellair Shares outstanding and 14,827,082 CleanEnergy Shares outstanding.
- (2) Assuming 4,788,000 Subscription Receipts will be automatically exercised in accordance with their terms, there will be 17,308,600 Resulting Issuer Shares issued and outstanding following Completion of the Qualifying Transaction.
- (3) These shares are escrowed pursuant to the Policy and subject to the conditions described below.
- (4) Limited Intelligence ESL Inc. is a private company, the common shares of which are wholly-owned by Michael J. Cooper, and the non-voting preferred shares of which are wholly-owned by Dundee Realty Corporation.
- (5) R3 Concepts Inc. is a private company wholly-owned by Rajiv Rai.
- (6) Duck Capital Inc. is a private company wholly-owned by Michael Galloro.
- (7) Mr. van Duynhoven subscribed for 40,000 Subscription Receipts pursuant to the Private Placement and will therefore be issued 40,000 Resulting Issuer Shares and 40,000 Resulting Issuer Warrants upon receipt of the Approval.
- (8) Does not assume exercise of the Warrants held by Mr. van Duynhoven.

### *Escrow Conditions*

In accordance with the Policy, upon completion of the listing of the Issuer on the Exchange, the Bellair Shares set out opposite the names of the persons indicated in the above table were escrowed pursuant to the Initial Escrow Agreement or will be escrowed pursuant to the Closing Escrow Agreement upon the Closing. Originally, an aggregate of 1,200,000 Bellair Shares were escrowed pursuant to the Initial Escrow Agreement. In connection with the transfer of the trading of the Bellair Shares to the NEX, Bellair cancelled an aggregate of 600,000 of such Bellair Shares previously issued to directors, officers and 10% shareholders of Bellair as required by the policies of the Exchange.

The escrowed shares held pursuant to the Initial Escrow Agreement are subject to a three-year escrow period and, assuming such shares are not deemed to be Surplus Shares by the Exchange, the escrowed shares to be held pursuant to the Closing Escrow Agreement, are scheduled to be released from escrow as follows:

Percentage Escrowed Shares Released from Escrow	Release Date
10%	Date of Final Exchange Bulletin
15%	6 months from Final Exchange Bulletin
15%	12 months from Final Exchange Bulletin
15%	18 months from Final Exchange Bulletin
15%	24 months from Final Exchange Bulletin
15%	30 months from Final Exchange Bulletin

Percentage Escrowed Shares Released from Escrow	Release Date
15%	36 months from Final Exchange Bulletin

In accordance with Exchange Policy 5.4, Resulting Shares held by Principals (as such term is defined in Exchange Policy 5.4) of the Resulting Issuer (the “**Closing Escrow Shares**”) may be required to be deposited into escrow under the terms of the Closing Escrow Agreement. The first release of Closing Escrow Shares issued in connection with the Transaction will be on the date of the Final Exchange Bulletin confirming final acceptance of the Qualifying Transaction. For a Tier II Corporation, securities issued in conjunction with a Qualifying Transaction which are escrowed and viewed by the Exchange as “value securities” will be released as to 10% thereof following issuance by the Exchange of the Final Exchange Bulletin, and as to 15% thereof on each of the 6, 12, 18, 24, 30 and 36 month anniversaries of the initial release. It is anticipated that upon completion of the Transaction, the Resulting Issuer will be classified as a Tier II issuer and the securities held under Closing Escrow Agreement will be viewed by the Exchange as “value securities”.

All holders of escrowed Resulting Issuer Shares must obtain Exchange consent to transfer the Resulting Issuer Shares then subject to escrow, other than in specified circumstances set out in the applicable escrow agreement.

#### **Auditor, Transfer Agent and Registrar**

The auditor of the Resulting Issuer will be MSCM LLP, Chartered Accountants, 701 Evan Avenue, 8<sup>th</sup> Floor, Toronto, Ontario M9C 1A3.

The transfer agent and registrar of the Resulting Issuer will be Equity Financial Trust Company (formerly Equity Transfer & Trust Company), 200 University Avenue, Suite 400, Toronto, Ontario, M5H 4H1.

### **GENERAL MATTERS**

#### **Agent**

As discussed above under “Summary of the Filing Statement – Agent and Sponsor Relationships”, the agent, Portfolio Strategies Securities Inc. (previously defined as the “**Agent**”), has agreed to act as agent in connection with the Private Placement, following the completion of its due diligence. The address of the Agent is 2 Lombard Street, Suite 202, Toronto, Ontario M5C 1M1.

Pursuant to the terms of the Agency Agreement, the Agent acted as agent to CleanEnergy to sell the Subscription Receipts on a commercially reasonable efforts

basis in connection with the Private Placement. The Agent, following completion of the necessary due diligence, assisted CleanEnergy with the preparation of all materials relating to, and the structuring of, the Private Placement and such other services as are reasonably ancillary to the Private Placement.

In consideration for the services provided in connection with the Private Placement, the Agent: (i) will receive \$239,400 in fees which has been deposited in escrow to be released to the Agent upon receipt of the Approval; and (ii) has received 478,800 Agent Options. Each Agent Option will entitle the holder to acquire one Resulting Issuer Unit at an exercise price of \$0.50 for a 24 month period following the Completion of the Qualifying Transaction. As at the time of Completion of the Qualifying Transaction, the Agent does not hold any other securities of the Resulting Issuer.

## **Experts**

### *Interests of Experts*

As of the date hereof, none of the partners or associates of Wildeboer Dellelce LLP, Blake, Cassels & Graydon LLP, MSCM LLP or Deloitte & Touche LLP, or any director, officer, employee or partner thereof, has received or holds a direct or indirect interest in the property of the Issuer, CleanEnergy or any Associate or Affiliate of such entities, and no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a part of this filing statement holds any beneficial interest, direct or indirect, in any securities or property of such entities or of an Associate or Affiliate of such entities.

## **Material Contracts**

All material contracts of the Issuer and CleanEnergy will continue as material contracts of the Resulting Issuer upon Completion of the Qualifying Transaction.

## **Board Approval**

The contents of this filing statement have been approved by the Issuer's board of directors.

## CERTIFICATE OF THE ISSUER

DATED: July 12, 2012

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities of Bellair Ventures Inc. assuming Completion of the Qualifying Transaction.

*"Emlyn J. David"* (signed)

Emlyn J. David  
President and Chief Executive Officer

*"Jonathan Leong"* (signed)

Jonathan Leong  
Chief Financial Officer

## ON BEHALF OF THE BOARD OF DIRECTORS

*"Rajiv Rai"* (signed)

Rajiv Rai  
Director

*"Michael Galloro"* (signed)

Michael Galloro  
Director

## **CERTIFICATE OF CLEANENERGY**

DATED: July 12, 2012

The foregoing, as it relates to CleanEnergy Developments Corp., constitutes full, true and plain disclosure of all material facts relating to the securities of CleanEnergy Developments Corp.

*"Danny Hay"* (signed)

Danny Hay  
Chief Financial Officer

**ON BEHALF OF THE BOARD OF DIRECTORS**

*"Mark Montemurro"* (signed)

Mark Montemurro  
Sole Director

## CONSENT OF MSCM LLP

### INDEPENDENT AUDITOR'S CONSENT

We have read the filing statement of Bellair Ventures Inc. (the "**Company**") relating to the Qualifying Transaction involving the acquisition of all the issued and outstanding shares of CleanEnergy Developments Corp. dated July 12, 2012 (the "**Filing Statement**"). We have complied with Canadian generally accepted standards for an auditors' involvement with filing documents.

We consent to the use in the above-mentioned Filing Statement of our report to the shareholders of the Company on the balance sheets as at August 31, 2011 and 2010 and on the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended. Our report to the shareholders on the financial statements is dated January 3, 2012.

We also consent to the use in the above-mentioned Filing Statement of our report to the shareholders of the Company on the balance sheets as at August 31, 2010 and 2009 and on the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended. Our report to the shareholders on the financial statements is dated December 7, 2010.

*"MSCM LLP"* (signed)

Chartered Accountants  
Licensed Public Accountants

Toronto, Ontario  
July 12, 2012

## CONSENT OF DELOITTE & TOUCHE LLP

### INDEPENDENT AUDITOR'S CONSENT

We have read the filing statement of Bellair Ventures Inc. relating to a Qualifying Transaction involving the acquisition of all of the issued and outstanding shares of CleanEnergy Developments Corp. (the "**Corporation**") dated July 12, 2012 (the "**Filing Statement**"). We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the Filing Statement of our report to the director of the Corporation on the statements of financial position of the Corporation as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of loss and comprehensive loss, statements of changes in equity and statements of cash flows for the years ended December 31, 2011 and 2010. Our report is dated May 9, 2012.

We also consent to the use in the Filing Statement of our report to the director of the Corporation on the balance sheets of the Corporation as at December 31, 2010 and December 31, 2009 and the statements of loss and comprehensive loss, deficit and cash flows for the years ended December 31, 2010 and 2009. Our report is dated May 9, 2012.

*"Deloitte & Touche LLP"* (signed)

Chartered Accountants

Calgary, Alberta  
July 12, 2012

## ACKNOWLEDGEMENT - PERSONAL INFORMATION

"Personal Information" means any information about an identifiable individual and includes information contained in any items in the attached filing statement that are analogous to items 4.2, 11, 12.1, 15, 17.2, 18.2, 23, 24, 26, 31.3, 32, 33, 34, 35, 36, 37, 38, 40, and 41 of Form 3B2 of the Exchange, as applicable. The undersigned hereby acknowledges and agrees that it has obtained the express written consent of each individual to:

- (a) the disclosure of Personal Information by the undersigned to the Exchange as defined in Appendix 6B to the Corporate Finance Manual of the Exchange ("**Appendix 6B**") pursuant to this filing statement; and
- (b) the collection, use and disclosure of Personal Information by the Exchange for the purposes described in Appendix 6B or as otherwise identified by the Exchange, from time to time.

Dated as of July 12, 2012.

**BELLAIR VENTURES INC.**

By: "Emlyn J. David" (signed)

Emlyn J. David

President and Chief Executive  
Officer



**SCHEDULE "A"**  
**TRANSACTION AGREEMENT**

**Execution Version**

**ALTER NRG CORP.**

**- and -**

**BELLAIR VENTURES INC.**

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**OFFER AND SALE AGREEMENT**

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January 5, 2012

## OFFER AND SALE AGREEMENT

**THIS OFFER AND SALE AGREEMENT** made as of the 5<sup>th</sup> day of January, 2012.

### AMONG:

**ALTER NRG CORP.**, a corporation incorporated pursuant to the laws of the Province of Alberta (the "**Vendor**")

- and -

**BELLAIR VENTURES INC.**, a corporation incorporated pursuant to the laws of Canada (the "**Purchaser**")

### WHEREAS:

- A.** The Vendor holds, directly, all of the issued and outstanding Common Shares of CleanEnergy Developments Corp. (the "**Company**");
- B.** The Purchaser wishes to offer to purchase the Purchased Shares from the Vendor, and the Vendor wishes to accept such offer and thereby sell and convey the Purchased Shares to the Purchaser upon the terms and conditions herein set forth (the "**Transaction**");
- C.** The Purchaser is a "capital pool company" as defined in Policy 2.4 of the TSX Venture Exchange Corporate Finance Manual (the "**CPC Policy**"); and
- D.** It is intended by the Parties hereto that the Transaction shall constitute the Purchaser's "Qualifying Transaction", as defined in the CPC Policy.

**NOW THEREFORE** for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties covenant and agree with each other as follows:

## ARTICLE 1 INTERPRETATION

### 1.1 Definitions

Whenever used in this Agreement, including the recitals and any Schedules hereto, the following words and phrases shall have the following meanings unless the context otherwise requires:

- (a) "**2011 Tax Returns**" has the meaning ascribed thereto in Section 3.3.
- (b) "**Additional Indemnitees**" means, with respect to any Person to which an indemnity is granted pursuant to Article 11, its affiliates and the respective, directors, officers, shareholders, servants, agents and employees of that Person and its affiliates.
- (c) "**affiliate**" means, in relation to any Person, any other Person that controls, is controlled by or is under common control with the first mentioned Person, and for the purposes of this definition and references in this Agreement to "affiliate", "control" means the possession, directly or indirectly, by such Person of the power to direct or cause the direction of the management and policies of the first

mentioned Person, whether through the ownership of voting securities or otherwise.

- (d) "**Agreement**" means this offer and sale agreement and the Schedules hereto and includes any agreement amending this agreement or any agreement or instrument which is supplemental or ancillary thereto.
- (e) "**Agreement Default**" means any material misrepresentation or material breach of warranty made by a Party, or the failure of a Party to perform or observe in any material respect any of the covenants or agreements to be performed by such Party under this Agreement or any agreement or other certificate or instrument delivered in connection herewith.
- (f) "**Applicable Law**" means, in relation to any Person, transaction or event, all applicable provisions of laws, statutes, rules, regulations, official directives, published guidelines, standards, codes of practice (regardless of whether such guidelines, standards and codes of practice have been promulgated by statute or regulation), treaties, ordinances, municipal by-laws and orders of, and the terms of all judgments, orders, decrees, directives, awards and writs issued by, any Authorized Authority by which such Person is bound or which has application to the transaction or event in question.
- (g) "**Applicable Privacy Laws**" means any and all Applicable Laws relating to privacy and the collection, use and disclosure of Personal Information in all applicable jurisdictions, including the *Personal Information Protection and Electronic Documents Act* (Canada) and/or any comparable provincial law including the *Personal Information Protection Act* (Alberta).
- (h) "**Approval**" means the final acceptance by the TSXV of the Private Placement, the Transaction as the "Qualifying Transaction" of the Purchaser, as defined in the CPC Policy, and the reactivation of the Purchaser as a Tier 2 issuer on the TSXV.
- (i) "**Authorized Authority**" means, in relation to any Person, transaction or event, any:
  - (i) national, federal, provincial, state, county, municipal or local governmental body (whether administrative, legislative, executive or otherwise), both domestic and foreign;
  - (ii) agency, authority, ministry, department, board, bureau, commission, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory, administrative or similar powers or functions of or pertaining to government;
  - (iii) court, arbitrator, commission or body exercising judicial, quasi-judicial, administrative or similar functions; and

- (iv) other body or entity created under the authority of, or otherwise subject to, the jurisdiction of any of the foregoing, including any stock or other securities exchange, in each case having jurisdiction over such Person, transaction or event.
- (j) "**Business Day**" means a day on which banks are generally open for the transaction of commercial business in Calgary, Alberta or Toronto, Ontario but does not in any event include a Saturday, Sunday or a statutory holiday under Applicable Law.
- (k) "**Business Permits**" means all licenses, permits and similar rights and privileges that are required and necessary under Applicable Law for the Company to own the Company Assets and operate the Company Business or for the status and qualification of the Company to carry on the Company Business.
- (l) "**Claim**" has the meaning ascribed thereto in Subsection 11.5(a).
- (m) "**Closing**" means the transfer by the Vendor to the Purchaser of the Purchased Shares and the payment by the Purchaser to the Vendor of the Purchase Price and the completion of all matters incidental thereto which are contemplated by this Agreement.
- (n) "**Closing Date**" means ten Business Days following the date on which the Purchaser receives the Approval, but in any event shall be no later than February 28, 2012, or such later date as the Purchaser and Vendor may agree in writing.
- (o) "**Common Shares**" means all of the issued and outstanding common shares in the capital of the Company.
- (p) "**Company**" means CleanEnergy Developments Corp., a corporation incorporated pursuant to the laws of Ontario, which for greater certainty does not include its subsidiary, CleanEnergy Investments Corp. which shall be spun off from the Company prior to the Time of Closing, in accordance with Subsection 7.1(k).
- (q) "**Company Assets**" means all of the Company's right, title, estate and interest in and to its property and assets, real and personal, moveable and immovable, tangible and intangible of whatsoever nature and kind and wheresoever situate, including the Intellectual Property, Inventories and the assets as more particularly set forth and described in Schedule 1.1(q).
- (r) "**Company Business**" means the business presently and heretofore carried on by the Company as a going concern and the intangible Goodwill associated therewith and any and all interests of whatsoever kind and nature related thereto.
- (s) "**Company Counsel**" means the law firm of Blake, Cassels & Graydon LLP.
- (t) "**Company Financial Statements**" means the unaudited financial statements of the Company for the year ended December 31, 2010, together with the unaudited,

management prepared interim financial statements of the Company for the period ended September 30, 2011, as attached hereto as Schedule 1.1(t).

- (u) **"Company Material Contracts"** has the meaning ascribed thereto in Section 4.30.
- (v) **"Company Personnel List"** has the meaning ascribed thereto in Section 4.24.
- (w) **"CPC Policy"** means Policy 2.4 of the TSXV Corporate Finance Manual.
- (x) **"Current Assets"** means the sum of cash, deposits, short term investments, receivables, inventories and prepaid expenses.
- (y) **"Deemed Price Per Share"** means a deemed price per Purchaser's Share equal to \$0.50.
- (z) **"Direct Claim"** has the meaning ascribed thereto in Subsection 11.5(a).
- (aa) **"Disclosed Personal Information"** has the meaning ascribed thereto in Section 14.1.
- (bb) **"Disclosure Documents"** has the meaning ascribed thereto in Section 3.1.
- (cc) **"Documents"** means all contracts, agreements, documents, permits, licenses, certificates, maintenance records, engineering records, plans, drawings, specifications, reports, compilations, analysis, studies, financial statements, budgets, market surveys, corporate records, software programs, manuals and data, sales and advertising materials, trade association files, research and development records and any other documents or information of whatsoever nature (including all data and information stored electronically, digitally or on computer-related media) relating to the Company Business and any and all rights in relation thereto.
- (dd) **"Environmental Law"** means any requirement pursuant to Applicable Law relating to the protection of human health, safety or the environment or to emissions, discharges or releases of pollutants, contaminants, or chemicals, or industrial, toxic or hazardous substances or wastes, into the environment (including structures, ambient air, soil, surface water, ground water, wetlands, land or subsurface strata), or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, chemicals or industrial, toxic or hazardous substances or wastes, including petroleum and petroleum products and by-products.
- (ee) **"Environmental Permits"** has the meaning ascribed thereto in Subsection 4.29(p).
- (ff) **"Filing Statement"** means the filing statement describing the Transaction as shall be submitted to the TSXV by the Purchaser and as accepted by the TSXV.

- (gg) **"GAAP"** or **"Generally Accepted Accounting Principles"** means the generally accepted accounting principles from time to time approved by the Canadian Institute of Chartered Accountants, or any successor institute, applicable as at the date on which date such calculation is made or required to be made in accordance with generally accepted accounting principles applied on a basis consistent with preceding years, which for periods beginning on and after: (i) January 1, 2011 in respect of the Company, and (ii) September 1, 2011 in respect of the Purchaser, incorporates International Financial Reporting Standards (IFRS).
- (hh) **"Goodwill"** means the goodwill associated with the operation of the Company Business including, but not limited to, the name, earning power, reputation and knowledge which is of a commercial nature to the success of the Company Business.
- (ii) **"Hazardous Material"** means any chemicals or other materials or substances that are defined as or included in the definition of "hazardous substances", "hazardous wastes", "hazardous materials", "extremely hazardous wastes", "restricted hazardous wastes", "toxic substances", "pollutants", "contaminants", or words of similar import under any Environmental Law, including petroleum and petroleum products and by-products and radioactive materials (including naturally occurring radioactive materials); and any other chemical, material or substance, the presence of or exposure to which is prohibited, limited or regulated by any Authorized Authority under any Environmental Law.
- (jj) **"including"** and **"includes"** means "including, without limitation" and "includes, without limitation", respectively.
- (kk) **"Indemnifier"** means any Person granting an indemnity pursuant to Article 11.
- (ll) **"Indemnitee"** means any Person indemnified pursuant to Article 11.
- (mm) **"Indemnified Losses"** means, in relation to any Person, any and all liabilities, indebtedness, obligations, losses, damages, claims, assessments, fines, penalties, costs, reasonable fees and reasonable expenses of every kind, nature or description suffered or incurred by such Person, whether fixed or contingent, known or unknown, suspected or unsuspected, or foreseen or unforeseen, and whether based on contract, tort, statute or other legal or equitable theory of recovery, including interest which may be imposed in connection therewith, court costs, costs resulting from any judgments, orders, awards, decrees or equitable relief, but notwithstanding the foregoing, shall not include indirect or consequential damages such as, without limitation, loss of profits, loss of foregone opportunities or diminution of value.
- (nn) **"Intellectual Property"** shall mean any Technology and Intellectual Property Rights that are owned by, or exclusively licensed to, the Company.
- (oo) **"Intellectual Property Rights"** shall mean any or all of the following and all rights in, arising out of, or associated therewith: (A) all Canadian and foreign patents and utility models and applications therefor and all reissues, divisions, re-examinations, renewals, extensions, provisionals, continuations and

continuations-in-part thereof, and equivalent or similar rights anywhere in the world in inventions and discoveries including without limitation, invention disclosures; (B) all trade secrets and other rights in know-how and confidential or proprietary information; (C) all copyrights, copyright registrations and applications therefor and all other rights corresponding thereto throughout the world; (D) all industrial designs and any registrations and applications therefor throughout the world; (E) mask works, mask work registrations and applications therefor, and all other rights corresponding thereto throughout the world; (F) all rights in World Wide Web addresses and domain names and applications and registrations therefor, all trade names, trade dress, logos, common law trademarks and service marks, trademark and service mark registrations and applications therefor and all goodwill associated therewith throughout the world; (G) any similar, corresponding or equivalent rights to any of the foregoing anywhere in the world; and (H) any licenses of the Intellectual Property granted by the Company to third parties and any intellectual property rights licensed by the Company from third parties.

- (pp) **"InterCompany Debt"** means approximately \$15,600,000 in debt owing by the Company to the Vendor, as of the date hereof;
- (qq) **"Interim Period"** has the meaning ascribed thereto in Subsection 9.1(a).
- (rr) **"Inventories"** means all inventories of stock-in-trade and merchandise including materials, supplies, work-in-progress, finished goods, tooling, service parts and purchased finished goods owned by the Company (including those in possession of suppliers, customers and other third parties).
- (ss) **"Legal Proceeding"** means any litigation, action, application, suit, investigation, hearing, claim, deemed complaint, grievance, arbitration proceeding or other similar proceeding, civil, administrative or criminal, before or by any Authorized Authority and includes any appeal or review thereof and any application for appeal or review.
- (tt) **"Liabilities"** shall include, without limitation, any direct or indirect indebtedness, guarantee, endorsement, claim, loss, damage, deficiency, cost, expense, obligation or responsibility, known or unknown, fixed or unfixed, choate or inchoate, liquidated, unliquidated, secured or unsecured, and shall include any and all liability for Taxes, irrespective of whether such Taxes are then due and payable.
- (uu) **"Lien"** means any lien, mortgage, charge, hypothec, pledge, security interest, prior assignment, option, warrant, lease, sublease, right to possession, encumbrance, claim, right or restriction which affects, by way of a conflicting ownership interest or otherwise, the right, title or interest in or to any particular property.
- (vv) **"Material Adverse Change"** or **"Material Adverse Effect"** means, with respect to any Person, any change, effect, fact, circumstance, occurrence or event that, individually or in the aggregate:



- (i) is, or would reasonably be expected to be, materially adverse to the business, operations, assets, cash flow, liabilities, capitalization, financial condition or results of operations of such Person and its subsidiaries, taken as a whole; or
- (ii) would reasonably be expected to prevent, materially delay or materially impair the ability of the Purchaser or the Vendor to consummate the transactions contemplated by this Agreement; provided, however, that neither a Material Adverse Change nor a Material Adverse Effect shall include any change, effect, fact, circumstance, occurrence or event relating to or resulting from
  - (A) general economic, financial, credit, currency exchange, securities or commodity prices in Canada or elsewhere;
  - (B) conditions affecting the alternative power generation industry as a whole, and not specifically relating to any Person and/or its subsidiaries;
  - (C) with respect to the Purchaser, any decline in the trading price of the Purchaser's Shares on the TSXV;
  - (D) changes in Applicable Law, including changes in Applicable Law relating to Taxes, or in interpretations thereof;
  - (E) any matter which has been publicly disclosed or has been communicated in writing to the other Parties as of the date hereof;
  - (F) the announcement of the transactions contemplated by this Agreement or other communication by the Purchaser or its affiliates of its plans or intentions with respect to the business of the Company or its subsidiaries, including losses or threatened losses of employees, customers, suppliers, distributors or others having relationships with the Company or any of its subsidiaries;
  - (G) the failure to meet analyst projections, in and of itself;
  - (H) changes in accounting principles;
  - (I) any natural disaster or any acts of war (whether or not declared), terrorism or sabotage, or any escalation or worsening thereof;
  - (J) any changes arising from matters permitted or contemplated by this Agreement; or
  - (K) any changes consented to or approved in each case in writing by the other Parties following the date of this Agreement.

(ww) "**Parties**" means the Vendor and the Purchaser and "**Party**" means one of them.

- (xx) **"Permitted Encumbrances"** means those encumbrances set forth in Schedule 1.1(xx).
- (yy) **"Person"** includes an individual, a partnership, a corporation, a trust, a joint venture, an unincorporated organization, a union, an Authorized Authority or any department or agency thereof and the heirs, executors, administrators or other legal representatives of an individual.
- (zz) **"Personal Information"** means information about an individual transferred to one Party by another in accordance with this Agreement and/or as a condition of the transaction contemplated hereby.
- (aaa) **"Private Placement"** has the meaning ascribed thereto in Subsection 2.3(a).
- (bbb) **"Professional Fees"** means reasonable fees and disbursements of legal counsel, consultants and expert witnesses and other reasonable out-of-pocket expenses incurred in connection therewith.
- (ccc) **"Purchase Price"** has the meaning ascribed thereto in Section 2.2.
- (ddd) **"Purchased Shares"** means all of the issued and outstanding Common Shares directly or indirectly and beneficially and of record, owned by the Vendor as at the Time of Closing and **"Purchased Share"** shall mean each Common Share.
- (eee) **"Purchaser"** means Bellair Ventures Inc., a corporation incorporated pursuant to the laws of Canada.
- (fff) **"Purchaser Securities Documents"** has the meaning ascribed thereto in Section 5.8(a).
- (ggg) **"Purchaser's Counsel"** means the law firm of Wildeboer Dellelce LLP.
- (hhh) **"Purchaser's Share"** means one fully paid and non-assessable common share in the capital of the Purchaser.
- (iii) **"Receivables"** means all accounts receivable, bills and notes receivable, trade accounts, book debts and insurance claims of the Company together with any unpaid interest accrued on such items and any security or collateral for such items, including recoverable deposits.
- (jjj) **"Related Persons"** has the meaning ascribed thereto in Subsection 9.1(b)(iv).
- (kkk) **"Stub Returns"** has the meaning ascribed thereto in Section 3.3.
- (lll) **"Tax Act"** means the *Income Tax Act* (Canada), and the regulations enacted thereunder, as amended from time to time.
- (mmm) **"Taxes"** means all taxes, charges, fees, levies, imposts and other assessments, including all income, sales, use, goods and services, harmonized sales, value added, capital, capital gains, alternative, net worth, transfer, profits, withholding,

payroll, employer health, excise, franchise, real property and personal property taxes, and any other taxes, customs duties, fees, assessments or similar charges in the nature of a tax including Canada Pension Plan and provincial pension plan contributions, unemployment insurance payments and workers' compensation premiums, together with any installments with respect thereto, and any interest, fines and penalties imposed by any Authorized Authority, and whether disputed or not.

- (nnn) "**Tax Returns**" includes all returns, reports, declarations, designations, elections, notices, filings, forms, statements and other documents (whether in tangible, electronic or other form) and including any amendments, schedules, attachments, supplements, appendices and exhibits thereto, made, prepared, filed or required to be made, prepared or filed pursuant to the Applicable Law in respect of Taxes.
- (ooo) "**Technology**" shall mean any or all of the following, but only to the extent such pertains specifically to the Company and/or the operation of the Company Business: (A) works of authorship including, without limitation, computer programs, algorithms, routines, source code and executable code, whether embodied in software or otherwise, documentation, designs, files, records and similar data; (B) inventions (whether or not patentable) and improvements thereto; (C) proprietary and confidential information, including technical data and customer and supplier lists, trade secrets, show how, know how and techniques; (D) databases, data compilations and collections and technical data; (E) processes, tools, devices, methods, prototypes, schematics, bread boards, net lists, mask works, test methodologies and hardware development tools; and all instances of the foregoing in any form and embodied in any media.
- (ppp) "**Third Party**" has the meaning ascribed thereto in Subsection 11.5(a).
- (qqq) "**Third Party Claim**" has the meaning ascribed thereto in Subsection 11.5(a).
- (rrr) "**Time of Closing**" means 10:00 a.m. on the Closing Date (or such other time as the Parties may agree) when the Closing is scheduled to occur.
- (sss) "**Truro Amendment**" means the amendment to Subcontract #2483043 between the Company and PCL Constructors Canada Inc.
- (ttt) "**Transaction**" has the meaning ascribed thereto in Recital B.
- (uuu) "**TSX**" means the Toronto Stock Exchange.
- (vvv) "**TSXV**" means the TSX Venture Exchange and for greater certainty, includes the NEX.
- (www) "**Vendor**" means Alter NRG Corp., a company incorporated under the laws of the province of Alberta.

## **1.2 References and Headings**

The references "hereunder", "herein", "hereby" and "hereof" refer to the provisions of this Agreement and references to Articles, Sections, Subsections and Schedules herein refer to articles, sections, subsections or schedules of this Agreement. Any reference to time shall refer to Calgary time. The headings of the Articles, Sections, Schedules and any other headings, captions or indices herein are inserted for convenience of reference only and shall not be used in any way in construing or interpreting any provision hereof.

## **1.3 Canadian Dollars**

All dollar amounts referred to in this Agreement are in Canadian funds, unless otherwise indicated herein. All payments contemplated herein shall be by wire transfer, certified cheque or bank draft issued by a Canadian bank or such other transfer of immediately available funds as may be acceptable to the Parties.

## **1.4 Singular/Plural; Derivatives**

Whenever the singular or masculine or neuter is used in this Agreement it shall be interpreted as meaning the plural or feminine or body politic or corporate, and vice versa, as the context requires. Where a term is defined herein, a capitalized derivative of such term shall have a corresponding meaning unless the context otherwise requires.

## **1.5 Statutory References**

Any reference to a statute shall include and shall be deemed to be a reference to such statute and to the regulations made pursuant thereto, to all amendments made thereto and in force from time to time, and to any statute or regulation that may be passed which has the effect of supplementing the statute so referred to or the regulations made pursuant thereto.

## **1.6 Conflicts**

If there is any conflict or inconsistency between a provision of the body of this Agreement and that of any Schedule hereto or any document delivered pursuant to this Agreement, the provision of the body of this Agreement shall prevail.

## **1.7 Accounting References**

Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Agreement, the same shall be done in accordance with Generally Accepted Accounting Principles except where the application of such principles is inconsistent with, or limited by, the terms of this Agreement.

## **1.8 Computation of Time Periods**

Except as expressly set out in this Agreement, the computation of any period of time referred to in this Agreement shall exclude the first day and include the last day of such period. If the time limited for the performance or completion of any matter under this Agreement expires or falls on a day that is not a Business Day, the time so limited shall extend to the next following Business

Day. To the extent that interest is calculated for a period ending on a day that is not a Business Day, the last day of such period, for the purposes of calculating interest, shall extend to the next following Business Day.

## **1.9 Schedules**

The following Schedules are attached hereto and made part of this Agreement:

- Schedule 1.1(q) – Company Assets
- Schedule 1.1(t) – Company Financial Statements
- Schedule 1.1(xx) – Permitted Encumbrances
- Schedule 3.4 – Legends
- Schedule 4.11 – Litigation
- Schedule 4.13 – Collectability of Receivables
- Schedule 4.14 – Unusual Transactions
- Schedule 4.18 – Tax Matters
- Schedule 4.20 – Insurance
- Schedule 4.24 – Company Workers' Compensation Claims History
- Schedule 4.25 – Intellectual Property
- Schedule 4.27 – Employee Benefit and Pension Plans
- Schedule 4.30 – Company Material Contracts
- Schedule 9.1(b)(v) – Employee Bonuses

## **ARTICLE 2 SALE AND CONVEYANCE**

### **2.1 Purchase and Sale of Purchased Shares**

Subject to the terms and conditions hereof, at the Time of Closing, the Vendor agrees to sell, assign and transfer to the Purchaser and the Purchaser agrees to purchase and receive from the Vendor, the Vendor's entire right, title and interest in and to the Purchased Shares for the Purchase Price as determined by the provisions of Sections 2.2 and 2.4.

### **2.2 The Purchase Price**

The purchase price (the "**Purchase Price**") for the Purchased Shares shall be an amount equal to an aggregate of \$5,000,000, (representing a deemed price of \$0.50 per Purchased Share), payable in 10,000,000 Purchaser's Shares (registered in the name and address set forth on the signature page of this Agreement, unless otherwise directed by the Vendor by delivery of written notice to the Purchaser no less than 48 hours prior to the Closing Date). The Purchaser's Shares will be issued at the Deemed Price Per Share.

### **2.3 Private Placement**

- (a) On or before the Closing Date, the Company will use its reasonable commercial efforts to carry out an offering of up to 4,000,000 subscription receipts (the "**Subscription Receipts**") on a brokered, private placement basis to raise gross proceeds of up to \$2,000,000 (the "**Private Placement**") at a purchase price of \$0.50 per Subscription Receipt (the "**Subscription Receipt Purchase Price**"). Each Subscription Receipt will be exercisable by the holder thereof, without

payment of additional consideration, into one Common Share of the Company, subject to adjustment in certain events.

- (b) The Subscription Receipts shall be created and issued pursuant to a subscription receipt agreement (the "**Subscription Receipt Agreement**") to be entered into between Equity Transfer & Trust Company, or such other third party as may be agreed between the Parties in writing (the "**Escrow Agent**") and the Company. The specific attributes of the Subscription Receipts shall be set forth in the Subscription Receipt Agreement.
- (c) On the closing date of the Private Placement, the gross proceeds from the Private Placement will be delivered to and held in escrow by the Escrow Agent and invested in short term investment grade debt obligations as determined by the Company (the funds held in escrow by the Escrow Agent, together with all interest and other income earned thereon, are referred to herein as the "**Escrowed Funds**").
- (d) The Subscription Receipts will automatically convert into Common Shares upon receipt of the Approval (the "**Release Condition**"), without any further action on the part of the holders thereof. Upon the satisfaction of the Release Condition, the Escrowed Funds shall be released by the Escrow Agent to the Company. If the Release Condition has not been satisfied prior to 5:00 p.m. (Eastern Standard Time) on February 28, 2012, or such later date as may be agreed to in writing by the Vendor and the Purchaser, the Escrowed Funds shall be returned by the Escrow Agent, on behalf of the Company, to the holders of the Subscription Receipts, on a *pro rata* basis.
- (e) Immediately following the conversion of the Subscription Receipts, the Escrow Agent shall tender to the Purchaser all of the Common Shares issued upon conversion of the Subscription Receipts in exchange for the Purchaser's Shares in accordance with Section 2.2.
- (f) If the Subscription Receipt Purchase Price is below \$0.50 per Purchaser's Share:
  - (i) the Deemed Price Per Share shall be adjusted accordingly to reflect the decrease in value in the Purchaser's Shares; and
  - (ii) the number of Purchaser's Shares that will be issued in respect of the Purchase Price will be adjusted accordingly.
- (g) All costs associated with the Private Placement, including any accounting fees, legal fees, underwriters' commissions and any disbursements shall be borne by the Purchaser.

## **2.4 Payment of Purchase Price**

The Purchase Price shall be paid to the Vendor at the Time of Closing by the Purchaser delivering to the Vendor, definitive certificates representing, in aggregate, an amount of Purchaser's Shares at the Deemed Price Per Share equal to \$5,000,000, registered in the name of the Vendor.

## **2.5 Board of Directors of the Purchaser**

On completion of the Transaction, the Purchaser's board of directors will be comprised of up to five members with the Purchaser nominating up to three of such members (such nominees to be acceptable to the Vendor, in its reasonable discretion), and the Vendor nominating up to two of such members (such nominees to be acceptable to the Purchaser, in its reasonable discretion). In addition, it is expected that Emlyn J. David will remain the Chief Executive Officer and Chairman of the Purchaser.

## **2.6 Working Capital**

- (a) The Transaction assumes that the Company will have a zero dollar working capital balance upon acquisition. The Vendor will make a closing schedule of the expected working capital at the Closing Date and will remove any excess cash out of the Company before Closing to effect a zero working capital balance. If the final audited financial statements of the Company at Closing have a different amount than the closing schedule provided by the Vendor, the Vendor shall repay to the Purchaser any differences. If the working capital is greater than the closing schedule and/or more working capital is left in the Company in the form of receivables or other Current Assets, the Purchaser shall repay the excess working capital (amount above \$0) within 120 days of Closing.
- (b) The Company will use the working capital balance to repay a portion of the InterCompany Debt prior to the Closing Date.

## **2.7 Control**

The Vendor and the Purchaser agree that the Purchaser will maintain control of the Company at all times. The Purchaser will have the power to: (i) nominate the majority of the seats on the board of directors of the Company, and (ii) govern the financial and operating policies of the Company. The Vendor further irrevocably agrees that where it owns greater than 50% of the issued and outstanding shares of the Purchaser that the Vendor will only vote a maximum of 49.9% of the issued and outstanding shares of the Purchaser at any given time.

# **ARTICLE 3 ADDITIONAL COVENANTS**

## **3.1 Disclosure Obligations**

The Vendor shall use reasonable commercial efforts, exercised in a timely manner so as to permit the Purchaser (or any affiliate thereof or successor thereto) to comply with Applicable Law, to assist the Purchaser in obtaining, at the Purchaser's expense, the co-operation of the Company's current and former auditors, accounting and legal advisors with the Purchaser and/or its agents, including the Purchaser's auditors or counsel, in connection with the preparation, review and audit of the information (financial or otherwise, including legal opinions or a Company valuation, if any, as may be required by the TSXV) respecting the Company to be contained in the Filing Statement as may be required by the TSXV, any offering memorandum, information circular, prospectus, take-over bid circular, business acquisition report, press release or other document, the form and content of which are subject to or prescribed by Applicable Law (collectively, "**Disclosure Documents**"). In addition, the Vendor shall use reasonable commercial efforts,

exercised in a timely manner so as to permit the Purchaser (or any affiliate thereof or successor thereto) to comply with Applicable Law, to assist the Purchaser in obtaining, at the Purchaser's expense, from the Company's current and former auditors any required "comfort letter" regarding any of the aforesaid financial information contained in any Disclosure Document and to obtain the consent of such auditors to the inclusion of the auditors' report or reports in respect of any audited financial statements of the Company included in any Disclosure Document. The provisions of this Section 3.1 shall survive the Closing Date for a period of 18 months.

### **3.2 Employee Matters**

The Vendor agrees that until the termination of this Agreement, it will use its reasonable commercial efforts so as to not allow the Company to terminate the employment of any of its employees without the prior written consent of the Purchaser.

### **3.3 Tax Returns**

The Vendor shall prepare and deliver to the Purchaser, at the expense of the Company on or before the Closing Date, all Tax Returns required to be made or prepared by the Company for any taxation period ending before the Closing Date and which have not been filed as of the Closing Date (collectively, the "**2011 Tax Returns**"); and (ii) at least 45 days (10 days in the case of any Tax Return required to be filed more frequently than annually) before the maximum time prescribed by Applicable Law for their filing, all Tax Returns, including the maximum designations under subsections 80(5),(7),(8),(9), (10) and (11) in prescribed form (the "**Section 80 Designations**") and an agreement respecting the transfer of a forgiven amount under subsection 80.04(4) and supporting documentation required by subsection 80.04(6) (collectively, the "**80.04 Agreement**"), if any, required to be made or prepared by the Company for the taxation period ending on the Closing Date (collectively, the "**Stub Returns**"). The Purchaser consents to the filing of the Section 80 Designations and the 80.04 Agreement and shall cooperate fully with the Vendor and make available to the Vendor in a timely fashion such data and information as may reasonably be required for the preparation of the 2011 Tax Returns and the Stub Returns and shall preserve such data and other information until the expiration of any applicable limitation period under any Applicable Law with respect to Taxes. The Purchaser shall, after its review and comments, and any revisions required to conform to Applicable Law, file the 2011 Tax Returns and the Stub Returns, including the Section 80 Designations and the 80.04 Agreement, in the time and manner required by Applicable Law.

### **3.4 Sale of Purchaser's Shares**

The Vendor acknowledges that the Purchaser's Shares may be subject to hold periods and/or escrow requirements in accordance with the provisions of Applicable Law and the rules of the TSXV and further agrees that the certificate representing the Purchaser's Shares shall bear the legends set forth in Schedule 3.4. The Vendor agrees that it shall not deal with the Purchaser's Shares in any manner which is in violation of Applicable Law or any of the legends appearing on the certificate(s) representing the Purchaser's Shares and shall deposit the Purchased Shares in escrow to the extent required by the TSXV.

### **3.5 Post-Closing Business**

Subsequent to Closing, it is currently anticipated that the Company Business will be operated as an independent, wholly-owned subsidiary of the Purchaser. Nothing contained herein will affect



the Purchaser's ability to do an amalgamation or other business reorganization subsequent to Closing or otherwise vary the operation of the Company Business.

### **3.6 Financial Reporting Requirements**

The Purchaser acknowledges that in order for the Vendor to comply with its financial reporting obligations under Applicable Law the Vendor will require copies of Company's unaudited balance sheets and income statements. The Purchaser hereby agrees that it will provide copies of the Company's unaudited balance sheet and income statement to the Vendor within 15 days of each of the Vendor's financial quarter-ends (which for greater certainty are March 31, June 30, September 30 and December 31).

## **ARTICLE 4 REPRESENTATIONS AND WARRANTIES OF THE VENDOR**

### **4.1 Representations and Warranties of the Vendor**

To induce the Purchaser to enter into this Agreement and complete the transactions contemplated hereby, the Vendor covenants, represents and warrants in respect of the Company and itself to and in favour of the Purchaser, as at the date hereof, as provided in this Article 4.

### **4.2 Purchased Shares**

- (a) The Vendor has good, marketable, beneficial and/or recorded title to all of the Purchased Shares, free and clear of all Liens.
- (b) No consents of, filings with or approval of any Authorized Authority are required by the Vendor for the sale and transfer of the Purchased Shares to the Purchaser other than those presently held or obtained by the Vendor which are in full force and effect.
- (c) The Vendor is not obligated to obtain the written consent of any Person to the transaction contemplated by this Agreement other than from those Persons from whom consent has been obtained.
- (d) The Vendor is not a non-resident of Canada for the purposes of the Tax Act.

### **4.3 Due Incorporation, Capitalization, Allotment, Issuance of Shares and Execution**

- (a) The Company is a private company duly incorporated and in good standing under the laws of the Province of Ontario, and has the corporate power to own and operate its property, carry on its business and perform its obligations under this Agreement and all other agreements and instruments to be executed by it as contemplated herein and to perform its other obligations under all such other agreements and instruments.
- (b) The Company is authorized to issue an unlimited number of Common Shares of which there will be 14,827,082 Common Shares outstanding on the Closing Date (prior to the conversion of the Subscription Receipts), all of such Common Shares are owned by the Vendor, free and clear of any Lien.

- (c) There are no other shares, options, warrants, convertible notes or debentures, agreements, documents, instruments or other writings of any kind whatsoever which constitute a "security" of the Company (as that term is defined in the *Securities Act* (Alberta)). Except as is provided for in this Agreement, there are no options, agreements, rights of first refusal or other rights capable of becoming such to acquire all or any part of the issued Common Shares of the Company.
- (d) The Company is not a reporting company in any jurisdiction and its Common Shares are not listed or quoted on any stock exchange or trading facility. The Company is not subject to any regulatory decision or order prohibiting or restricting trading in its shares.

#### **4.4 Execution, Delivery and Enforceability**

The Vendor has taken all necessary actions to authorize the execution, delivery and performance by the Vendor of this Agreement, including the transactions contemplated herein in accordance with the provisions of this Agreement. This Agreement has been duly executed and delivered by the Vendor and this Agreement constitutes, and all other documents executed and delivered on behalf of the Vendor hereunder shall, when executed and delivered, constitute legal, valid and binding obligations of the Vendor enforceable in accordance with their respective terms and conditions, subject to the qualification that such enforceability may be subject to:

- (a) bankruptcy, insolvency, fraudulent preference, reorganization or other laws affecting creditors' rights generally;
- (b) general principles of equity (regardless of whether such enforceability is considered in a proceeding at equity or law) and general principles of civil law; and
- (c) The execution and delivery of this Agreement by the Vendor and the completion of the sale and purchase of the Purchased Shares in accordance with the terms of this Agreement are not and will not be in violation or breach of, or be in conflict with or require any consent, authorization or approval (other than a resolution of the board of directors of the Company approving the transfer of the Purchased Shares and the approval of the Company Bank):
  - (i) under any permit or authorization of any Authorized Authority to which the Vendor is a party or by which the Vendor is bound;
  - (ii) of any other Person;
  - (iii) under any Document to which the Vendor is a party; or
  - (iv) under Applicable Law.

#### **4.5 Business**

- (a) The Company holds all Business Permits that are required for carrying on its business in the manner in which such business has been carried on and in the

manner in which such business will need to be carried on in order for the Company to meet its obligations under this Agreement.

- (b) The Company's business of providing geo-exchange design and implementation services is the only business operation carried on by the Company. The Company's assets include all rights and property necessary to enable the Company to conduct its business after the Closing Date substantially in the same manner as it was conducted prior to the Closing Date. There is no written or oral agreement, option, understanding or commitment, or any right or privilege capable of becoming such for the purchase or other acquisition from the Company of any of the property or assets of the Company or any part thereof.
- (c) The Company does not own any interest in real property.

#### **4.6 Bankruptcy and Insolvency Matters**

No action or proceeding has been commenced or filed by or against the Vendor or which seeks or may lead to receivership, bankruptcy, a consumer proposal or any other similar proceeding in respect of the Vendor, the adjustment, compromise or composition of claims against the Vendor or the appointment of a trustee, receiver, liquidator, custodian or other similar officer for the Vendor or any portion of its assets. No such action or proceeding has been authorized or is being considered by or on behalf of the Vendor and no creditor of the Vendor has threatened to commence or advised that it may commence any such action or proceeding.

#### **4.7 Broker's Fees**

The Vendor has not incurred any obligation or liability, contingent or otherwise, for broker's or finder's fees in respect of the transaction herein provided for which the Purchaser or the Company shall have any obligation or liability.

#### **4.8 Shareholder Agreements**

The Vendor is not a party to or aware of any pooling, escrow, shareholder, voting or similar agreements respecting the Company or the Purchased Shares.

#### **4.9 Independent Legal Advice**

The Vendor acknowledges that it has received independent legal advice regarding this Agreement, and if he has not received such independent legal advice, he acknowledges that he is entitled to receive such independent legal advice and has chosen not to receive such advice.

#### **4.10 Employees and Director**

The employees and director of the Company are as hereinafter set forth:

##### ***Employees***

Mark A. (Tony) Mooney – Director, Operations  
Robert van Duynhoven – Director, Solution Sales  
Christopher Mitchell – Director, Geo Technology  
Denton Hocking – Manager, Customer Service

Clint Patzack – Project Manager  
Farzin Masoumi Rad – Senior Engineer  
Justin Cherry – Site Supervisor  
Shane Tawse – Lead Technician  
Vladmir Levski – Lead Technician

***Director***

Mark Montemurro

**4.11 Litigation**

- (a) Except as disclosed in Schedule 4.11, there are no judgments unsatisfied against the Company or any of its officers or directors, in their capacity as officers or directors of the Company, or any consent decrees, injunctions or orders to which the Company or any of its officers or directors, in their capacity as officers or directors of the Company, is subject or bound and there are no Legal Proceedings (whether or not purportedly on behalf of the Company) commenced, pending or, to the best of the Vendor's knowledge after due inquiry, threatened against or affecting the Company or its officers or directors, as officers or directors of the Company, at law or in equity or before or by any Authorized Authority, which Legal Proceeding involves the possibility of any judgment against or liability of the Company. The Vendor is not aware of any existing ground on which any such Legal Proceeding might be commenced with any reasonable likelihood of success. Schedule 4.11 sets forth, with respect to any such pending or threatened Legal Proceedings, the forum, the parties thereto, the subject matter thereof and the amount of damages claimed or other remedy requested. The Company has not received notice that any Authorized Authority has at any time challenged or questioned the legal right of the Company to manufacture, offer or sell any of its products in the present manner or style thereof.
- (b) The Company is not subject to any judgment, order, writ injunction or decree of any Authorized Authority which would prevent the carrying out of this Agreement or consummation of the transactions contemplated herein.

**4.12 Company Financial Statements**

- (a) The Company Financial Statements truly and fairly present the Company Assets, the Liabilities of the Company and its financial position as at the dates thereof and the results of its operations for the fiscal period reported on.
- (b) The annual unaudited statements included in the Company Financial Statements have been prepared in accordance with Generally Accepted Accounting Principles, applied on a consistent basis.
- (c) There are no Liabilities of the Company for Taxes due for any period prior to the date of the Company Financial Statements, except as disclosed in the Company Financial Statements.
- (d) All prepaid expenses reflected in the Company Financial Statements and all expenses prepaid by the Company subsequent to the Company Financial

Statements were prepaid in accordance with the regular business practices of the Company, consist of expenses that were incurred in the ordinary course of business of the Company, are consistent with past practice, and are valued at reasonable amounts based on the ordinary course of business of the Company within the past 12 months. There has not been any material write-down or write-off of, or other adjustment to, such prepaid expenses since the date of the Company Financial Statements.

- (e) There are no Liabilities or obligations of the Company either accrued, absolute, contingent or otherwise, except:
  - (i) Liabilities set forth in the Company Financial Statements and not heretofore paid or discharged;
  - (ii) Liabilities arising in the ordinary course of business in respect of potential warranty claims for past work or under any contract which is either specifically disclosed in a Schedule or not required to be disclosed because of the term or amount involved or otherwise
  - (iii) Liabilities in respect of matters disclosed in the Schedules; or
  - (iv) Liabilities incurred, consistent with past business practice, in or as a result of the normal or ordinary course of business since the date of the Company Financial Statements and which do not have and will not have a Material Adverse Effect on the Company.

#### **4.13 Collectability of Receivables**

Except as described in Schedule 4.13, all Receivables of the Company are valid obligations which arose in the ordinary course of business and, in the reasonably held opinion of the Vendor, are collectable in the ordinary course of business and, in the aggregate, at their full face value net of the aggregate amount of the reserve for doubtful accounts in the Company Financial Statements. No Receivables are due from an affiliate of the Company.

#### **4.14 Absence of Unusual Transactions**

Except as disclosed in Schedule 4.14, or as specifically provided for in this Agreement, since September 30, 2011, and without limiting anything elsewhere contained in this Agreement, the Company has not:

- (a) been subject to a Material Adverse Change;
- (b) transferred, assigned, sold or otherwise disposed of any of the Company Assets with a fair market value individually or in the aggregate in excess of \$100,000 or cancelled any debts or claims except in each case in the ordinary and usual course of the Company Business;
- (c) issued or sold any shares in its capital or any warrants, bonds, debentures or other corporate securities, nor issued, granted or delivered any right, option or other commitment for the issuance of any such shares or other securities;

- (d) discharged or satisfied any Lien, or paid any obligation or Liability except Liabilities incurred in the ordinary and usual course of the Company Business;
- (e) declared or paid any dividend or declared or made any other distribution in respect of its capital or purchased, redeemed or otherwise acquired any of its shares or the shares of any other company or effected any redemption, purchase, subdivision, consolidation or reclassification of or other change its capital stock;
- (f) waived any rights, except in the ordinary and usual course of the Company Business;
- (g) amended or changed or taken any action to amend or change its constituting documents;
- (h) made or entered into a commitment to make any general wage or salary increases, made, amended, granted or agreed to make, grant or amend any bonus, profit sharing, retirement, insurance, death, severance or fringe benefit or other extraordinary or indirect compensation, or made loans or advances in respect of directors or employees or adopted or modified or terminated any employee plan;
- (i) mortgaged, pledged, charged, subjected to an adverse claim, granted rights in, subjected to a demand, subjected to a title retention agreement, subjected to Lien, granted a security interest in or otherwise encumbered any of the Company Assets, whether tangible or intangible;
- (j) made or authorized any capital expenditures except in the ordinary and usual course of the Company Business in an amount exceeding \$100,000, except as disclosed in the Company Financial Statements;
- (k) changed any accounting or costing systems or methods in any material respects;
- (l) entered into any Company Material Contract or any other transaction that was not in the ordinary or usual course of the Company Business;
- (m) accelerated, terminated, cancelled, modified or received notice of a request for acceleration, termination, cancellation or modification of any Company Material Contract, except the Truro Amendment which has been disclosed to the Purchaser;
- (n) made any investment in, or any loans or advances to, or guarantee, surety or indemnity for the benefit of, any Person;
- (o) incurred any indebtedness for borrowed money to any Person;
- (p) delayed or postponed the payment of Liabilities (other than accounts payable in the ordinary and usual course of the Company Business) outside the ordinary course of the Company Business;
- (q) made or entered into or modified the terms of any employment or collective bargaining agreement;

- (r) experienced any damage, destruction or loss aggregating greater than \$100,000 (whether or not covered by insurance) to the Company Assets;
- (s) granted any license or sublicense of any rights under or with respect to any Intellectual Property;
- (t) made any loan to, or entered into any other transaction with, any of its shareholders, directors, officers or employees outside the ordinary course of the Company Business;
- (u) had any Company Material Contract cancelled by any other party thereto for the non-performance (or alleged non-performance) or breach (or alleged breach) by or of the Company; or
- (v) authorized or agreed or otherwise has become committed to do any of the foregoing.

#### **4.15 Title to the Company Assets**

Since December 20, 2011, there has been no change in the legal and beneficial ownership of the Company Assets as of the date hereof.

#### **4.16 Records and Data**

- (a) The Company has made available to the Purchaser or the Purchaser's representatives for inspection, all premises, the Company Assets and Documents which the Purchaser has reasonably requested and which to the knowledge of the Vendor are in the possession and control of the Company pertaining to or affecting the Company, the Company Business or the Company Assets and the title of the Company thereto, and to the knowledge of the Vendor, the Company has not knowingly withheld any Documents or information reasonably requested to make not misleading the Documents and information so made available to the Purchaser.
- (b) All information, records, data and Documents furnished to the Purchaser, its representatives and counsel pursuant to Subsection 4.16(a) are true, accurate and complete in all material respects.
- (c) The financial books and records of the Company fairly and correctly set out and disclose in all material respects the financial position of the Company as at the date thereof and all material financial transactions have been accurately recorded in such books and records consistent with past practices.

#### **4.17 Indebtedness and Guarantees**

- (a) The Company is not party, other than in the ordinary course of business, to any agreement of guarantee, indemnification or assumption of the obligations of a Third Party, or other like commitment, contingent or otherwise, except as set forth in the by-laws of the Company or as disclosed in the Company Financial Statements.

- (b) The Company does not have outstanding any bonds, debentures, mortgages, promissory notes or other evidence of indebtedness and the Company is not bound under any agreement to create or issue any bonds, debentures, mortgages, promissory notes or other indebtedness, except as disclosed in the Company Financial Statements.

#### **4.18 Tax Matters**

Other than as set forth in Schedule 4.18:

- (a) The Company is a "taxable Canadian corporation" for the purposes of the Tax Act.
- (b) The fiscal year end of the Company for income tax purposes is December 31.
- (c) The Company has filed all Tax Returns required to be filed under Applicable Law prior to the Closing Date and has made complete and accurate disclosure in such Tax Returns and in all materials accompanying such Tax Returns.
- (d) The Company has paid all Taxes due and payable prior to the Closing Date under Applicable Law and the Taxes represented to be payable in respect of its 2011 Tax Returns are an accurate and complete assessment of the Taxes owing for such periods.
- (e) The Company has paid all tax assessments and reassessments and any penalties, interest, fines, governmental charges and other amounts which any relevant taxing authority is entitled to collect from the Company.
- (f) There are no appeals, actions, audits, assessments, reassessments, suits, proceedings, or to the best of the Vendor's knowledge, investigations or claims now subsisting against or involving the Company in respect of Taxes.
- (g) There are no matters which are the subject of any agreement with any Authorized Authority relating to claims or potential liability for Taxes which affect the Company Business nor, to the best of the Vendor's knowledge, are any such matters under discussion with such authorities.
- (h) There are no agreements, waivers or other arrangements providing for an extension of time with respect to the assessment or reassessment of any Taxes or the filing of any Tax Returns by, or the payment of any Taxes by, or levy of any governmental charge against the Company.
- (i) The Company has withheld or caused to be withheld (in reasonable reliance on its payroll services company) from each payment made by it the amount of all Taxes and other deductions required to be withheld therefrom and have paid all such amounts due and payable before the date hereof to the proper taxing or other authority within the time prescribed under Applicable Law, and has no reason to believe that the same has not been done.



- (j) The Company has collected all amounts on account of any sale or transfer taxes, including goods and services, required by Applicable Law to be collected by it and has remitted to the appropriate Authorized Authority any such amounts required by Applicable Law to be remitted by it by the required time.
- (k) The Company does not have any obligation to file on or prior to the Closing Date, any Tax Return required to be made, prepared or filed under Applicable Law of any jurisdiction other than Canada in respect of any Taxes, and the Company does not have any outstanding liability on account of any failure to comply with any such obligation.
- (l) The Company is duly registered under subdivision (d) of Division V of Part IX of the *Excise Tax Act* (Canada) with respect to the goods and services tax and the Company's registration number is 86630-6202.
- (m) The Company has not and will not claim any reserves under the Tax Act or any equivalent provincial or territorial statute for the taxation year ending immediately prior to the Time of Closing.
- (n) The Company will be subject to the provisions of the Tax Act relating to the forgiveness by the Vendor of approximately \$14,400,000 of the InterCompany Debt which forgiveness will occur before the Closing Date and, in connection with the application of the debt forgiveness rules in section 80 of the Tax Act, the Company will reduce the applicable tax pools as permitted by subsections 80(3) through 80(12) to the maximum extent permissible thereunder or take such other action as is necessary and permissible under the Tax Act to ensure that there is no amount determined under subsection 80(13) that is required to be included in computing the Company's income for the taxation year ending on or before the Closing Date.

#### **4.19 Regulatory Matters**

Neither the Company nor the Vendor has received notice from any Authorized Authority of any defaults which remain unremedied under any of the provisions of the laws of Alberta or other Applicable Laws which, in the aggregate, would have a Material Adverse Effect on the Company.

#### **4.20 Insurance**

Attached as Schedule 4.20 is a list of all insurance policies (including the name of the insurer, policy number, amount of coverage, type of insurance, expiry date and details of pending claims) maintained by the Company in respect of its Company Assets, Company Business, operations, directors, officers and employees. All such insurance policies are valid and enforceable and in full force and effect, are underwritten by unaffiliated and reputable insurers, are sufficient for all requirements of Applicable Law and provide insurance in such amounts and against such risks as is customary for corporations engaged in similar businesses to the Company. There is no claim by the Company pending under any of such policies as to which coverage has been questioned, denied or disputed by the underwriters of such policies and the Company has not failed to give any notice or present any claim within the appropriate time therefor. All premiums due and payable under all such policies have been paid and the Company is otherwise in material compliance with the terms of such policies (or other policies providing substantially similar

insurance coverage). The Company has no knowledge of any threatened termination of, or material premium increase with respect to, any of such policies. Completion of the transactions contemplated by this Agreement will not give rise to a right of termination under such policies of insurance.

#### **4.21 Minute Book**

The minute book of the Company contains, other than to the extent that the contrary would have a material adverse impact upon the Company Assets, the Company Business, the value thereof or the Purchaser's entitlements hereunder, all minutes of meetings or written resolutions of the directors and shareholders of the Company held or passed since the date of incorporation, and all such meetings were either duly called and held or any irregularities in holding or calling such meetings have been waived, and the registers contained in the minute book are accurate and complete.

#### **4.22 Condition of Company Assets**

All of the material Company Assets are in good working condition and fit for purpose, reasonable wear and tear excepted.

#### **4.23 Completeness of Company Assets**

The assets set forth in Schedule 1.1(q) comprise a true and substantially complete listing of the entirety of the assets of the Company as at September 30, 2011.

#### **4.24 Company Personnel List**

The Company has provided the Purchaser with a true and complete list (the "**Company Personnel List**") of all personnel (including employees, contractors and consultants) employed, subcontracted or hired by the Company as of the date hereof and the employment contracts, consulting and other agreements, if any, whether written or oral, applicable to each such Person together with details respecting each such Person's length of tenure, salary level and bonus entitlements; provided that, in respect of non-management line personnel, such details may be provided by listing the number of personnel of a class and providing their general salary range. Schedule 4.24 sets forth the Company's workers' compensation claims history for the past 24 months.

#### **4.25 Intellectual Property**

There is no registered Intellectual Property necessary for the conduct of the Company Business as currently conducted other than as set forth in Schedule 4.25 and any common law rights the Company may have in the name "CleanEnergy" and any logos associated therewith and except for the computers and software technology utilized by the Company, all of which will be unaffected by the transactions contemplated by this Agreement. All such Intellectual Property is valid, owned by and exclusive to the Company, free and clear of any Liens, and is not subject to any license or sublicense.

#### **4.26 Labour Matters and Employment Standards**

- (a) The Company is not subject to any agreements with any labour union or employee association and has not made any commitments to or conducted negotiations with any labour union or employee association with respect to any future agreements and, to the knowledge of the Vendor, there has not been any attempts to organize, certify or establish any labour union or employee association in relation to any of the Persons described in the Company Personnel List.
- (b) There are no existing or threatened labour strikes or any material labour disputes, grievances, controversies or other labour troubles affecting the Company.
- (c) The Company has complied with all laws, rules, regulations and orders applicable to or relating to the employment of the Persons described in the Company Personnel List, including those relating to wages, hours, collective bargaining, occupational health and safety, workers' hazardous materials, employment standards, pay equity, language of work and workers' compensation. The Company has not received notice of any outstanding inquiries currently pending before the Authorized Authority, charges or complaints against the Company relating to unfair labour practices, unjust dismissal, non-compliance with any legal obligation in relation to the employment of the Persons described in the Company Personnel List, discrimination, harassment, non-compliance with health and safety in the workplace legislation or under any legislation relating to the Persons described in the Company Personnel List. The Company has paid in full all amounts owing under all applicable workers' compensation legislation in the provinces in which it conducts operations, and the workers' compensation claims experience in connection with the operation of the Company Business would not entail additional monetary obligations for the period ending at the Closing Date.
- (d) The Company has paid in full all amounts, obligations and debts due and owing to any of the Persons described in the Company Personnel List by the Company or incurred by the Company in connection with the employment services provided by any of the Persons described in the Company Personnel List up to and including the Closing Date, including, without limitation, all wages, salary, bonuses, commissions, vacation, holiday pay and any severance amounts in lieu of notice of termination without cause payable further to a termination of employment which has occurred before the Closing Date, other than (i) accrued and unused holiday pay for current employees, and (ii) commissions and bonuses up to the maximum amounts set out in Schedule 9.1(b)(v).

#### **4.27 Employee Benefit and Pension Plans**

The Company does not have, and is not subject to, any present or future obligation or liability under any pension plan, deferred compensation plan, retirement income plan, stock option or stock purchase plan, medical or dental plan, profit sharing plan, bonus plan or policy, employee group insurance plan, hospitalization plan, disability plan or other employee benefit plan, program, policy or practice, whether formal or informal except as described in Schedule 4.27. All documents in the Company's possession pertaining to the plans or policies listed in

Schedule 4.27, including plans' text, actuarial or financial reports and status reports, have been made available to the Purchaser. None of such plans or policies will be accelerated by the occurrence of any of the transactions contemplated by this Agreement or the value of any of the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement. Other than as set forth in Schedule 4.27, the Company does not have, is not a party to nor is it bound by any agreements or arrangements that contain any severance pay or post-employment liabilities or obligations.

#### **4.28 Deductions at Source**

The Company has reasonably relied on its payroll services company to have, and has no reason to believe it has not, fulfilled all requirements under the Tax Act and the regulations thereto, the Canada Pension Plan, the *Employment Insurance Act* (Canada) and any other applicable provincial legislation, providing for the payment or withholding of any sum, fee, assessment or other payment in relation to the employment of the Persons described in the Company Personnel List or with the amounts payable to such Persons by reason or in relation with their employment with the Company, and has remitted all amounts withheld to the appropriate authorities within the prescribed times.

#### **4.29 Environmental Matters**

- (a) The Company has not received any written notice of any non-compliance with Environmental Law.
- (b) The Company has not received any order or directive which relates to environmental matters and which requires any work, repairs, construction, or capital expenditures.
- (c) The Company has not received any demand or notice with respect to the breach of any environmental, health or safety law applicable to the Company or any of its business undertakings, including any regulations respecting the use, discharge, storage, treatment, transportation, or disposition of environmental contaminants.
- (d) There are no claims, investigations or inquiries pending or threatened against the Company (or naming the Company as a potentially responsible party) based on non-compliance with any Environmental Law at any of the properties or facilities currently or formerly owned, leased or operated by the Company.
- (e) Neither the Company nor any other Person has, with respect to the Company Business, filed any notice under any Environmental Law reporting past or present treatment, storage or disposal of a Hazardous Material or reporting a release of a Hazardous Material.
- (f) No encumbrance for: (i) any liability under Environmental Laws; or (ii) damages arising from or costs incurred in connection with a release of a Hazardous Material or other substance into the environment has been filed or is attached to any property of the Company, including the Company Assets.
- (g) The Company has no contingent liability in connection with: (i) the release or threatened release into the environment at, beneath or on any property or facility

now or previously owned, leased or operated by the Company; or (ii) the storage or disposal of any Hazardous Material.

- (h) The Company has not received any claim, complaint, notice, letter of violation, inquiry or request for information involving any matter which remains unresolved as of the date hereof with respect to any alleged violation of any Environmental Law or regarding potential liability under any Environmental Law relating to operations or conditions of any facility or property (including off-site storage or disposal of any Hazardous Material from such facility or property) currently or formerly owned, leased or operated by the Company.
- (i) To the best of the Vendor's knowledge after due inquiry, no predecessor in title has received any notice of any violation of any applicable Environmental Law; there are no writs, injunctions, orders or judgments outstanding, or lawsuits, claims, proceedings, actions, prosecutions, charges, hearings or investigations pending or threatened, relating to the ownership, use, maintenance, condition or operation of the Company Assets or property of the Company or to the presence, discharge, deposit, escape or release of any Hazardous Material into the natural environment in, on, over, under or at the Company Assets or property of the Company, nor is there any basis for such lawsuits, claims, proceedings or investigations being instituted or filed.
- (j) No property now or previously owned, leased or operated by the Company is listed on any federal, state or provincial list as a site requiring investigation or cleanup.
- (k) The Company is not transporting, has not transported and is not arranging for the transportation of any Hazardous Material in amounts which would require permits to any location which is listed on any federal, state or provincial list or which is the subject of federal, state, provincial or local enforcement actions or other investigations that would reasonably be expected to lead to material claims against the Company for removal or remedial work, contribution for removal or remedial work, damage to natural resources or personal injury.
- (l) There are no sites, locations or operations at which the Company is currently undertaking, or has completed, any removal, remedial or response action relating to any such disposal or release, as required by Environmental Laws.
- (m) The Company does not own or operate any underground storage tanks, treatment, storage or disposal facilities or any solid waste disposal facilities.
- (n) The Vendor is not aware of any environmental audits, tests, investigations or analyses performed with respect to any property or facility currently owned, leased or operated by the Company.
- (o) The Company has not received notice of and is not aware of any material environmental liabilities related to the Company Assets.
- (p) All environmental and health and safety permits, licenses, approvals, consents, certificates and other authorizations of any kind or nature ("**Environmental**

**Permits**") necessary for the ownership, operation, development, maintenance, or use of any of the Company Assets or otherwise in connection with the business or operations of the Company as it has been carried on have been obtained and maintained in full force and effect; the Company has complied with all Environmental Permits in all respects, and there is no action, investigation or proceeding pending or to the knowledge of the Vendor, threatened regarding any Environmental Permit.

- (q) The Company and the Company Assets and the ownership, operation, development, maintenance and use thereof are, in all respects, in compliance with all Environmental Laws and with all terms and conditions of all Environmental Permits or the Company has reasonably relied on its clients to ensure such compliance, and all prior instances of non-compliance that the Company is aware of have been fully and finally resolved to the satisfaction of all Authorized Authorities with jurisdiction over such matters.

#### **4.30 Company Material Contracts**

Each contract to which the Company is a party which involves a price or consideration of more than \$100,000 or which is between the Company and any director, officer, employee or shareholder of the Company (or any associate of any of the foregoing), is disclosed in Schedule 4.30 (the "**Company Material Contracts**"). Each Company Material Contract is in full force and effect in accordance with the terms thereof and the Company is not in default under any Company Material Contract, there is no outstanding notice of cancellation or termination in connection therewith, nor does there exist any event or circumstance which through the passage of time or which as a result of a notice by a Third Party would become a default by the Company under any Company Material Contract. Completion of the transactions contemplated by this Agreement will not give rise to a right of termination (or result in any additional or more onerous obligation on the Company) under any Company Material Contract.

#### **4.31 Full Disclosure**

None of the representations and warranties set out in this Article 4 contain any untrue statement of a material fact or omits to state any material fact necessary to make any such statement or representation not misleading to a prospective purchaser of the Purchased Shares. The Vendor does not have any information or knowledge of any material facts relating to the Company Business, the Company Assets, the Company Shares, the Company, or the Purchased Shares which have not been disclosed to the Purchaser and which individually or in the aggregate would reasonably be expected to have a Material Adverse Effect on the Company.

### **ARTICLE 5 REPRESENTATIONS AND WARRANTIES OF THE PURCHASER**

#### **5.1 Representations and Warranties of the Purchaser**

To induce the Vendor to enter into this Agreement and complete the transactions contemplated hereby, the Purchaser covenants, represents and warrants to and in favour of the Vendor, as of the date hereof, as provided in this Article 5.

## **5.2 Standing**

The Purchaser has been duly incorporated and organized under the laws of Canada and is in good standing with respect to the filing of all annual returns, notices and similar documents as required in Ontario and such other Canadian jurisdictions where such registration is necessary for the conduct of its business.

## **5.3 Requisite Authority**

The Purchaser has the requisite corporate capacity, power and authority to execute this Agreement and the other agreements required to be delivered hereby to which it is a party and to perform the obligations to which it thereby becomes subject.

## **5.4 No Conflict**

The execution and delivery of this Agreement and the completion of the sale and purchase of the Purchased Shares in accordance with the terms of this Agreement are not and will not be in violation or breach of, or be in conflict with or require any consent, authorization or approval:

- (a) under any term or provision of the constating documents of the Purchaser;
- (b) under any permit or authorization of any Authorized Authority to which the Purchaser is a party or by which the Purchaser is bound, with the exception of the TSX or the TSXV;
- (c) of any other Person;
- (d) under any document to which the Purchaser is a party; or
- (e) under Applicable Law.

## **5.5 Execution and Enforceability**

The Purchaser has taken all necessary corporate actions to authorize the execution, delivery and performance of this Agreement, including the transactions contemplated herein in accordance with the provisions of this Agreement. This Agreement has been duly executed and delivered by the Purchaser and this Agreement constitutes, and all other documents executed and delivered on behalf of the Purchaser hereunder shall, when executed and delivered constitute, legal, valid and binding obligations of the Purchaser enforceable in accordance with their respective terms and conditions, subject to the qualification that such enforceability may be subject to:

- (a) bankruptcy, insolvency, fraudulent preference, reorganization or other laws affecting creditors' rights generally, and
- (b) general principles of equity (regardless of whether such enforceability is considered in a proceeding at equity or law) and general principles of civil law.

## 5.6 Outstanding Securities

- (a) The issued and outstanding share capital of the Purchaser is comprised of 1,956,600 Purchaser's Shares and 255,660 stock options (to acquire an equivalent number of Purchaser's Shares), and the Purchaser covenants and agrees that it will not issue greater than 15% of its currently issued and outstanding Purchaser's Shares, or any convertible securities (excluding stock options) which could be exercised for Purchaser's Shares that represent greater than 15% of its currently issued and outstanding Purchaser's Shares prior to the Closing Date, which, for clarity, does not include any Purchaser's Shares issuable in accordance with this Agreement or the terms of any stock options which are currently outstanding or may be issued. With the exception of the foregoing, as at the date of this Agreement, there are no outstanding subscriptions, options, rights, warrants or other agreements or commitments obligating the Purchaser to sell or issue any additional Purchaser's Shares or securities of any class of the Purchaser or any securities convertible into any Purchaser's Shares or securities of any class of the Purchaser.
- (b) The Purchaser's Shares are listed on the TSXV and no Authorized Authority (including, without limitation, the Ontario Securities Commission and the TSXV) has issued any order preventing or suspending trading in the Purchaser's Shares, it being acknowledged and agreed that trading in the Purchaser's Shares has been halted in accordance with the policies of the TSXV.

## 5.7 Regulatory Approvals

Except for the approval of the TSXV, no approval of any Authorized Authority or filing with any Authorized Authority or other Person is required to be obtained by the Purchaser in connection with the execution, delivery and performance by the Purchaser of this Agreement or the documents contemplated hereby.

## 5.8 Purchaser Filings; Financial Statements

- (a) The Purchaser has made available to the Vendor, through their posting on the System for Electronic Document Analysis and Retrieval (SEDAR), or otherwise, accurate and complete copies of all prospectuses, proxy statements and other statements, reports, schedules, forms and other documents filed by the Purchaser with the Canadian securities regulatory authorities in the past 12 months and all amendments thereto (the "**Purchaser Securities Documents**"). As at the time it was filed with the Canadian securities regulatory authorities (or, if amended or superseded by a filing prior to the date of this Agreement, then on the date of such filing): (i) each of the Purchaser Securities Documents complied in all material respects with the applicable requirements of Canadian securities laws; and (ii) none of the Purchaser Securities Documents contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.
- (b) The financial statements (including any related notes) contained in the Purchaser Securities Documents at the time filed (or, if amended or superseded by a filing



prior to the date of this Agreement, then on the date of such filing): (i) complied as to form in all material respects with the published rules, regulations, policies and notices of the Canadian securities regulatory authorities applicable thereto; (ii) were prepared in accordance with GAAP applied on a consistent basis throughout the periods covered (except as may be indicated in the notes to such financial statements or, in the case of unaudited statements, as permitted by the Canadian securities regulatory authorities, and except that the unaudited statements may not contain footnotes and are subject to normal and recurring year-end adjustments that will not, individually or in the aggregate, be material in amount); and (iii) fairly present the financial position of the Purchaser as of the respective dates thereof and the results of operations and cash flows of the Purchaser for the periods covered thereby.

## **5.9 Purchaser's Shares**

The Purchaser's Shares to be delivered hereunder will, when delivered in accordance with the provisions of this Agreement, be validly issued in compliance with all applicable securities laws (including all requirements of the relevant exemptions from the registration and prospectus requirements relied upon) as fully paid and non-assessable shares. Notwithstanding the foregoing, the issuance of the Purchaser's Shares to be issued pursuant to the transactions contemplated hereby will be conditional upon the approval of the TSXV. The Purchaser is, and will be at the time of issuance of the Purchaser's Shares, a reporting issuer, not in default, in the Province of Ontario.

## **5.10 Authorized Authorities**

The Purchaser is not subject to any judgment, order, writ, injunction or decree of any Authorized Authority which would prevent the carrying out of this Agreement or consummation of the transactions contemplated herein.

## **5.11 Regulatory Matters**

The Purchaser has not received notice of any defaults which remain unremedied under any of the provisions of the laws of Ontario or other Applicable Laws which, in the aggregate, would have a Material Adverse Effect on the Purchaser.

# **ARTICLE 6 RELIANCE AND SURVIVAL**

## **6.1 Reliance and Survival Period**

The Vendor acknowledges and agrees that the Purchaser may rely on the representations and warranties made by the Vendor pursuant to Article 4, and the Purchaser acknowledges that the Vendor may rely on the representations and warranties made by the Purchaser in Article 5. Other than the representations and warranties in Subsections 4.2(a), 4.3(b) and 4.3(c) which shall survive indefinitely, the representations and warranties of each Party shall survive the Closing and continue in full force and effect for a period of 18 months following the Closing Date.

## ARTICLE 7 COMPLETION OF PURCHASE

### 7.1 Purchaser's Conditions

The obligation of the Purchaser to complete the purchase of the Purchased Shares contemplated herein is subject to the fulfillment of each of the following conditions precedent, unless waived in writing by the Purchaser:

- (a) **Vendors' Representations, Warranties and Covenants.** At the Time of Closing, the Vendor shall have executed, delivered and performed all covenants, agreements and documents on its part to be performed hereunder and all representations and warranties contained in Article 4 shall be true at the Time of Closing, with the same effect as if made on and as of such date and time and the Vendor shall deliver a certificate executed as of the Time of Closing certifying that all representations and warranties of the Vendor as contained herein are true and correct as of such date and time.
- (b) **Third Party Approvals.** At the Time of Closing, there shall have been obtained all the written consents or approvals, in form and substance satisfactory to the Purchaser and the Purchaser's Counsel, acting reasonably, of any Authorized Authority or Person whose consent to the transactions contemplated hereby is required (including the Approval), and all conditions imposed upon such consents shall have been satisfied.
- (c) **No Actions.** At the Time of Closing: (i) no Legal Proceeding shall be pending or threatened to restrain, set aside or invalidate the transactions contemplated by, or to obtain damages in respect of, this Agreement or the Company's ownership of the Company Assets or operation of the Company Business; and (ii) no Legal Proceeding shall be pending or threatened by any Person to enjoin, restrict or prohibit the transactions contemplated by this Agreement.
- (d) **No Material Adverse Change.** At the Time of Closing, there shall not have been any Material Adverse Change in the Company from the date hereof.
- (e) **Resignations and Releases.** At the Time of Closing, the Vendor shall have delivered or caused to have been delivered to the Purchaser duly executed resignations and releases from each director of the Company.
- (f) **Corporate Proceedings.** At the Time of Closing, all necessary steps and proceedings of the Company and the Vendor, as approved by the Purchaser's Counsel, acting reasonably, shall have been taken to permit the Purchased Shares to be duly and regularly transferred to the Purchaser. All such Purchased Shares shall be transferred to the Purchaser free and clear of any Liens whatsoever.
- (g) **No Encumbrances.** At the Time of Closing, the Company, the Purchased Shares and the Company Assets shall be free and clear of any Liens whatsoever, other than the Permitted Encumbrances; provided that, the Vendor may deliver a no-interest letter agreement, in a form satisfactory to the Purchaser, acting reasonably, duly executed by each secured party or registrant set forth in

Schedule 1.1(xx), whereby each such secured party or registrant agrees, upon the satisfaction of terms satisfactory to the Purchaser, acting reasonably, to release and discharge the Purchased Shares and the Company Assets from any and all security interests held by such secured party or registrant, other than the Permitted Encumbrances.

- (h) **Closing Documents.** The Vendor and the Company shall have executed and delivered to the Purchaser all documents as the Purchaser or the Purchaser's Counsel may reasonably request for the purposes of effecting the transfer and delivery of the Purchased Shares in accordance with the terms of this Agreement (including certificates representing the entirety of the Purchased Shares, accompanied by stock transfer powers duly executed in blank or duly executed instruments of transfer, along with such documents necessary to transfer to the Purchaser title to the Purchased Shares), shall have delivered copies of the 2011 Tax Returns and shall have provided an opinion of Company Counsel in respect of the transaction contemplated by this Agreement, in form satisfactory to the Purchaser, acting reasonably.
- (i) **Private Placement.** At the Time of Closing, the Company shall have completed the Private Placement for minimum gross proceeds of \$1,000,000.
- (j) **Letter of Credit.** As of the date of this Agreement, the Vendor has provided a letter of credit for \$500,000 in respect of the Company's services under: (a) Subcontract Agreement No. 5967-6-232-C between the Company and EllisDon Construction Services Inc., dated June 28, 2011, and (b) Subcontract Agreement No. 5966-6-232-BC between the Company and EllisDon Construction Services Inc., dated June 28, 2011 (the "**EllisDon Letter of Credit**"). The Vendor shall continue to maintain the EllisDon Letter of Credit until the earlier of: (i) a period of three months from the Closing Date, (ii) such time as the Purchaser is able to replace the EllisDon Letter of Credit to the satisfaction of EllisDon Construction Services Inc., or (iii) the Purchaser provides the Vendor with a letter of credit in the same amount as the total value of the EllisDon Letter of Credit.
- (k) **Spinoff of Clean Energy Investments Corp.** At the Time of Closing, the Vendor shall have completed all necessary steps and proceedings to effect the spin off of CleanEnergy Investments Corp. from the Company.
- (l) **Office Leases.** At the Time of Closing there shall have been obtained:
  - (i) an amendment to the lease agreement dated October 22, 2010 between the Company and Marinelli Investments Ltd. to assign the office lease of Unit 2, 20075 100A Avenue, Langley, British Columbia, from the Company to the Vendor; and
  - (ii) an amendment to the lease agreement dated October 30, 2008 between the Company and CP Development Ltd. to assign the office lease of Unit 215, 4000 – 4<sup>th</sup> Street S.E., Calgary, Alberta, from the Company to the Vendor.

## 7.2 Vendors' Conditions

The obligation of the Vendor to complete the sale of the Purchased Shares contemplated herein is subject to the fulfillment of the following conditions precedent, unless waived in writing by Danny Hay, Chief Financial Officer of the Vendor:

- (a) **Purchaser's Representations, Warranties and Covenants.** At the Time of Closing, the Purchaser shall have executed, delivered and performed all covenants, agreements and documents on its part to be performed hereunder and all representations and warranties contained in Article 5 shall be true at the Time of Closing, with the same effect as if made on and as of such date and time and the Purchaser shall deliver an officer's certificate executed as of the Time of Closing certifying that all representations and warranties of the Purchaser as contained herein are true and correct as of such date and time.
- (b) **Third Party Approvals.** At the Time of Closing, there shall have been obtained the written consents or approvals, in form and substance satisfactory to the Vendor and Company Counsel, acting reasonably, of any Authorized Authority or Person whose consent to the transactions contemplated hereby is required, and all conditions imposed upon such consents shall have been satisfied.
- (c) **Purchase Price.** The Purchaser shall have delivered the Purchase Price to the Vendor.
- (d) **No Actions.** At the Time of Closing: (i) no Legal Proceeding shall be pending or threatened to restrain, set aside or invalidate the transactions contemplated by, or to obtain damages in respect of, this Agreement; and (ii) no Legal Proceeding shall be pending or threatened by any Person to enjoin, restrict or prohibit the transactions contemplated by this Agreement.
- (e) **No Material Adverse Change.** At the Time of Closing, there shall not have been any Material Adverse Change in the Purchaser from the date hereof.
- (f) **Corporate Proceedings.** At the Time of Closing, all necessary steps and proceedings of the Purchaser, as approved by the Company's Counsel, acting reasonably, shall have been taken to permit the purchase of the Purchased Shares by the Purchaser on the terms and conditions set forth in this Agreement.
- (g) **Articles and Continued Existence.** The Purchaser shall not have:
  - (i) amended its articles or by-laws;
  - (ii) split, combined or reclassified any of the Purchaser's Shares;
  - (iii) adopted a plan of liquidation or resolutions providing for its liquidation, dissolution, merger, consolidation, arrangement or reorganization;
  - (iv) entered into or modified any contract, agreement, commitment or arrangement with respect to any of the foregoing;

- (v) publicly announced an intention to effect any of the foregoing.
- (h) **Closing Documents.** The Purchaser shall have executed and delivered to the Vendors all documents as the Vendor or the Company Counsel may reasonably request for purposes of effecting the terms of this Agreement and shall have provided an opinion of Purchaser's Counsel in respect of the transaction contemplated by this Agreement, in form satisfactory to the Vendor, acting reasonably; provided, however, that no opinion will be required respecting securities law matters, including prospectus and registration exemptions and resale periods respecting the Purchaser's Shares.

### **7.3 Satisfaction of Conditions**

The Parties covenant and agree to use all reasonable efforts until the Closing Date to take, or refrain from taking any actions, with the intent that the conditions precedent, as set forth in this Article 7, shall be satisfied and all covenants and agreements herein made by them shall have been performed.

### **7.4 Closing and Closing Date**

The Closing shall occur at the offices of Blake, Cassels & Graydon LLP in Calgary, Alberta at the Time of Closing on the Closing Date.

## **ARTICLE 8 RECORDS**

### **8.1 Access to Premises and Records**

- (a) Up to and including the Closing Date, unless this Agreement is terminated pursuant to the provisions of Article 12, the Purchaser and its counsel, accountants, appraisers and other advisors shall have full and complete access, during normal business hours, providing such access does not adversely affect the day-to-day operations of the Company, to the premises, the Company Assets and Documents of the Company, for the purpose of investigating the Company Assets and the Company Business. Without limiting the generality of the foregoing such access shall include access to the following:
  - (i) all books, financial records, tax returns, insurance documentation, internal forecasts, contracts, minute books and other records pertaining to the business, affairs, operations of the Company, the Company Assets and the Liabilities of the Company;
  - (ii) contracts, patents and leases pertaining to the Company Business, the Company Assets and the Liabilities of the Company;
  - (iii) copies of all services and management contracts pertaining to the Company;
  - (iv) lists of all employees and consultants, their remuneration packages, employment contracts, consulting contracts, and employee benefits plans

and compensation agreements, including outstanding options to acquire additional securities in the capital of the Company; and

- (v) any other records, documents, facilities and/or assets reasonably required by the Purchaser.
- (b) Up to and including the Closing Date, unless this Agreement is terminated pursuant to the provisions of Article 12, the management of the Company shall, upon reasonable request to meet with the Purchaser and its representatives during normal business hours at the headquarters of the Company, or via remote means, including video or teleconference, phone or e-mail to discuss the status of ongoing operations of the Company.

## **ARTICLE 9 INTERIM OPERATIONS**

### **9.1 Carrying on Business to Closing**

- (a) The Vendor shall cause the Company Business to be carried on in the normal and ordinary course during the period from the date hereof until the earlier of the Closing Date or the termination of this Agreement in accordance with the provisions of this Article 9 (the "**Interim Period**") and undertake to immediately notify the Purchaser of any event or occurrence during such period which might reasonably be considered to have a Material Adverse Effect on the Company.
- (b) Unless otherwise contemplated herein or approved by the Purchaser in writing, the Vendor covenants with the Purchaser that during the Interim Period the Vendor shall not permit the Company to:
  - (i) (A) amend its articles or by-laws; (B) declare, set aside or pay any dividend or make any other distribution or payment (whether in cash, shares, property or otherwise) in respect of its outstanding Common Shares; (C) issue or agree to issue any shares, or securities convertible into or exchangeable or exercisable for, or otherwise evidencing a right to acquire, the Common Shares; (D) redeem, purchase or otherwise acquire any of its outstanding the Common Shares or other securities; (E) split, combine or reclassify any of its the Common Shares or reduce the stated capital of the Company; (F) adopt a plan of liquidation or resolutions providing for its liquidation, dissolution, merger, consolidation, arrangement or reorganization; or (G) enter into or modify any contract, agreement, commitment or arrangement with respect to any of the foregoing;
  - (ii) except as previously disclosed or with the written consent of the Purchaser, such consent not to be unreasonably withheld, directly or indirectly: (A) sell, pledge, dispose of or encumber (including creating any Lien on) any of the Company Assets having an individual value in excess of \$100,000; (B) expend or commit to expend more than \$100,000 in the aggregate in respect of any capital expenditures; (C) expend or commit to expend any amounts with respect to any operating

expenses other than in the ordinary course of business or to satisfy payments required pursuant to this Agreement or transaction costs related to the purchase and sale of the Purchased Shares (in an amount not to exceed \$150,000); (D) acquire (by merger, amalgamation, consolidation or acquisition of shares or assets) any corporation, partnership or other business organization or division thereof, or make any investment therein either by purchase of shares or securities, contributions of capital or property transfer; (E) acquire any assets with an acquisition cost in excess of \$100,000 in the aggregate; (F) incur any indebtedness for borrowed money in excess of existing credit facilities, or any other material liability or obligation or issue any debt securities or assume, guarantee, endorse or otherwise become responsible for, the obligations of any other individual or entity, or make any loans or advances, other than in the ordinary course of business or in respect of the transaction contemplated hereby; (G) authorize, recommend or propose any release or relinquishment of any Company Material Contract (other than contracts for the provision of seismic services in the ordinary course of the Company Business, consistent with past practice) or other material right; (H) waive, release, grant or transfer any material rights of value or modify or change in any material respect any existing Company Material Contract or material license, lease or other material document; (I) enter into or terminate any hedges, swaps or other financial instruments or like transactions; or (J) authorize or propose any of the foregoing, or enter into or modify any contract, agreement, commitment or arrangement to do any of the foregoing;

- (iii) (A) amend the terms of employment of employees or the terms on which consultants are retained; or (B) enter into or terminate any agreements in respect of the employment of employees or the retention of consultants;
- (iv) make any payments or provide any additional benefits or entitlements to any director, officer, employee, consultant, partner or any shareholder of the Company, or any affiliate of a shareholder of the Company, or to any other Person in which a shareholder of the Company, or any of its respective affiliates owns any equity securities or ownership interests or to any other Person non-arm's length to the Company (collectively, the "**Related Persons**"), other than the payment of salaries, expense reimbursements or consulting fees to the Related Persons for services provided in the ordinary course of business and consistent with past practice;
- (v) except as described in Schedule 9.1(b)(v), notwithstanding anything else contained herein, declare or pay any bonus to a Related Person;
- (vi) incur, assume or otherwise become liable for any debts or charges to any Related Person, other than for *bona fide* advances or payments made to or for the benefit of the Company by employees or consultants in the ordinary course of business and consistent with past practice;

- (vii) grant any Related Person an increase in compensation in any form, grant any general salary increase, take any action with respect to the amendment or grant of any severance or termination pay policies or arrangements for any Related Person; or
  - (viii) take any action, refrain from taking any action, permit any action to be taken or not taken, inconsistent with this Agreement, which might directly or indirectly interfere or affect the consummation of the transaction contemplated hereby.
- (c) The Vendor shall cause the Company to, at the Company's expense, during the Interim Period:
  - (i) retain the present employees, customers, contracts and suppliers of the Company;
  - (ii) maintain in force its current policies of insurance and pay all premiums in respect of such insurance policies that become due after the date hereof; and
  - (iii) maintain, preserve and repair the Company Assets to keep such Company Assets in substantially the same state or condition as at the date hereof, reasonable wear and tear excepted; provided that, the Company will not be required to make any expenditures outside of the ordinary course.

## **9.2 Prohibited Negotiations**

Except in connection with the sale of the Purchased Shares to the Purchaser pursuant hereto, until the Time of Closing, the Vendor shall ensure that neither the Vendor nor the Company shall have any further negotiations with other potential purchasers of all or any portion of the Purchased Shares (or all or any of the Company Shares) or all or any of the Company Assets (other than in the ordinary and usual course of the Company Business and as permitted by Subsection 9.1(b)(ii)) and shall not directly or indirectly initiate, solicit, encourage or accept any other offer or proposal by any Person other than the Purchaser for the purchase or acquisition of all or any portion of the Purchased Shares (or all or any of the Company Shares) or all or any of the Company Assets (other than in the ordinary and usual course of the Company Business and as permitted by Subsection 9.1(b)(ii)). The Vendor shall notify the Purchaser orally and in writing of any unsolicited expressions of interest from third parties for the sale of the Company Assets or any securities of the Company (or any part of such Company Assets or securities) (including without limitation, the terms and conditions of any such proposal and the identity of the person making it), within 24 hours of the receipt thereof. The Vendor may not transfer, dispose of or encumber any Purchased Share subsequent to the date hereof.

## **9.3 Purchaser's Covenants**

During the Interim Period, the Purchaser shall comply in all material respects with all Applicable Laws including laws, regulations and rules in respect of securities disclosure.



## **ARTICLE 10 CONFIDENTIALITY**

### **10.1 Confidentiality**

- (a) All documents and information received by the Vendor or the Company, on the one hand, from the Purchaser, on the other hand, or vice versa, and their respective counsel and agents (including this Agreement and the Transaction contemplated hereby), shall be treated by the Vendor and the Purchaser, as the case may be, as confidential information and will not be used by the recipient or disclosed to others by the recipient, except to their respective counsel, auditors, bankers and other advisors. Neither Party shall disclose the terms of this Agreement to any other Person (other than such Party's affiliates, directors, officers, consultants, employees, lenders, counsel, accountants or any other advisors on a need to-know basis who have agreed in writing or who by the nature or their terms of their retainer, engagement or employment are under a duty to keep such terms confidential and to use the information only for the need-to-know basis upon which the information was provided, and for whom such Party shall be liable as a result of any breach of such obligation of confidentiality), except in order to comply with any Applicable Law or in connection with any dispute concerning this Agreement; provided that, subject to the provisions of Subsection 10.1(b), each Party shall notify the other Parties of any proceeding under Applicable Law of which it is aware which may result in disclosure and the other Parties may, at their own expense, seek to obtain any protective order to prevent or limit such disclosure. The Parties shall be entitled to all remedies available at law or in equity to enforce, or seek relief in connection with, this confidentiality obligation; provided further that, all monetary damages shall be limited to actual direct damages. The provisions of this Section 10.1 shall survive the Closing Date for a period of three years; except that, the obligations of the Purchaser pursuant to this Section 10.1 shall terminate on Closing.
- (b) Notwithstanding the provisions of Subsection 10.1(a), the Vendor and the Purchaser acknowledge and agree that each of the Vendor and the Purchaser is a "reporting issuer" in certain jurisdictions and each of the Vendor and the Purchaser may make such press releases respecting the Transaction contemplated hereby as it desires or as may be required by Applicable Law, the policies of the TSX or TSXV or otherwise; provided that the Vendor and the Purchaser provides the other with a copy of such press releases for the other party's review and sign-off prior to issuance.

## **ARTICLE 11 LIABILITY AND INDEMNIFICATION**

### **11.1 Responsibility of the Vendor**

Subject to the limitations set forth herein, the Vendor acknowledges and agrees that it shall:

- (a) be liable to the Purchaser and its Additional Indemnitees for all Indemnified Losses which any one or more of them may suffer, sustain, pay or incur; and

- (b) indemnify and save harmless the Purchaser and its Additional Indemnitees from and against all Indemnified Losses which may be brought against or suffered by any one or more of them or which any one or more of them may sustain, pay or incur, as a result of any act, omission, circumstance or other matter, arising out of, resulting from, attributable to or connected with any Agreement Default made by the Vendor or the Company.

## **11.2 Tax Indemnity**

In addition to and without limiting the generality of Section 11.1, the Vendor shall indemnify the Purchaser and its Additional Indemnitees and save them fully harmless against any Taxes, costs, expenses and liabilities including reasonable legal fees, on a full indemnity basis (without reduction for tariff rates or similar reductions) which may be suffered or incurred by any of the Purchaser and its Additional Indemnitees as a result of, or arising out of or in connection with or related in any manner whatever to any Taxes required to be paid by the Company, relating to any period ended on or before the Closing Date or the portion of any Taxes for any taxation year or period ending after the Closing Date that is attributable to the portion of such year or period ending on the Closing Date (including, for greater certainty, any amount determined under subsection 80(13) of the Tax Act in respect of the forgiveness by the Vendor of approximately \$14,400,000 of the InterCompany Debt, as contemplated by Subsection 4.18(n) hereof), except to the extent that such Taxes were specifically accrued as a liability in the Company Financial Statements, and provided that, under no circumstances shall the Vendor be liable to indemnify the Purchaser or any Additional Indemnitee for Taxes payable by the Company that are reasonably attributable to taxable income from normal business operations and included in the Stub Returns of the Company. This indemnity shall survive until the expiration of any applicable limitation period under any Applicable Law with respect to Taxes.

## **11.3 Responsibility of Purchaser**

Subject to the limitations set forth herein, the Purchaser hereby acknowledges and agrees that it shall:

- (a) be liable to the Vendor and its Additional Indemnitees for all Indemnified Losses which any one or more of them may suffer, sustain, pay or incur; and
- (b) indemnify and save harmless the Vendor and its Additional Indemnitees from and against all Indemnified Losses which may be brought against or suffered by any one or more of them or which any one or more of them may sustain, pay or incur, as a result of any act, omission, circumstances or other matter, arising out of, resulting from, attributable to or connected with any Agreement Default made by the Purchaser.

## **11.4 Responsibility Extends to Legal Costs and Settlements**

Notwithstanding any provision to the contrary contained in this Article 11, references to costs in the liability and indemnification obligations prescribed by Sections 11.1, 11.2 and 11.3 shall be deemed to include Professional Fees and disbursements on a full indemnity basis, and shall extend to settlements, satisfactions or other compromises with respect to claims by a Third Party for Indemnified Losses.

## 11.5 Indemnification Procedure

Notwithstanding any provision to the contrary contained in this Article 11:

- (a) In the event that an Indemnatee becomes aware of any claim, proceeding or other matter (a "**Claim**") in respect of which the Indemnifier is liable to indemnify the Indemnatee pursuant to this Article 11, the Indemnatee shall promptly give written notice thereof to the Indemnifier. Such notice shall specify whether the Claim arises as a result of a claim by a Person other than a Party (a "**Third Party**"), against the Indemnatee (a "**Third Party Claim**") or whether the Claim does not so arise (a "**Direct Claim**"), and shall also specify with reasonable particularity (to the extent that the information is available) the factual basis for the Claim and the amount of the Claim, if known.
- (b) With respect to any Direct Claim, following receipt of notice from the Indemnatee of the Claim, the Indemnifier shall have 30 days to make such investigation of the Claim as is considered necessary or desirable. For the purpose of such investigation, the Indemnatee shall make available to the Indemnifier the information relied upon by the Indemnatee to substantiate the Claim, together with all such other information as the Indemnifier may reasonably request. If both Parties agree at or prior to the expiration of such 30-day period (or any mutually agreed upon extension thereof) to the validity and amount of such Claim, the Indemnifier shall immediately pay to the Indemnatee the full agreed upon amount of the Claim, failing which the matter shall be referred to binding arbitration in such manner as the Parties may agree or, in default, pursuant to the provisions of the *Arbitration Act* (Alberta).
- (c) With respect to any Third Party Claim, the Indemnifier shall have the right, at its expense, to participate in or assume control of the negotiation, settlement or defence of the Claim and, in such event, the Indemnifier shall reimburse the Indemnatee for all of the Indemnatee's reasonable out-of-pocket expenses as a result of such participation or assumption. If the Indemnifier elects to assume such control, the Indemnatee shall have the right to participate in the negotiation, settlement or defence of such Third Party Claim and to retain counsel to act on its behalf provided that the fees and disbursements of such counsel shall be paid by the Indemnatee unless the Indemnifier consents to the retention of such counsel or unless the named parties to any action or proceeding include both the Indemnifier and the Indemnatee and a representation of both the Indemnifier and the Indemnatee by the same counsel would be inappropriate due to the actual or potential differing interests between them (such as the availability of different defences). Notwithstanding the foregoing, the Indemnifier shall not settle any Third Party Claim without the prior written consent of the Indemnatee, which consent shall not be unreasonably withheld or delayed. If the Indemnifier, having elected to assume such control, thereafter fails to defend the Third Party Claim within a reasonable time, the Indemnatee shall be entitled to assume such control, and the Indemnifier shall be bound by the results obtained by the Indemnatee with respect to such Third Party Claim. If the amount of any liability of the Indemnatee under the Third Party Claim in respect of which such payment was made, as finally determined, is less than the amount that was paid by the

Indemnifier to the Indemnatee, the Indemnatee shall, forthwith after receipt of the difference from the Third Party, pay the amount of such difference to the Indemnifier.

- (d) If the Indemnifier fails to assume control of the defence of any Third Party Claim, the Indemnatee shall have the exclusive right to contest, settle or pay the amount claimed. Notwithstanding the foregoing, the Indemnatee shall not settle any Third Party Claim without the prior written consent of the Indemnifier, which consent shall not be unreasonably withheld or delayed.
- (e) The Indemnatee and the Indemnifier shall co-operate fully with each other with respect to Third Party Claims, and shall keep each other fully advised with respect thereto (including supplying copies of all relevant documentation promptly as it becomes available). Without limitation to the foregoing there shall, as between the Indemnatee and Indemnifier, be a duty of good faith with respect to any Third Party Claim and the conduct or defence thereof.

#### **11.6 Limit on Each Party's Responsibility**

The obligations and liability of any Indemnifier under this Agreement shall be subject to the following limitations:

- (a) the Indemnifier shall have no liability in connection with any Indemnified Losses to the extent that such Indemnified Losses are reimbursed or reimbursable with reasonable certainty to the Indemnatee or its Additional Indemnitees by the Indemnatee's insurer;
- (b) no Person who has engaged in any fraud, wilful misconduct, fraudulent misrepresentation or negligence shall be entitled, to the extent that the Indemnified Losses were caused by such activity, to claim indemnification pursuant to this Article 11 from any Person who has not engaged in such fraud, wilful misconduct, fraudulent misrepresentation or negligence;
- (c) the Indemnifier shall have no liability in connection with any Claim (other than those Claims in consequence of any covenants of a Party contained in this Agreement and those claims made in respect of Taxes in accordance with any of Sections 11.1, 11.2 or 11.3) unless the Indemnatee provides the Indemnifier with written notice of such Claim, including, to the extent known, full particulars of the basis therefor, within 18 months of the Closing Date;
- (d) Vendor shall not have any liability in connection with any Indemnified Losses suffered by the Purchaser until the aggregate of such Indemnified Losses exceeds \$150,000 and, upon the aggregate of such Indemnified Losses exceeding \$150,000, the Vendor shall be required to indemnify in respect of the full amount of such Indemnified Losses; provided that notwithstanding any other provision of this Agreement, the liability of the Vendor in connection with any Indemnified Losses and the recourse of the Purchaser and of any of its Additional Indemnitees shall be limited as follows:

- (i) the liability of the Vendor shall not exceed the amount of the Purchase Price payable to the Vendor;
  - (ii) if the Purchaser or any of its Additional Indemnitees is entitled to indemnification for Indemnified Losses from the Vendor, recourse shall be had, from the cancellation of the Purchaser's Shares provided that in connection with the satisfaction of any Indemnified Losses, the Purchaser's Shares shall be cancelled in such amounts as is equal to the amount of any such Indemnified Losses, divided by the Deemed Price per Share, subject to applicable securities laws and the rules and regulations of the TSXV. Notwithstanding the foregoing, the Vendor may, prior to any such cancellation, satisfy the amount of any such Indemnified Losses by way of a cash payment in the amount of such Indemnified Losses to the Purchaser;
  - (iii) subject to the provisions of Section 11.6, the Purchaser shall be entitled, for 120 days from the Closing Date, to set off the amount of any Indemnified Losses, against any positive working capital amount as at the Closing Date;
- (e) the Purchaser shall have no liability in connection with any Indemnified Losses suffered by the Vendor until the aggregate of such claims exceeds \$150,000 and, upon the aggregate of such claims exceeding \$150,000, the Purchaser shall be required to indemnify in respect of the full amount of such Indemnified Losses; provided that, the Purchaser's liability in connection with any Indemnified Losses to any Indemnitee shall not, in the aggregate, exceed the amount of the Purchase Price;
- (f) the Indemnifier shall have no liability for any Indemnified Losses in respect of any matter or thing done or omitted to be done by or at the written direction or with the written consent of, in the case of the Vendor, the Purchaser and, in the case of the Purchaser, a Vendor;
- (g) the Indemnifier shall have no liability for any Indemnified Losses which arise by reason of a proposed or actual promulgation or change of any Applicable Law or of any Authorized Authority having, or purporting to have authority over, or application to, the Company any of which occurs after the Closing Date, whether or not the same takes effect retroactively;
- (h) any Indemnified Losses suffered or incurred by an Indemnified Party in respect of any Claim shall be the net after tax loss (Canadian and foreign) actually incurred by the Indemnitee actually or reasonably estimated to be incurred by it, which arises in respect of that Claim;
- (i) the Indemnifier shall have no liability for any Indemnified Losses to the extent the Indemnitee or any of its Additional Indemnitees has already recovered the amount of the loss which is the subject-matter of such Claim whether by a previous indemnity claim which was paid in full or a price adjustment under this Agreement or from any other source;

- (j) nothing in this Agreement or in any document delivered in order to carry out the transactions contemplated hereby shall in any way restrict or limit the general obligation at law of any Party hereto to mitigate any damages which it may suffer or incur by reason of the breach by any other Party hereto of any representation, warranty or covenant of such other Party hereunder; and
- (k) if the amount of any Indemnified Losses incurred by an Indemnitee at any time subsequent to the making of an indemnity payment is reduced by any recovery, settlement or otherwise under or pursuant to any insurance coverage, or pursuant to any claim, recovery, settlement or payment by or against any other Person, the amount of such reduction (less any costs, expenses (including taxes) or premiums incurred in connection therewith) shall promptly be paid by the Indemnitee to the Indemnifier.

#### **11.7 No Merger of Legal Responsibilities**

The liabilities and indemnities created in this Article 11 shall be deemed to apply to, and shall not merge in, all assignments, transfers and other documents delivered by the Vendor to the Purchaser pursuant hereto, notwithstanding the terms of such assignments, transfers and other documents or Applicable Law to the contrary, and all such rules are hereby waived.

### **ARTICLE 12 TERMINATION**

#### **12.1 Grounds for Termination**

This Agreement may be terminated on or prior to the Closing Date:

- (a) by the mutual written agreement of the Vendor, and the Purchaser;
- (b) by the Purchaser upon written notice to the Vendor if any of the conditions set forth in Section 7.1 have not been satisfied or waived by the Purchaser at the Time of Closing;
- (c) by the Vendor upon written notice to the Purchaser if any of the conditions set forth in Section 7.2 have not been satisfied or waived at the Time of Closing;
- (d) by the Purchaser upon written notice to the Vendor (or vice versa) if the Vendor (or the Purchaser, as applicable) has committed an Agreement Default; provided that, if any such Agreement Default is curable, it has not been cured by the earlier of the Closing Date or within five days after written notice of such Agreement Default has been received by the defaulting Party;
- (e) by any Party upon written notice to the other Parties if the Closing Date has not occurred by February 28, 2012,

provided that, notwithstanding anything to the contrary express or implied herein, a Party shall not be allowed to exercise any right of termination pursuant to this Section 12.1 if the event giving rise to such right is due to an Agreement Default by such Party.

## **12.2 Effect of Termination**

If this Agreement is terminated by the Vendor or by the Purchaser as permitted under Section 12.1:

- (a) except as contemplated by this Section 12.2, such termination shall be without liability of any Party to the other Parties, or to any of their shareholders, directors, officers, employees, agents, consultants or representatives;
- (b) if such termination shall result from the Agreement Default of a Party, such Party shall not be released from such Agreement Default and shall indemnify the other Parties in accordance with Article 11; and
- (c) subject to Section 6.1, the provisions of Article 12 shall survive the termination of this Agreement for a period of 18 months from the date of such termination.

## **ARTICLE 13 NOTICES**

### **13.1 Delivery of Notices**

Notwithstanding anything to the contrary contained herein, all notices or other deliveries required or permitted hereunder shall be in writing. Any notice or other delivery to be given hereunder shall be deemed to be properly provided if delivered in any of the following modes:

- (a) personally, by delivering the notice to the Party on which it is to be served at that Party's address for notices as set forth in Section 13.2. Personally delivered notices shall be deemed to be received by the addressee when actually delivered as aforesaid; provided that, such delivery shall be during normal business hours on any Business Day. If a notice is not delivered on a Business Day or is delivered after the addressee's normal business hours, such notice shall be deemed to have been received by such Party at the commencement of the addressee's first Business Day next following the time of the delivery; or
- (b) by facsimile (or by any other like method by which a written message may be sent) directed to the Party on which it is to be delivered at that Party's facsimile number as set forth in Section 13.2. A notice so served shall be deemed to be received by the addressee when transmitted by the Party delivering the notice (provided such Party obtains confirmation from its facsimile of successful transmission), if transmitted during the addressee's normal business hours on any Business Day, or at the commencement of the next ensuing Business Day following transmission if such notice is not transmitted on a Business Day or is transmitted after the Party's normal business hours.

### **13.2 Notices**

The address and facsimile number for delivery of notices, documents, cheques or other instruments hereunder of each of the Parties shall be as follows:

- (a) if to the Vendor, at:

Alter NRG Corp.  
Suite 215, 4000 – 4th Street S.E.  
Calgary, Alberta T2G 2W3  
Attention: Danny Hay, Chief Financial Officer  
Facsimile: (403) 806-3721

with a copy to:

Blake, Cassels & Graydon LLP  
Barristers and Solicitors  
#3500, 855 – 2nd Street S.W.  
Calgary, Alberta T2P 4J8  
Attention: Scott W. N. Clarke  
Facsimile: (403) 260-9700

(b) if to any Purchaser prior to the Time of Closing, at:

Bellair Ventures Inc.  
Suite 509, 10 Bellair Street  
Toronto, Ontario M5R 3T8  
Attention: Emlyn David, Chief Executive Officer

with a copy to:

Wildeboer Dellelce LLP  
Suite 800, Wildeboer Dellelce Place  
365 Bay Street, Toronto, ON M5H 2V1  
Attention: Derek Sigel  
Facsimile: (416) 361-1790

A Party may change its address and facsimile number for delivery by notice to the other Parties in the manner set forth herein, and such changed address for notices thereafter shall be effective for all purposes of this Agreement.

## **ARTICLE 14**

### **PRIVACY MATTERS**

#### **14.1 Disclosed Personal Information**

The Parties who have received or will receive Disclosed Personal Information (the "**Privacy Parties**") acknowledge that they are responsible for compliance at all times with Applicable Privacy Laws which govern the collection, use and disclosure of Personal Information acquired by or disclosed to any Privacy Party pursuant to or in connection with this Agreement (the "**Disclosed Personal Information**").

#### **14.2 No Unrelated Use**

No Privacy Party shall use the Disclosed Personal Information for any purposes other than those related to the performance of this Agreement and the completion of the transactions contemplated hereby.



#### **14.3 Necessary Disclosure**

Each Privacy Party acknowledges and confirms that the disclosure of Personal Information is necessary for the purposes of determining if the Privacy Parties shall proceed with the transactions contemplated hereby, and that the disclosure of Personal Information relates solely to the carrying on of the business and the completion of the transactions contemplated hereby.

#### **14.4 Applicable Measures**

Each Privacy Party acknowledges and confirms that it has and shall continue to employ appropriate technology and procedures in accordance with Applicable Law to prevent accidental loss or corruption of the Disclosed Personal Information, unauthorized input or access to the Disclosed Personal Information, or unauthorized or unlawful collection, storage, disclosure, recording, copying, alteration, removal, deletion, use or other processing of such Disclosed Personal Information.

#### **14.5 Duty to Keep Confidential**

Each Privacy Party shall at all times keep strictly confidential all Disclosed Personal Information provided to it, and shall instruct those employees or advisors responsible for processing such Disclosed Personal Information to protect the confidentiality of such information in a manner consistent with the Privacy Parties' obligations hereunder. Each Privacy Party shall ensure that access to the Disclosed Personal Information shall be restricted to those employees or advisors of the respective Privacy Party who have a *bona fide* need to access to such information in order to complete the transactions contemplated hereby.

#### **14.6 Duty to Notify**

Each Privacy Party shall promptly notify the other Privacy Parties of all inquiries, complaints, requests for access, and claims of which the Privacy Party is made aware in connection with the Disclosed Personal Information. The Privacy Parties shall fully co-operate with one another, with the persons to whom the Personal Information relates, and any Authorized Authority charged with enforcement of Applicable Privacy Laws, in responding to such inquiries, complaints, requests for access, and claims.

#### **14.7 Duty to Return or Destroy**

Upon the expiry or termination of this Agreement, or otherwise upon the reasonable request of any Privacy Party hereto, the other Privacy Parties shall forthwith cease all use of the Personal Information acquired by such other Privacy Parties in connection with this Agreement and will return to the requesting Privacy Party or, at the requesting Privacy Party's request, destroy in a secure manner, the Disclosed Personal Information (and any copies).

### **ARTICLE 15 GENERAL**

#### **15.1 Governing Law**

This Agreement shall be governed by, construed and enforced in accordance with the laws in effect in the Province of Alberta and the federal laws of Canada applicable therein. Each Party

accedes and submits to the jurisdiction of the courts of the Province of Alberta and all courts of appeal therefrom.

### **15.2 Commissions, etc.**

- (a) The Vendor agrees to indemnify and save harmless the Purchaser from and against any claims whatsoever for any commission or other remuneration payable or alleged to be payable to any broker, agent or other intermediary who has acted for the Vendor in connection with the sale of the Purchased Shares.
- (b) The Purchaser agrees to indemnify and save harmless the Vendor from and against any claims whatsoever for any commission or other remuneration payable or alleged to be payable to any broker, agent or other intermediary who has acted for the Purchaser in connection with the purchase and sale of the Purchased Shares.

### **15.3 Counterparts**

This Agreement and any document or instrument to be executed and delivered by the Parties hereunder or in connection herewith may be executed and delivered in separate counterparts and delivered by any Party to the other Parties by facsimile, each of which when so executed and delivered shall be deemed an original and all such counterparts shall together constitute one and the same agreement. If this Agreement or any such document or instrument is delivered by facsimile, the Party so delivering this Agreement or such document or instrument shall within a reasonable time after such delivery deliver an originally executed copy to the other Parties.

### **15.4 Successors and Assigns**

This Agreement will be binding upon and will enure to the benefit of the Parties and their respective successors and permitted assigns.

### **15.5 Supercedes Earlier Agreements**

This Agreement constitutes the whole and entire agreement among the Parties in connection with the transactions contemplated herein and cancels and supersedes any prior agreements, undertakings, declarations, commitments, representations, written or oral, in respect thereof, and there are no express or implied terms, conditions, agreements, undertakings, declarations, commitments, representations or warranties or other duties (legal, equitable, fiduciary, in tort or under general principles of civil law) whatsoever among the Parties not expressly provided for in this Agreement.

### **15.6 Waiver**

No waiver by any Party of any breach (whether actual or anticipated) of any of the terms, conditions, representations or warranties contained herein shall take effect or be binding upon that Party unless the waiver is expressed in writing under the authority of that Party. Any waiver so given shall extend only to the particular breach so waived and shall not limit or affect any rights with respect to any other or future breach.

### **15.7 Time of the Essence**

Time shall be of the essence in this Agreement.

### **15.8 No Merger**

The representations, warranties, liabilities and indemnities created in this Agreement shall be deemed to apply to all assignments, conveyances, transfers and other documents conveying any of the Purchased Shares from the Vendor to the Purchaser. There shall not be any merger of any of such representations, warranties, liabilities or indemnities in such assignments, transfers or other documents.

### **15.9 Invalidity of Provisions**

If any of the provisions of this Agreement are determined to be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the other provisions shall not in any way be effected or impaired thereby.

### **15.10 Amendments**

Subject to Section 13.2, this Agreement may be amended only by written instrument executed by the Vendor and the Purchaser.

### **15.11 Expenses**

Except as specifically provided herein, each Party will bear the fees and disbursements of their respective lawyers, accountants and consultants engaged in connection with the preparation of this Agreement and any and all agreements, instruments, documents or other writings to be executed and delivered pursuant hereto and all other costs and expenses incurred in connection herewith and therewith; provided that, the fees and expenses of Company's Counsel incurred in connection with the negotiation of this Agreement may be paid by the Company but will be included in calculating the amount of any working capital deficit.

### **15.12 Further Assurances**

The Vendor will from time to time, on and after the date hereof, at the request and expense of the Purchaser, execute and deliver all such other additional instruments, notices, releases, acquittances and other documents and shall do all such other acts and things as may be reasonably necessary to carry out the terms and conditions of this Agreement in accordance with their true intent.

### **15.13 Survival**

Notwithstanding anything else contained herein, and without limiting any of the provisions hereof, the obligations of the Parties specified in Section 2.4, Section 2.5, Section 2.7, Article 3, Section 7.1(j), Article 10, Article 11, Article 12, Article 14, Section 15.1, Section 15.2, Section 15.4, Section 15.8, Section 15.9, Section 15.10, Section 15.11, Section 15.12 and this Section 15.13 shall survive Closing and continue to bind the Parties in accordance with their terms.

**IN WITNESS WHEREOF** the Parties have caused this Agreement to be duly executed as of the date and year first above written.

**ALTER NRG CORP.**

Per: "Danny Hay" (signed)  
Name: Danny Hay  
Title: Chief Financial Officer

**BELLAIR VENTURES INC.**

Per: "Emlyn David" (signed)  
Name: Emlyn David  
Title: Chief Executive Officer

**Schedule 1.1(q)**  
**Company Assets**

Any and all right, title and interest, in the following:

1. All assets described in Exhibit 1 attached hereto and all of the spare and replacement parts and accessories for or associated with such assets currently in possession of the Company or that may come into possession of the Company after the date hereof.
2. All of the Company's Intellectual Property and Intellectual Property Rights.
3. All Goodwill of the Company.

**The assets as described in Exhibit 1 are subject to final confirmation by the Company, as agreed between the Parties this will be completed by January 15, 2012.**

**Exhibit “1” to Schedule 1.1(q)**

***[Redacted for Confidentiality Reasons]***

**Schedule 1.1(t)**  
**Company Financial Statements**

December 31, 2010 Unaudited (attached as Appendix 1)

September 30, 2011 Unaudited (attached as Appendix 2)

## Appendix 1





# Clean Energy Developments Corp.

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## Unaudited Financial Statements

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For the year ended  
December 31, 2010

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# FINANCIAL STATEMENTS

## STATEMENT OF FINANCIAL POSITION

	Unaudited December 31, 2010	Unaudited December 31, 2009	Audited December 31, 2008
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 787,625	\$ 137,258	\$ -
Accounts receivable	2,196,331	1,045,060	1,267,712
Inventory	251,435	299,018	195,873
Prepays	47,324	94,662	141,102
	3,282,715	1,575,998	1,604,687
Restricted cash	330,308	-	-
Long-term deposit	36,123	36,123	-
Investment in subsidiary	1	-	-
Property, plant and equipment	354,887	539,232	646,100
Intangible assets	-	38,411	115,232
Goodwill	575,478	575,478	512,710
<b>Total Assets</b>	<b>\$ 4,579,512</b>	<b>\$ 2,765,242</b>	<b>\$ 2,878,729</b>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Bank indebtedness	\$ -	\$ -	\$ 206,522
Accounts payable and accrued liabilities	1,319,394	801,592	1,238,577
Deferred revenue	266,534	27,745	-
Promissory note payable	-	62,768	-
Current portion of finance lease liabilities	33,278	59,984	131,845
Advance from a shareholder	-	-	161,076
	1,619,206	952,089	1,738,020
Finance lease liabilities	41,285	74,793	126,048
Deferred landlord inducements	45,052	56,415	67,779
Payable to parent company	12,002,535	2,412,253	-
<b>Total Liabilities</b>	<b>13,708,078</b>	<b>3,495,550</b>	<b>1,931,847</b>
Shareholders' Equity			
Share capital	3,445,290	3,445,290	2,903,290
Share purchase loan receivable	-	-	(51,196)
	3,445,290	3,445,290	2,852,094
Contributed surplus	92,086	92,086	76,685
Deficit	(12,665,942)	(4,267,684)	(1,981,897)
<b>Total Shareholders' Equity</b>	<b>(9,128,566)</b>	<b>(730,308)</b>	<b>946,882</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 4,579,512</b>	<b>\$ 2,765,242</b>	<b>\$ 2,878,729</b>

## STATEMENT OF LOSS AND COMPREHENSIVE LOSS

	For the years ended December 31		
	2010	2009	2008
Sales	\$ 6,863,987	\$ 4,709,100	\$ 6,261,995
Cost of sales	6,543,528	2,575,504	3,019,994
Gross margin	320,459	2,133,596	3,242,001
General and administrative expenses	6,051,065	4,217,130	3,894,966
Amortization	158,708	237,628	202,363
Foreign exchange loss (gain)	12,240	(86,710)	167,148
Interest and bank charges	17,980	31,847	11,094
Interest on payable to parent company	433,777	22,063	-
Interest and other income	(8,010)	(2,575)	(402,218)
Other losses (gains)	(247,042)	-	-
	6,418,718	4,419,383	3,873,353
Net operating (loss)	(6,098,259)	(2,285,787)	(631,352)
Impairment of long-term investment	2,299,999	-	-
Net (loss) and comprehensive (loss) for the year	\$ (8,398,258)	\$ (2,285,787)	\$ (631,352)

## STATEMENT OF DEFICIT

	For the years ended December 31		
	2010	2009	2008
Deficit, beginning of year	\$ (4,267,684)	\$ (1,981,897)	\$ (1,352,677)
Net (loss) and comprehensive (loss) for the year	(8,398,258)	(2,285,787)	(631,352)
	(12,665,942)	(4,267,684)	(1,984,029)
Interest from share purchase loan receivable	-	-	2,132
Deficit, end of year	\$ (12,665,942)	\$ (4,267,684)	\$ (1,981,897)

## Appendix 2

# FINANCIAL STATEMENTS

## UNAUDITED INTERIM STATEMENT OF FINANCIAL POSITION

	<b>Unaudited September 30, 2011</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 616,889
Restricted cash	105,637
Accounts receivable	1,442,483
Inventory	171,382
Prepays	69,629
	2,406,020
Restricted cash	-
Long-term deposit	36,123
Investment in subsidiary	1
Property, plant and equipment	296,046
Goodwill	575,478
<b>Total Assets</b>	<b>\$ 3,313,668</b>
<b>Liabilities and Shareholders' Equity</b>	
Current liabilities	
Accounts payable and accrued liabilities	\$ 338,207
Deferred revenue	33,657
Promissory note payable	-
Current portion of finance lease liabilities	32,788
	404,652
Finance lease liabilities	13,521
Deferred landlord inducements	40,311
Payable to parent company	15,379,360
<b>Total Liabilities</b>	<b>15,837,844</b>
Shareholders' Equity	
Share capital	3,445,290
Contributed surplus	92,086
Deficit	(16,061,552)
<b>Total Shareholders' Equity</b>	<b>(12,524,176)</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 3,313,668</b>

# FINANCIAL STATEMENTS

## UNAUDITED INTERIM STATEMENT OF LOSS AND COMPREHENSIVE LOSS

	<b>Unaudited</b>
	<b>For the nine months ended</b>
	<b>September 30, 2011</b>
Sales	\$ 4,021,192
Cost of sales	3,625,015
Gross margin	396,177
General and administrative expenses	3,235,291
Amortization	56,216
Foreign exchange (gain)	(8,832)
Interest on payable to parent company	615,874
Interest and other income	(106,762)
	3,791,787
<b>Net operating loss, net loss and comprehensive loss for the period</b>	<b>\$ (3,395,610)</b>

## UNAUDITED INTERIM STATEMENT OF DEFICIT

	<b>Unaudited</b>
	<b>September 30, 2011</b>
Deficit, beginning of period	\$ (12,665,942)
Net loss and comprehensive loss for the period	(3,395,610)
Deficit, end of period	\$ (16,061,552)

**Schedule 1.1(xx)**  
**Permitted Encumbrances**

- (i) Any security interests or encumbrances arising by operation of Applicable Laws (other than Applicable Laws with respect to Taxes), including, without limitation, for carriers, warehousemen, repairers', assessments, statutory obligations and government charges and levies for amounts not yet due and payable or which may be past due but which are being contested in good faith by appropriate proceedings (and as to which there are no other enforcement proceedings or they shall have been effectively stayed).
- (ii) Liens for Taxes which secure payment of amounts not at the time due.
- (iii) Zoning restrictions, easements, licenses, covenants and other restrictions affecting the use of real property which do not interfere in any material respect with the use of such real property or ordinary conduct of the Company Business thereon or materially impair the value of the real property which may be subject thereto.
- (iv) The rights reserved to or vested in any person by the terms of any lease, license or permit held by the Company or by any statutory provision to terminate any such lease, licence or permit, or to require annual or periodic payments as a condition to the continuance thereof, provided that such encumbrances do not interfere in any material respect with such lease, licence or permit or the ordinary conduct of the Company Business.
- (v) Encumbrances (including servicing agreements, development agreements, site plan agreements and other agreements) with or given to a public utility or any municipality or governmental or other public authority, provided that such encumbrances do not interfere in any material respect with the use of the real property affected thereby or ordinary conduct of the Company Business.
- (vi) Applicable municipal and other governmental restrictions, including municipal by-laws and regulations, affecting the use of land or the nature of any structures which may be erected thereon, provided such restrictions have been complied with and do not interfere in any material respect with the use of the real property affected thereby or ordinary conduct of the Company Business.
- (vii) The following security interests or encumbrances and any renewal or extension thereof, and security documents and other agreements in respect thereof:

<b>Creditor</b>	<b>Description</b>	<b>Balance Outstanding Sept 30, 2011</b>	<b>Termination Date</b>
<b>Waterfurnace International, Inc.</b>	Equipment Purchases	-	N/A
<b>CIT Financial LTD</b>	Starwall movable wall system, part 1	19,180.64	January 2013
<b>HSBC Bank Canada</b>	Line of Credit	-	N/A
<b>Irwin Commercial Finance Canada Corp.</b>	Starwall movable wall system, part 2	21,360.00	January 2013
<b>G.N Johnston Equipment Co. Ltd.</b>	Forklift Calgary	7,052.26	August 2013
	Forklift Mississauga	3,871.00	November 2012
<b>J. Lockwood Leasing Limited</b>	Land Rover LR2 SE	18,500.00	November 2012
<b>CIT Financial Ltd.</b>	Mississauga Office Furniture	8,921.11	November 2012



**Schedule 3.4**  
**Legends**

NIL

**Schedule 4.11**  
**Litigation**

***[Redacted for Confidentiality Reasons]***

**Schedule 4.13**  
**Collectability of Receivables**

NIL

**Schedule 4.14**  
**Unusual Transactions**

*[Redacted for Confidentiality Reasons]*

## **Appendix 1**

***[Redacted for Confidentiality Reasons]***

## Appendix 2

**[Redacted for Confidential Reasons]**

**Schedule 4.18**  
**Tax Matters**

NIL

**Schedule 4.20**  
**Insurance**

***[Redacted for Confidentiality Reasons]***



**Schedule 4.24**  
**Company Workers' Compensation Claims History**

*[Redacted for Confidentiality Reasons]*

**Schedule 4.25**  
**Intellectual Property**

***[Redacted for Confidentiality Reasons]***

**Schedule 4.27**  
**Employee Benefit and Pension Plans**

***[Redacted for Confidentiality Reasons]***

**Schedule 4.30**  
**Company Material Contracts**

*[Redacted for Confidentiality Reasons]*

**Schedule 9.1(b)(v)**  
**Employee Bonuses**

*[Redacted for Confidentiality Reasons]*

## FIRST AMENDMENT TO OFFER AND SALE AGREEMENT

This First Amendment to Offer and Sale Agreement made and entered into as of February 28, 2012.

### **BETWEEN:**

**ALTER NRG CORP.**, a corporation incorporated pursuant the laws of the Province of Alberta (the "**Vendor**")

- and -

**BELLAIR VENTURES INC.**, a corporation incorporated pursuant the laws of Canada (the "**Purchaser**")

### **WHEREAS:**

- A. The Vendor and the Purchaser entered into an offer and sale agreement (the "**Offer and Sale Agreement**") dated as of January 5, 2012, relating to the sale of all of the issued and outstanding common shares in the capital of CleanEnergy Developments Corp. (the "**Company**");
- B. The Vendor and the Purchaser desire to amend Offer and Sale Agreement in accordance with the terms and conditions set forth herein.

**NOW THEREFORE THIS AGREEMENT WITNESSETH THAT** in consideration of the respective covenants and agreements herein contained and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the Parties covenant and agree as follows:

1. Unless otherwise defined herein, words and expressions defined in the Offer and Sale Agreement shall have the respective meanings attributed thereto when used herein.
2. The text of Subsection 1.1(n) of the Offer and Sale Agreement is deleted in its entirety and replaced with the following text:

"**Closing Date**" means ten Business Days following the date on which the Purchaser receives the Approval, but in any event shall be no later than April 15, 2012, or such later date as the Purchaser and Vendor may agree in writing."
3. The text of Subsection 2.3(d) of the Offer and Sale Agreement is deleted in its entirety and replaced with the following text:

"The Subscription Receipts will automatically convert into Common Shares upon receipt of the Approval (the "**Release Condition**"), without any further action on the part of the holders thereof. Upon the satisfaction of the Release Condition, the Escrowed Funds shall be released by the Escrow Agent to the Company. If the Release Condition has not been satisfied prior to 5:00 p.m. (Eastern Standard Time) on April 15, 2012, or such later date as may be agreed to in writing by the Vendor and the Purchaser, the Escrowed Funds shall be returned by the Escrow Agent, on behalf of the Company, to the holders of the Subscription Receipts, on a *pro rata* basis."
4. The text of Subsection 12.1(e) of the Offer and Sale Agreement is deleted in its entirety and replaced with the following text:

"by any Party upon written notice to the other Parties if the Closing Date has not occurred by April 15, 2012"

5. All other terms and conditions set forth in the Share Purchase Agreement shall remain the same and unamended and in full force and effect.
6. This First Amendment to Offer and Sale Agreement may be executed in person, via facsimile or via portable document format in one or more counterparts, each of which when so executed shall be deemed an original, and such counterparts together shall constitute one and the same instrument.

*[The remainder of this page has been intentionally left blank]*

**IN WITNESS WHEREOF**, the undersigned have caused this First Amendment to Offer and Sale Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

**ALTER NRG CORP.**

Per: "Danny Hay" (signed)  
Name: Danny Hay  
Title: Chief Financial Officer

**BELLAIR VENTURES INC.**

Per: "Emlyn David" (signed)  
Name: Emlyn David  
Title: Chief Executive Officer



## SECOND AMENDMENT TO OFFER AND SALE AGREEMENT

This Second Amendment to the Offer and Sale Agreement made and entered into as of April 30, 2012.

### **BETWEEN:**

**ALTER NRG CORP.**, a corporation incorporated pursuant the laws of the Province of Alberta (the "**Vendor**")

- and -

**BELLAIR VENTURES INC.**, a corporation incorporated pursuant the laws of Canada (the "**Purchaser**")

### **WHEREAS:**

- A. The Vendor and the Purchaser entered into an offer and sale agreement dated as of January 5, 2012, relating to the sale of all of the issued and outstanding common shares in the capital of CleanEnergy Developments Corp. (the "**Company**"), which was amended February 28, 2012 (collectively, the "**Offer and Sale Agreement**");
- B. The Vendor and the Purchaser desire to further amend the Offer and Sale Agreement in accordance with the terms and conditions set forth herein.

**NOW THEREFORE THIS AGREEMENT WITNESSETH THAT** in consideration of the respective covenants and agreements herein contained and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the Parties covenant and agree as follows:

- 1. Unless otherwise defined herein, words and expressions defined in the Offer and Sale Agreement shall have the respective meanings attributed thereto when used herein.
- 2. The text of Subsection 1.1(n) of the Offer and Sale Agreement is deleted in its entirety and replaced with the following text:

"**Closing Date**" means ten Business Days following the date on which the Purchaser receives the Approval, but in any event shall be no later than May 31, 2012, or such later date as the Purchaser and Vendor may agree in writing."

- 3. The following definition is added as Section 1.1(kkk.1):

"**Severance Claim**" means the claim listed as *Derek Sather v. Alter NRG Corp. and CleanEnergy Developments Corp.* in Schedule 4.11 – Litigation.

- 4. The text of Section 2.2 of the Offer and Sale Agreement is deleted in its entirety and replaced with the following text:

#### **"2.2 The Purchase Price**

The purchase price (the "**Purchase Price**") for the Purchased Shares shall be an amount equal to an aggregate of \$5,000,000, (representing a deemed price of \$0.50 per Purchaser's Share),

payable in 10,000,000 Purchaser's Shares (to be registered in the name and address set forth on the signature page of this Agreement, unless otherwise directed by the Vendor by delivery of written notice to the Purchaser no less than 48 hours prior to the Closing Date). The Purchaser's Shares will be issued at the Deemed Price Per Share."

5. The text of Section 2.3 of the Offer and Sale Agreement is deleted in its entirety and replaced with the following text:

**"2.3 Private Placement**

- (a) On or before the Closing Date, the Company will use its reasonable commercial efforts to carry out an offering of up to 4,000,000 subscription receipts (the "**Subscription Receipts**") on a brokered, private placement basis to raise gross proceeds of up to \$2,000,000 (the "**Private Placement**") at a purchase price of \$0.50 per Subscription Receipt (the "**Subscription Receipt Exercise Price**"), plus an over-allotment option of up to an additional 600,000 Subscription Receipts offered on the same terms and conditions for additional gross proceeds of up to \$300,000. Each Subscription Receipt will be exercisable by the holder thereof, without payment of additional consideration, into one unit ("**Unit**") of the Company, each unit consisting of one Common Share of the Company and one Common Share purchase warrant ("**Warrant**"). Each Warrant will entitle the holder thereof to purchase one Common Share of the Company (a "**Warrant Share**") at a price of \$0.75 per Warrant Share for a period of 24 months following the Closing Date.
- (b) The Subscription Receipts shall be created and issued pursuant to a subscription receipt agreement (the "**Subscription Receipt Agreement**") to be entered into between Equity Financial Trust Company, or such other third party as may be agreed between the Parties in writing (the "**Escrow Agent**") and the Company. The specific attributes of the Subscription Receipts shall be set forth in the Subscription Receipt Agreement.
- (c) On the closing date of the Private Placement, the gross proceeds from the Private Placement will be delivered to and held in escrow by the Escrow Agent and invested in short term investment grade debt obligations as determined by the Company (and funds held in escrow by the Escrow Agent, together with all interest and other income earned thereon, are referred to herein as the "**Escrowed Funds**").
- (d) The Subscription Receipts will automatically convert into Units upon receipt of the Approval (the "**Release Condition**"), without any further action on the part of the holders thereof. Upon the satisfaction of the Release Condition, the Escrowed Funds shall be released by the Escrow Agent to the Company. If the Release Condition has not been satisfied prior to 5:00 p.m. (Toronto time) on May 31, 2012, or such later date as may be agreed to in writing by the Vendor and the Purchaser, the Escrowed Funds shall be returned by the Escrow Agent, on behalf of the Company, to the holders of the Subscription Receipts, on a *pro rata* basis.
- (e) Immediately following the conversion of the Subscription Receipts, the Escrow Agent shall tender to the Purchaser all of the Common Shares issued upon conversion of the Subscription Receipts in exchange for the Purchaser's Shares in accordance with Section 2.2.

- (f) Immediately following the conversion of the Subscription Receipts, the Escrow Agent shall tender to the Purchaser all of the Warrants issued upon conversion of the Subscription Receipts in exchange for common share purchase warrants of the Purchaser with the same terms and conditions as the Warrants.
  - (g) If the Subscription Receipt Purchase Price is below \$0.50 per Subscription Receipt: (i) the Deemed Price Per Share shall be adjusted accordingly to reflect the decrease in value in the Purchaser's Shares; and (ii) the number of Purchaser's Shares that will be issued in respect of the Purchase Price will be adjusted accordingly.
  - (h) All costs associated with the Private Placement, including any accounting fees, legal fees, underwriters' commissions and any disbursements shall be borne by the Purchaser."
6. The text of Section 2.7 of the Offer and Sale Agreement is deleted in its entirety and replaced with the following text:

**"2.7 Control**

The Vendor and the Purchaser agree that the Purchaser will maintain control of the Company at all times. The Purchaser will have the power to: (i) nominate the majority of the seats on the board of directors of the Company, and (ii) govern the financial and operating policies of the Company. The Vendor further irrevocably agrees that where it owns greater than 50% of the issued and outstanding shares of the Purchaser that the Vendor will only vote a maximum of 49.9% of the issued and outstanding shares of the Purchaser voted in respect of any matter at any given time."

7. An additional covenant will be added to the Offer and Sale Agreement under Article 3 as follows:

**"3.7 Severance Claim**

The Vendor agrees that it shall (i) continue to take carriage of the Severance Claim; and (ii) be responsible for all costs, damages and any other payment whatsoever associated with the Severance Claim."

8. An additional covenant will be added to the Offer and Sale Agreement under Article 3 as follows:

**"3.8 Audit Costs**

The Vendor and the Purchaser agree that the Purchaser shall be responsible for all costs and any other payments whatsoever associated with:

- (i) the annual audit of the Company's financial statements for the year ended December 31, 2011; and
  - (ii) if required by the TSXV or securities laws, the interim review of the Company's financial statements for the quarter ended March 31, 2012.
9. The text of Section 4.10 of the Offer and Sale Agreement is deleted in its entirety and replaced with the following:

**"4.10 Employees and Director**

The employees and director of the Company are as hereinafter set forth:

*Employees*

Robert van Duynhoven – Director, Solution Sales  
Christopher Mitchell – Director, Geo Technology  
Denton Hocking – Manager, Customer Service  
Clint Patzack – Project Manager  
Farzin Masoumi Rad – Senior Engineer  
Justin Cherry – Site Supervisor  
Shane Tawse – Lead Technician  
Vladmir Levski – Lead Technician

*Director*

Mark Montemurro"

10. The following Subsection (c) shall be added to Section 11.1 of the Offer and Sale Agreement:  
  
"(c) be liable to the Purchaser and its Additional Indemnities for all costs, damages and any other payments whatsoever associated with the Severance Claim."
11. All other terms and conditions set forth in the Offer and Sale Agreement shall remain the same and unamended and in full force and effect.
12. This Second Amendment to the Offer and Sale Agreement may be executed in person, via facsimile or via portable document format in one or more counterparts, each of which when so executed shall be deemed an original, and such counterparts together shall constitute one and the same instrument.

*[The remainder of this page has been intentionally left blank]*

**IN WITNESS WHEREOF**, the undersigned have caused this Second Amendment to Offer and Sale Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

**ALTER NRG CORP.**

Per: "Danny Hay" (signed)  
Name: Danny Hay  
Title: Chief Financial Officer

**BELLAIR VENTURES INC.**

Per: "Emlyn David" (signed)  
Name: Emlyn David  
Title: Chief Executive Officer

### **THIRD AMENDMENT TO OFFER AND SALE AGREEMENT**

This Third Amendment to the Offer and Sale Agreement made and entered into as of May 31, 2012.

#### **BETWEEN:**

**ALTER NRG CORP.**, a corporation incorporated pursuant the laws of the Province of Alberta (the "**Vendor**")

- and -

**BELLAIR VENTURES INC.**, a corporation incorporated pursuant the laws of Canada (the "**Purchaser**")

#### **WHEREAS:**

- A. The Vendor and the Purchaser entered into an offer and sale agreement dated as of January 5, 2012, relating to the sale of all of the issued and outstanding common shares in the capital of CleanEnergy Developments Corp. (the "**Company**"), which was amended February 28, 2012 and which was further amended April 30, 2012 (collectively, the "**Offer and Sale Agreement**");
- B. The Vendor and the Purchaser desire to further amend the Offer and Sale Agreement in accordance with the terms and conditions set forth herein.

**NOW THEREFORE THIS AGREEMENT WITNESSETH THAT** in consideration of the respective covenants and agreements herein contained and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the Parties covenant and agree as follows:

- 1. Unless otherwise defined herein, words and expressions defined in the Offer and Sale Agreement shall have the respective meanings attributed thereto when used herein.
- 2. The text of Subsection 1.1(n) of the Offer and Sale Agreement is deleted in its entirety and replaced with the following text:

"**Closing Date**" means ten Business Days following the date on which the Purchaser receives the Approval, but in any event shall be no later than June 30, 2012, or such later date as the Purchaser and Vendor may agree in writing."

- 3. The text of Subsection 2.3(d) of the Offer and Sale Agreement is deleted in its entirety and replaced with the following text:

"The Subscription Receipts will automatically convert into Common Shares upon receipt of the Approval (the "**Release Condition**"), without any further action on the part of the holders thereof. Upon the satisfaction of the Release Condition, the Escrowed Funds shall be released by the Escrow Agent to the Company. If the Release Condition has not been satisfied prior to 5:00 p.m. (Eastern Standard Time) on June 30, 2012, or such later date as may be agreed to in writing by the Vendor and the Purchaser, the Escrowed Funds shall be returned by the Escrow Agent, on behalf of the Company, to the holders of the Subscription Receipts, on a *pro rata* basis."

4. The text of Subsection 12.1(e) of the Offer and Sale Agreement is deleted in its entirety and replaced with the following text:  
  
"by any Party upon written notice to the other Parties if the Closing Date has not occurred by June 30, 2012,"
5. All other terms and conditions set forth in the Offer and Sale Agreement shall remain the same and unamended and in full force and effect.
6. This Third Amendment to the Offer and Sale Agreement may be executed in person, via facsimile or via portable document format in one or more counterparts, each of which when so executed shall be deemed an original, and such counterparts together shall constitute one and the same instrument.

***[The remainder of this page has been intentionally left blank]***

**IN WITNESS WHEREOF**, the undersigned have caused this Third Amendment to Offer and Sale Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

**ALTER NRG CORP.**

Per: "Danny Hay" (signed)  
Name: Danny Hay  
Title: Chief Financial Officer

**BELLAIR VENTURES INC.**

Per: "Emlyn David" (signed)  
Name: Emlyn David  
Title: Chief Executive Officer



#### **FOURTH AMENDMENT TO OFFER AND SALE AGREEMENT**

This Fourth Amendment to the Offer and Sale Agreement made and entered into as of June 30, 2012.

#### **BETWEEN:**

**ALTER NRG CORP.**, a corporation incorporated pursuant the laws of the Province of Alberta (the "**Vendor**")

- and -

**BELLAIR VENTURES INC.**, a corporation incorporated pursuant the laws of Canada (the "**Purchaser**")

#### **WHEREAS:**

- A. The Vendor and the Purchaser entered into an offer and sale agreement dated as of January 5, 2012, relating to the sale of all of the issued and outstanding common shares in the capital of CleanEnergy Developments Corp. (the "**Company**"), which was amended February 28, 2012, and further amended on April 30, 2012 and May 31, 2012 (collectively, the "**Offer and Sale Agreement**");
- B. The Vendor and the Purchaser desire to further amend the Offer and Sale Agreement in accordance with the terms and conditions set forth herein.

**NOW THEREFORE THIS AGREEMENT WITNESSETH THAT** in consideration of the respective covenants and agreements herein contained and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the Parties covenant and agree as follows:

- 1. Unless otherwise defined herein, words and expressions defined in the Offer and Sale Agreement shall have the respective meanings attributed thereto when used herein.
- 2. The text of Subsection 1.1(n) of the Offer and Sale Agreement is deleted in its entirety and replaced with the following text:

"**Closing Date**" means ten Business Days following the date on which the Purchaser receives the Approval, but in any event shall be no later than July 31, 2012, or such later date as the Purchaser and Vendor may agree in writing."

- 3. The text of Subsection 2.3(d) of the Offer and Sale Agreement is deleted in its entirety and replaced with the following text:

"The Subscription Receipts will automatically convert into Common Shares upon receipt of the Approval (the "**Release Condition**"), without any further action on the part of the holders thereof. Upon the satisfaction of the Release Condition, the Escrowed Funds shall be released by the Escrow Agent to the Company. If the Release Condition has not been satisfied prior to 5:00 p.m. (Eastern Standard Time) on July 31, 2012, or such later date as may be agreed to in writing by the Vendor and the Purchaser, the Escrowed Funds shall be returned by the Escrow Agent, on behalf of the Company, to the holders of the Subscription Receipts, on a *pro rata* basis."

4. The text of Subsection 12.1(e) of the Offer and Sale Agreement is deleted in its entirety and replaced with the following text:  
  
"by any Party upon written notice to the other Parties if the Closing Date has not occurred by July 31, 2012,"
5. All other terms and conditions set forth in the Offer and Sale Agreement shall remain the same and unamended and in full force and effect.
6. This Fourth Amendment to the Offer and Sale Agreement may be executed in person, via facsimile or via portable document format in one or more counterparts, each of which when so executed shall be deemed an original, and such counterparts together shall constitute one and the same instrument.

***[The remainder of this page has been intentionally left blank]***

**IN WITNESS WHEREOF**, the undersigned have caused this Fourth Amendment to Offer and Sale Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

**ALTER NRG CORP.**

Per: "Danny Hay" (signed)  
Name: Danny Hay  
Title: Chief Financial Officer

**BELLAIR VENTURES INC.**

Per: "Emlyn David" (signed)  
Name: Emlyn David  
Title: Chief Executive Officer

**SCHEDULE "B"**  
**FINANCIAL STATEMENTS OF THE ISSUER**

**Bellair Ventures Inc.**  
**(A Capital Pool Corporation)**

**Financial Statements**

**Years ended August 31, 2011 and 2010**

**(Expressed in Canadian Dollars)**

## **Independent Auditors' Report**

To the Shareholders of  
Bellair Ventures Inc. (a Capital Pool Corporation)

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Bellair Ventures Inc. (a Capital Pool Corporation) which comprise the balance sheets as at August 31, 2011 and 2010 and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

## **Opinion**

In our opinion, these financial statements presents fairly, in all material respects, the financial position of Bellair Ventures Inc. (a Capital Pool Corporation) as at August 31, 2011 and 2010 and its results of operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

## **Emphasis of matter**

Without modifying our opinion, we draw attention to the fact that the financial statements have been prepared on a going concern basis. This basis may not be appropriate because its validity depends principally on the Corporation's ability to identify, evaluate and negotiate an acquisition of a business, or an interest therein. The financial statements do not include any adjustments that would arise from a failure to complete such a transaction. Details of the circumstances relating to this fundamental uncertainty are described in Note 1 of the financial statements.

Signed: ***"MSCM LLP"***

**Chartered Accountants  
Licensed Public Accountants**

Toronto, Ontario  
January 3, 2012



Bellair Ventures Inc.  
(A Capital Pool Corporation)

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**Balance Sheets**

*August 31, 2011 and 2010*

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	2011	2010
<hr/>		
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 107,208	\$ 352,809
Interest receivable	-	4,500
Sundry receivable	-	22,906
Note receivable (note 4)	-	225,000
	<hr/>	<hr/>
	\$ 107,208	\$ 605,215
<hr/>		
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 22,309	\$ 169,196
<hr/>		
<b>Shareholders' equity</b>		
Share capital (note 5)	773,977	773,977
Contributed surplus (note 5)	116,340	116,340
Deficit	(805,418)	(454,298)
	<hr/>	<hr/>
	84,899	436,019
	<hr/>	<hr/>
	\$ 107,208	\$ 605,215
<hr/>		

Going Concern (note 1)

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

Approved by the Board

Signed: "Emlyn J. David" \_\_\_\_\_

Director

Signed: "Rajiv Rai" \_\_\_\_\_

Director



Bellair Ventures Inc.  
(A Capital Pool Corporation)

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**Statements of Loss and Comprehensive Loss**  
*For the years ended August 31, 2011 and 2010*

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	2011	2010
<b>Interest income</b>	<b>\$ 27,000</b>	<b>\$ 27,653</b>
<b>Expenses</b>		
Professional fees	45,747	34,792
Filing fees	29,549	15,870
Office expense	47	8,900
Bad debt expense	46,277	-
Write-down of note receivable (note 4)	256,500	-
	<b>378,120</b>	<b>59,562</b>
<b>Net loss and comprehensive loss for the year</b>	<b>\$ (351,120)</b>	<b>\$ (31,909)</b>
<b>Loss per share - basic and diluted</b>	<b>\$ (0.16)</b>	<b>\$ (0.01)</b>
<b>Weighted average shares outstanding</b>	<b>2,259,066</b>	<b>2,556,600</b>

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

Bellair Ventures Inc.  
(A Capital Pool Corporation)

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**Statements of Changes in Shareholders' Equity**  
*For the years ended August 31, 2011 and 2010*

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	2011	2010
<hr/>		
<b>Share Capital</b>		
Balance, beginning and end of year	\$ 773,977	\$ 773,977
<hr/>		
<b>Contributed Surplus</b>		
Balance, beginning and end of year	\$ 116,340	\$ 116,340
<hr/>		
<b>Deficit</b>		
Balance, beginning of year	\$ (454,298)	\$ (422,389)
Net loss for the year	(351,120)	(31,909)
<hr/>		
<b>Balance, end of year</b>	<b>\$ (805,418)</b>	<b>\$ (454,298)</b>

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

Bellair Ventures Inc.  
(A Capital Pool Corporation)

---

**Statements of Cash Flows**

*For the years ended August 31, 2011 and 2010*

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	2011	2010
<b>Cash flow from operating activities</b>		
Cash paid to suppliers	\$ (245,601)	\$ (79,749)
Interest received	-	39,279
<b>Decrease in cash</b>	<b>(245,601)</b>	<b>(40,470)</b>
<b>Cash, beginning of year</b>	<b>352,809</b>	<b>393,279</b>
<b>Cash, end of year</b>	<b>\$ 107,208</b>	<b>\$ 352,809</b>

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

**Notes to Financial Statements**  
*August 31, 2011 and 2010*

---

## **1. Nature of Operations and Going Concern**

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Bellair Ventures Inc. (the "Corporation") was incorporated under the *Canada Business Corporation Act* on August 22, 2008 and is classified as a Capital Pool Corporation as defined in Policy 2.4 of the TSX Venture Exchange (the "Exchange").

The Corporation's continuing operations as intended are dependent upon its ability to identify, evaluate and negotiate an acquisition of a business, or an interest therein. Such an acquisition (a "Qualifying Transaction") will be subject to the approval of the regulatory authorities concerned and, in the case of a non-arm's-length transaction, of the majority of the minority shareholders.

The Corporation was not able to complete a Qualifying Transaction within the timeframe prescribed by the Exchange, and as such the Corporation's listing has been transferred to the NEX, a separate trading board of the Exchange. Trading in the Corporation's shares will remain suspended pending completion of a Qualifying Transaction. This action resulted in the cancellation of 600,000 common shares of the Corporation.

The accompanying financial statements have been prepared on the basis of accounting principles applicable to a going concern, which presumes the Corporation will be able to realize its assets and discharge its liabilities in the normal course of business. There is, however, substantial doubt whether the Corporation will be able to complete a Qualifying Transaction.

## **2. Summary of Significant Accounting Policies**

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### **Basis of presentation**

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"), and are expressed in Canadian dollars. The significant accounting policies are summarized as follows:

### **Financial instruments**

All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments are included on the balance sheet and are measured at fair value except for loans and receivables, held-to-maturity investments, and other financial liabilities which are measured at amortized cost. Held-for-trading financial instruments are subsequently measured at fair value and all gains and losses are included in net income in the period which they arise. Available-for-sale financial instruments are subsequently measured at fair value with revaluation gains and losses included in other comprehensive income until the instrument is derecognized or impaired. The Corporation has classified its cash as held-for-trading, which is measured at fair value.

**Notes to Financial Statements**  
*August 31, 2011 and 2010*

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## **2. Summary of Significant Accounting Policies – continued**

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### **Financial instruments - continued**

The interest, sundry and note receivables are classified as loans and receivables, which are measured at amortized cost less any provision for impairment. Accounts payable and accrued liabilities are classified as other financial liabilities which are measured at amortized cost. The Corporation had neither available-for-sale nor held-to-maturity instruments during the years ended August 31, 2011 and 2010.

### **Income taxes**

Future income tax assets and liabilities are recognized for the future income tax consequences of events that have been included in the financial statements or income tax returns of the Corporation. Future income taxes are provided for using the liability method. Under the liability method, future income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets, liabilities and certain carry forward items.

Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment. The Corporation makes full provision for income taxes deferred as a result of claiming depreciation and other costs for income tax purposes which differ from the related amounts charged to earnings.

### **Stock-based compensation**

The Corporation has in effect a stock option plan which is described in note 5(c). All stock-based awards granted are accounted for using the fair value based method. Fair value is calculated using the Black-Scholes valuation model. Any consideration paid by eligible participants on the exercise of stock options is credited to share capital. The contributed surplus associated with options is transferred to share capital upon exercise.

### **Loss per share**

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the year. The Corporation applies the treasury stock method in the calculation of diluted loss per share. Diluted loss per share excludes all dilutive potential common shares if their effect is anti-dilutive.

### **Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



### **3. Future Changes in Accounting Policies**

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#### **International Financial Reporting Standards ("IFRS")**

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. The conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Corporation's reporting for the first quarter of 2012 for which the current and comparative information will be prepared under IFRS. The Corporation is required to adopt all of those IFRS standards which are effective for fiscal year ending August 31, 2012 and apply them to its opening September 1, 2010 balance sheet.

The Corporation is currently assessing the impact of IFRS on its financial statements.

### **4. Note Receivable**

---

As part of a proposed qualifying transaction agreement, the Corporation advanced \$225,000 to DiBattista Industries Inc. ("DBI") in fiscal 2009. The loan bears interest at 12%, was originally due on January 15, 2010 and is personally guaranteed by a principal of DBI. On April 23, 2009, the Corporation announced that it had terminated its definitive agreement in respect of the proposed qualifying transaction with DBI.

On January 18, 2010 the Corporation and DBI agreed to extend the repayment date to May 31, 2010. On June 16, 2010 DBI made an interest payment of \$39,279. On June 30, 2010, the Corporation, DBI, and a guarantor agreed to further extend the maturity date of the loan and obligations under the guarantee to August 31, 2010.

On November 25, 2010 the Corporation and DBI entered into a Letter of Intent whereby the Corporation intended to acquire all of the issued and outstanding common shares in the capital of KNR Management Inc. ("KNR") through a share exchange transaction ("Proposed Transaction"). If completed, the Proposed Transaction was expected to constitute the Corporation's qualifying transaction.

The closing of the Proposed Transaction was subject to a number of conditions, including the Corporation successfully completing a private placement for anticipated gross proceeds of at least \$500,000; KNR successfully closing on a term loan facility estimated to be in the amount of \$2,250,000; confirmation of a definitive valuation for KNR; completion of customary due diligence reviews by the Corporation and DBI; the parties entering into a definitive agreement and such other agreements as may be necessary to give effect to the Proposed Transaction; and the parties obtaining all necessary approvals and consents, including the approval of the Exchange.

Subsequent to August 31, 2011 the Corporation terminated the Proposed Transaction. As a result the balance of the note receivable of \$225,000, and unpaid accrued interest of \$31,500 at August 31, 2011, has been written down to \$Nil as collection is not reasonably assured.

**Notes to Financial Statements**  
*August 31, 2011 and 2010*

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**5. Share Capital**

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**(a) Authorized**

An unlimited number of common shares

**(b) Issued**

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	<b>Number of common shares</b>	<b>Amount</b>
<b>Balance, August 31, 2010</b>	2,556,600	\$ 773,977
Common shares cancelled on transfer to NEX	(600,000)	-
<b>Balance, August 31, 2011</b>	1,956,600	\$ 773,977

**Private placement**

On September 20, 2008, 1,200,000 common shares were issued at a price of \$0.25 per common share as a private placement.

The common shares issued pursuant to this private placement are held in escrow as per to the requirements of the Exchange, to be released as to 10% thereof on the completion of the Corporation's Qualifying Transaction, as defined in the policies of the Exchange, and as to 15% thereof on each of the 6th, 12th, 18th, 24th, 30th and 36th months following the initial release.

All common shares issued on exercise of stock options granted to directors and officers prior to the completion of a Qualifying Transaction must also be deposited in escrow until the Final Exchange Bulletin is issued.

All common shares of the Corporation acquired in the secondary market prior to the completion of a Qualifying Transaction by a Control Person, as defined in the policies of the Exchange, are also required to be deposited in escrow. Subject to certain permitted exemptions, all securities of the Corporation held by principals of the resulting issuer will also be escrowed.

**Initial public offering**

On November 24, 2008, the Corporation completed its initial public offering ("IPO") via the issuance of 1,356,600 common shares at a price of \$0.50 per common share for gross proceeds of \$678,300. The Corporation incurred issuance costs of \$173,311. In addition, the Corporation granted the agents of the offering the option to acquire 135,660 common shares, valued at \$31,012 (note 5(c)), at a price of \$0.50 per share for a period of 24 months following the IPO. These options expired unexercised during the year.

**Notes to Financial Statements**  
*August 31, 2011 and 2010*

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**5. Share Capital – continued**

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**(c) Stock options**

The Corporation adopted a stock option plan under which it is authorized to grant options to officers, directors, employees, and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Corporation. The options granted can be exercised for a maximum of 5 years and vest as determined by the Board of Directors. The exercise price of each option may not be less than fair market value of the common shares on the date of grant. At the closing of the IPO, the Corporation granted 255,660 director and officers stock options under this plan, vesting immediately, exercisable at a price of \$0.50 per share for a period of 5 years from the date of grant.

The Corporation uses the Black-Scholes option pricing model to determine the fair value of options granted. The fair value of the 135,660 agent options granted was determined to be \$31,012 and was included in share issuance costs. These agent options expired unexercised during the year. The fair value of the 255,660 director and officers stock options was determined to be \$85,328 and was included in the determination of net loss for the year ended August 31, 2009.

The weighted-average remaining contractual life and weighted-average exercise price of options outstanding and of options exercisable as at August 31, 2011 are as follows:

Options Outstanding			Options Exercisable		
Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Weighted Average Exercise Price	
255,660	\$ 0.50	2.24	255,660	\$ 0.50	



Bellair Ventures Inc.  
(A Capital Pool Corporation)

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**Notes to Financial Statements**  
*August 31, 2011 and 2010*

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**6. Income Taxes**

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**Recovery of income taxes**

Major items causing the Corporation's income tax rate to differ from the Canadian statutory rate of approximately 29% (2010 - 32%) were as follows:

	2011	2010
Loss before recovery of income taxes	\$ (351,120)	\$ (31,909)
Expected income tax recovery at statutory rate	\$ (101,825)	\$ (10,211)
Adjustments resulting from:		
Non-deductible differences	-	-
Share issue costs	-	-
Tax rate changes	42,170	(22,247)
Change in valuation allowance	59,655	32,458
Recovery of income taxes	\$ -	\$ -

**Future income taxes**

The approximate tax effect of each type of temporary difference that gives rise to Corporation's future income tax assets are as follows:

	2011	2010
Non-capital losses	\$ 149,489	\$ 109,294
Capital losses	28,126	-
Share issue costs	17,238	25,904
Valuation allowance	(194,853)	(135,198)
Net future income tax assets	\$ -	\$ -

The Corporation has non-capital losses available to reduce future taxable income. These losses expire as follows:

2028	\$ 6,881
2029	363,723
2030	66,571
2031	160,782
	\$ 597,957

**Notes to Financial Statements**  
*August 31, 2011 and 2010*

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**7. Capital Management**

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The Corporation's capital currently consists of common shares. Its principal source of cash is from the issuance of common shares. The Corporation's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to allow the Corporation to complete a qualifying transaction. The Corporation is not subject to externally imposed capital requirements.

**8. Financial Instruments**

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The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at August 31, 2011, the Corporation had cash of \$107,208 to settle current liabilities of \$22,309. The Corporation is not exposed to significant liquidity or market risk.

The carrying value of cash, and accounts payable and accrued liabilities reflected in the balance sheet approximates fair value because of the short-term nature of these instruments.

**SCHEDULE "C"**  
**FINANCIAL STATEMENTS OF CLEANENERGY**



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# Clean Energy Developments Corp.

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## Unaudited Condensed Interim Financial Statements

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For the three month periods ended  
March 31, 2012 and 2011  
(v4: 06/06/2012)

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## CONDENSED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

	March 31 2012	December 31 2011
<b>Assets</b>		
Current assets:		
Cash	\$ -	\$ 166,320
Accounts receivable	1,895,858	1,872,759
Inventories	26,916	57,533
Restricted cash (Note 2)	106,935	106,613
Prepaid expenses	25,669	2,002
	2,055,378	2,205,227
Long-term deposits	74,359	74,359
Goodwill	575,478	575,478
Property, plant and equipment (Note 3)	215,752	236,923
<b>Total Assets</b>	<b>\$ 2,920,967</b>	<b>\$ 3,091,987</b>
<b>Liabilities and Shareholder's Deficiency</b>		
Current liabilities		
Bank indebtedness	\$ 299,128	\$ -
Accounts payable and accrued liabilities	237,730	715,535
Deferred revenue	1,262	1,262
Deferred landlord inducements	5,691	5,691
Operating lease obligations (Note 4)	145,830	139,700
Finance lease obligations (Note 5)	28,947	33,609
	718,588	895,797
Finance lease obligations (Note 5)	1,488	4,845
Deferred landlord inducements	31,775	33,198
Operating lease obligations (Note 4)	401,034	443,622
Payable to parent company (Note 6)	15,323,818	14,732,247
<b>Total Liabilities</b>	<b>16,476,703</b>	<b>16,109,709</b>
Shareholder's Deficiency		
Shareholder's capital	3,445,290	3,445,290
Reserve	92,086	92,086
Deficit	(17,093,112)	(16,555,098)
<b>Total Shareholder's Deficiency</b>	<b>(13,555,736)</b>	<b>(13,017,722)</b>
<b>Total Liabilities and Shareholder's Deficiency</b>	<b>\$ 2,920,967</b>	<b>\$ 3,091,987</b>

See accompanying notes to the condensed financial statements

*Approved by the Director:*  
*(Signed) "Mark Montemurro"*  
*Director*

## CONDENSED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (UNAUDITED)

For the three month periods ended March 31	2012	2011
Sales	\$ 1,553,781	\$ 1,057,448
Cost of sales	1,413,963	846,750
Gross margin	139,818	210,698
General and administrative expenses (Note 8)	424,262	1,547,957
Interest on payable to parent company	224,548	169,943
Amortization	21,171	26,004
Foreign exchange loss (gain)	1,994	(2,357)
	671,975	1,741,547
Operating loss	(532,157)	(1,530,849)
Finance costs	(6,179)	(10,430)
Finance and other income	322	329
Loss and comprehensive loss for the period	\$ (538,014)	\$ (1,540,950)
Interest paid	\$ 1,331	\$ 2,343
Taxes paid	-	-
Weighted average number of shares for the period		
Basic and diluted	14,827,082	14,827,082
Loss per share	\$ (0.04)	\$ (0.10)

See accompanying notes to the condensed financial statements

## CONDENSED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

	Shareholder's Capital	Reserve	Deficit	Total
<b>As at December 31, 2010</b>	<b>\$ 3,445,290</b>	<b>\$ 92,086</b>	<b>\$ (11,773,819)</b>	<b>\$ (8,236,443)</b>
Loss and comprehensive loss	-	-	(1,540,950)	(1,540,950)
<b>As at March 31, 2011</b>	<b>3,445,290</b>	<b>92,086</b>	<b>(13,314,769)</b>	<b>(9,777,393)</b>
Loss and comprehensive loss	-	-	(3,240,329)	(3,240,329)
<b>As at December 31, 2011</b>	<b>3,445,290</b>	<b>92,086</b>	<b>(16,555,098)</b>	<b>(13,017,722)</b>
Loss and comprehensive loss	-	-	(538,014)	(538,014)
<b>As at March 31, 2012</b>	<b>\$ 3,445,290</b>	<b>\$ 92,086</b>	<b>\$ (17,093,112)</b>	<b>\$ (13,555,736)</b>

See accompanying notes to the condensed financial statements

## CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the three month periods ended March 31	2012	2011
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Operating loss	\$ (532,157)	\$ (1,530,849)
Add (deduct) items not involving cash		
Amortization of property, plant and equipment	21,171	26,004
Bad debts (recovery) expense	(3,269)	188,733
Deferred lease inducement	(1,423)	(1,895)
Interest on payable to parent company	224,548	169,943
Reduction in operating lease obligation	(36,458)	-
Change in non-cash working capital	(491,007)	(611,210)
	<b>(818,595)</b>	<b>(1,759,274)</b>
<b>Financing activities</b>		
Advances from parent company	367,023	1,282,265
Finance costs	(6,179)	(10,430)
Repayment of finance leases	(8,019)	(7,906)
Restricted cash	-	(72,501)
	<b>352,825</b>	<b>1,191,428</b>
<b>Investing activities</b>		
Finance income	322	329
	<b>322</b>	<b>329</b>
Decrease in cash	<b>(465,448)</b>	<b>(567,517)</b>
Cash, beginning of period	<b>166,320</b>	<b>787,625</b>
Cash (bank indebtedness), end of period	<b>\$ (299,128)</b>	<b>\$ 220,108</b>

See accompanying notes to the condensed financial statements



## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

### **Note 1 BASIS OF PRESENTATION**

Clean Energy Developments Corporation (the “Corporation”) was incorporated on December 23, 2003 in the Province of Ontario and is domiciled at 215, 4000 – 4<sup>th</sup> Street SE, Calgary, Alberta. The Corporation is a privately held, Canadian based corporation providing turnkey geoexchange services in the residential, commercial and government sectors. The Corporation is a wholly-owned subsidiary of Alter NRG Corp. (“Alter NRG”).

These unaudited condensed interim financial statements have been prepared on a going concern basis. The going concern basis assumes that the Corporation 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.

As at and for the three months ended March 31, 2012, the Corporation had losses of \$538,014, negative cash flows from operations of \$818,595 and an accumulated deficit of \$17,093,112 (as at and for the three months ended March 31, 2011 - \$1,540,950, \$1,759,274 and \$13,314,769, respectively). Management recognizes that the Corporation must generate positive cash flows or secure additional financial resources in order to meet its liabilities as they come due and to enable the Corporation to continue operations.

Whether and when the Corporation can achieve profitability or secure additional financial resources is uncertain. These uncertainties cast significant doubt about the Corporation’s ability to continue as a going concern.

These unaudited condensed interim financial statements (“the financial statements”) were prepared by management in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” using accounting policies consistent with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The financial statements do not comprise all of the information required for annual audited financial statements and therefore should be read in conjunction with the audited financial statements for the year ended December 31, 2011 that were prepared in accordance with IFRS. During the three month period ended March 31, 2012, there have been no changes to accounting policies and these financial statements follow the accounting policies as outlined in Note 3 of the audited financial statements for the year ended December 31, 2011.

These financial statements were approved and authorized for issuance by the Corporation’s Director on June 6, 2012.

### **Note 2 RESTRICTED CASH**

As at March 31, 2012, the Corporation held \$106,935 (December 31, 2011 - \$106,613) on deposit as collateral against balances owing on corporate credit cards.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

### Note 3 PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvements	Computer Equipment	Drilling Equipment	Office Equipment	Vehicles	Total
<b>Cost</b>						
As at December 31, 2011 and March 31, 2012	\$ 216,011	\$ 179,493	\$ 55,884	\$ 98,563	\$ 64,565	\$ 614,516
<b>Amortization</b>						
At December 31, 2011	\$ 81,730	\$ 146,477	\$ 35,588	\$ 49,233	\$ 64,565	\$ 377,593
Charge for the period	6,715	6,602	4,059	3,795	-	21,171
<b>At March 31, 2012</b>	<b>\$ 88,445</b>	<b>\$ 153,079</b>	<b>\$ 39,647</b>	<b>\$ 53,028</b>	<b>\$ 64,565</b>	<b>\$ 398,764</b>
<b>Net book value</b>						
At December 31, 2011	\$ 134,281	\$ 33,016	\$ 20,296	\$ 49,330	\$ -	\$ 236,923
<b>At March 31, 2012</b>	<b>\$ 127,566</b>	<b>\$ 26,414</b>	<b>\$ 16,237</b>	<b>\$ 45,535</b>	<b>\$ -</b>	<b>\$ 215,752</b>

As at March 31, 2012, assets under finance leases included in office equipment and vehicles have a cost of \$83,482 and \$21,475, and accumulated amortization of \$41,741 and \$10,738, respectively.

As at December 31, 2011, assets under finance leases included in office equipment, computer equipment and vehicles have a cost of \$83,482, \$4,112 and \$21,475, and accumulated amortization of \$37,567, \$2,776 and \$9,664, respectively.

### Note 4 OPERATING LEASE OBLIGATIONS

A provision has been recognized for lease premiums on excess office space.

	March 31 2012	December 31 2011
Balance, beginning of period	\$ 583,322	\$ -
Arose, during the period	-	583,322
Recognized, during the period	36,458	-
<b>Total</b>	<b>\$ 546,864</b>	<b>\$ 583,322</b>
Current	\$ 145,830	\$ 139,700
Non-current	401,034	443,622

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

### Note 5 FINANCE LEASE OBLIGATIONS

Future minimum payments under finance leases, along with the balance of the obligations under finance leases, are as follows:

	March 31 2012	December 31 2011
2012	\$ 27,776	\$ 37,126
2013	4,987	4,987
	<b>32,763</b>	42,113
Less amount representing interest at rates ranging from 5.15% to 25.20%	<b>(2,328)</b>	(3,659)
Present value of obligations under finance leases	<b>\$ 30,435</b>	\$ 38,454
Current (due within one year)	<b>\$ 28,947</b>	\$ 33,609
Non-current (within two to five years)	<b>1,488</b>	4,845

### Note 6 PAYABLE TO PARENT COMPANY

The Corporation receives advances from its parent company, Alter NRG Corp., as needed. The balance of the payable is secured by a promissory note with no fixed payment terms. The note bears interest at prime plus 3%, accrued monthly on the balance owing.

### Note 7 RELATED PARTY TRANSACTIONS

The Corporation transacts with related parties in the normal course of business. The transactions are measured at the exchange amount, which is equivalent to the amounts that would be charged to an independent third party.

Included in general and administrative expenses is remuneration of key management personnel of the Corporation. For the three months ended March 31, 2012, remuneration of \$79,304 included \$84,236 of salaries and \$(4,932) of share-based compensation costs (March 31, 2011 - \$83,524, \$76,079 and \$7,445, respectively).

### Note 8 GENERAL AND ADMINISTRATIVE EXPENSES

For the three month periods ended March 31	2012	2011
Employee costs, net of recoveries	\$ 147,891	\$ 812,285
Premises costs	130,422	171,223
Bad debt (recovery) expense	(3,269)	188,733
Professional and consulting fees	85,802	99,098
Travel costs	13,046	126,283
Other costs	14,780	61,152
Office expenses	26,727	49,248
Other staff costs	6,368	18,106
Marketing costs	2,495	21,829
General and administrative expenses	<b>\$ 424,262</b>	\$ 1,547,957

## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

### **Note 9     OFFER AND SALE AGREEMENT**

On January 5, 2012, Alter NRG announced that it had signed an agreement to sell 100% of the issued and outstanding shares of the Corporation to Bellair Ventures Inc. ("Bellair"), in exchange for an amount equal to \$5,000,000 (representing a deemed price of \$0.50/share) payable in 10,000,000 Bellair shares (the "Transaction". On June 6, 2012, as a condition precedent to the Transaction, the Corporation closed an offering for 4,788,000 subscription receipts on a brokered, private placement basis to raise gross proceeds of up to \$2,394,000 at a purchase price of \$0.50 per Subscription Receipt. Each Subscription Receipt will be exercisable by the holder, without payment of additional consideration, into one unit of the Corporation, each unit consists of one common share and one common share purchase warrant. Pursuant to the Transaction, each share and warrant of the Corporation will be exchanged for common shares ("Bellair Shares") and common share purchase warrants ("Bellair Warrants") of Bellair. Each Bellair Warrant will entitle the holder thereof to purchase one Bellair Share at an exercise price of \$0.75 per Bellair Share until the date that is 24 months following closing of the Transaction, subject to adjustments in certain events. The Transaction is expected to close by June 30, 2012.

Bellair is a Canadian capital pool company and, once completed, the proposed transaction will constitute its qualifying transaction pursuant to policies of the TSX Venture Exchange. Alter NRG will initially be the largest shareholder of Bellair, but the parties have agreed that Bellair will maintain control of the Corporation at all times. Bellair will nominate the majority of the seats on the Board of Directors of the Corporation and govern the financial and operating policies of the Corporation. Alter NRG irrevocably agreed that, where it owns greater than 50% of the issued and outstanding shares of Bellair, it will only vote a maximum of 49.9% of the issued and outstanding shares of Bellair voted in respect of any matter at any given time.



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# Clean Energy Developments Corp.

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## Audited Financial Statements

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For the years ended  
December 31, 2011 and 2010

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# INDEPENDENT AUDITOR'S REPORT

## INDEPENDENT AUDITOR'S REPORT

### To the Director of Clean Energy Developments Corp.

We have audited the accompanying financial statements of Clean Energy Developments Corp., which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of loss and comprehensive loss, statements of changes in equity and statements of cash flows for the years ended December 31, 2011 and 2010, and the notes to the financial statements.

### Management's Responsibility for the 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 financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Clean Energy Developments Corp. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

*(signed) "Deloitte & Touche LLP"*

Chartered Accountants

May 9, 2012

Calgary, Alberta

# FINANCIAL STATEMENTS

## STATEMENTS OF FINANCIAL POSITION

	December 31 2011	December 31 2010	January 1 2010
<b>Assets</b>			
Current assets:			
Cash	\$ 166,320	\$ 787,625	\$ 137,258
Accounts receivable	1,872,759	2,196,331	1,106,460
Inventories (Note 5)	57,533	56,620	152,835
Restricted cash (Note 6)	106,613	330,308	-
Prepaid expenses	2,002	4,886	94,662
	<b>2,205,227</b>	<b>3,375,770</b>	<b>1,491,215</b>
Long-term deposits (Note 7)	74,359	78,561	36,123
Goodwill (Note 8)	575,478	575,478	575,478
Intangible assets (Note 9)	-	-	38,410
Property, plant and equipment (Note 10)	236,923	354,887	539,232
<b>Total Assets</b>	<b>\$ 3,091,987</b>	<b>\$ 4,384,696</b>	<b>\$ 2,680,458</b>
<b>Liabilities and Shareholder's Deficiency</b>			
Current liabilities			
Accounts payable and accrued liabilities	\$ 715,535	\$ 1,319,394	\$ 816,705
Deferred revenue	1,262	266,534	27,745
Deferred landlord inducements	5,691	6,164	11,363
Promissory note payable (Note 11)	-	-	62,768
Operating lease obligations (Note 12)	139,700	-	-
Finance lease obligations (Note 13)	33,609	33,278	59,927
	<b>895,797</b>	<b>1,625,370</b>	<b>978,508</b>
Finance lease obligations (Note 13)	4,845	41,285	74,594
Deferred landlord inducements	33,198	38,888	45,052
Operating lease obligations (Note 12)	443,622	-	-
Payable to parent company (Note 14)	14,732,247	10,915,596	2,727,429
<b>Total Liabilities</b>	<b>16,109,709</b>	<b>12,621,139</b>	<b>3,825,583</b>
Shareholder's Deficiency			
Shareholder's capital (Note 15)	3,445,290	3,445,290	3,445,290
Reserve (Note 16)	92,086	92,086	92,086
Deficit	(16,555,098)	(11,773,819)	(4,682,501)
<b>Total Shareholder's Deficiency</b>	<b>(13,017,722)</b>	<b>(8,236,443)</b>	<b>(1,145,125)</b>
<b>Total Liabilities and Shareholder's Deficiency</b>	<b>\$ 3,091,987</b>	<b>\$ 4,384,696</b>	<b>\$ 2,680,458</b>

Commitments (Note 19)

See accompanying notes to the financial statements

*Approved by the Director:*  
*(Signed) "Mark Montemurro"*  
*Director*

## STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the years ended December 31	2011	2010
Sales	\$ 5,158,062	\$ 6,863,987
Cost of sales (Note 5)	4,392,823	6,657,570
Gross margin	765,239	206,417
General and administrative expenses (Note 18)	4,625,982	6,766,346
Interest on payable to parent company	785,896	364,298
Amortization	115,340	139,840
Interest and bank charges	28,658	23,021
Foreign exchange (gain) loss	(2,789)	12,240
Finance and other income	(6,569)	(8,010)
	5,546,518	7,297,735
Loss and comprehensive loss for the year	\$ (4,781,279)	\$ (7,091,318)
Interest paid	\$ 7,969	\$ 15,785
Taxes Paid	-	-
Weighted average number of shares for the year		
Basic and diluted (Note 15)	14,827,082	14,827,082
Loss per share	\$ (0.32)	\$ (0.48)

See accompanying notes to the financial statements



## STATEMENTS OF CHANGES IN EQUITY

	Shareholder's Capital (Note 15)	Reserve (Note 16)	Deficit	Total
<b>As at January 1, 2010</b>	<b>\$ 3,445,290</b>	<b>\$ 92,086</b>	<b>\$ (4,682,501)</b>	<b>\$ (1,145,125)</b>
Loss and comprehensive loss	-	-	(7,091,318)	(7,091,318)
<b>As at December 31, 2010</b>	<b>3,445,290</b>	<b>92,086</b>	<b>(11,773,819)</b>	<b>(8,236,443)</b>
Loss and comprehensive loss	-	-	(4,781,279)	(4,781,279)
<b>As at December 31, 2011</b>	<b>\$ 3,445,290</b>	<b>\$ 92,086</b>	<b>\$ (16,555,098)</b>	<b>\$ (13,017,722)</b>

See accompanying notes to the financial statements

## STATEMENTS OF CASH FLOWS

For the years ended December 31	2011	2010
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Loss	\$ (4,781,279)	\$ (7,091,318)
Add (deduct) items not involving cash		
Amortization of intangible assets	-	38,410
Amortization of property, plant and equipment	115,340	101,430
Bad debts	546,547	543,915
Deferred lease inducement	(6,163)	(11,363)
Interest on payable to parent company	785,896	364,298
Change in non-cash working capital	(478,229)	(727,042)
	<b>(3,817,888)</b>	<b>(6,781,670)</b>
<b>Financing activities</b>		
Advances from parent company	3,030,755	7,823,869
Finance costs	(28,658)	(23,021)
Repayment of promissory note payable	-	(62,768)
Repayment of finance leases	(36,109)	(59,958)
Restricted cash	223,695	(330,308)
	<b>3,189,683</b>	<b>7,347,814</b>
<b>Investing activities</b>		
Proceeds on sale of property, plant and equipment	-	202,958
Purchase of property, plant and equipment	2,624	(120,043)
Finance income	4,276	1,308
	<b>6,900</b>	<b>84,223</b>
(Decrease) increase in cash	<b>(621,305)</b>	<b>650,367</b>
Cash, beginning of year	<b>787,625</b>	<b>137,258</b>
Cash, end of year	<b>\$ 166,320</b>	<b>\$ 787,625</b>

See accompanying notes to the financial statements

## NOTES TO THE FINANCIAL STATEMENTS

### Note 1 CORPORATE INFORMATION

Clean Energy Developments Corporation (the “Corporation”) was incorporated on December 23, 2003 in the Province of Ontario and is domiciled at 215, 4000 – 4<sup>th</sup> Street SE, Calgary, Alberta. The Corporation is a privately held, Canadian based corporation providing turnkey geoexchange services in the residential, commercial and government sectors.

These financial statements have been prepared on a going concern basis. The going concern basis assumes that the Corporation 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.

As at and for the year ended December 31, 2011, the Corporation had losses of \$4,781,279, negative cash flows from operations of \$3,817,888 and an accumulated deficit of \$16,555,098 (year ended and as at December 31, 2010 - \$7,091,318, \$6,781,670 and \$11,773,819, respectively). Management recognizes that the Corporation must generate positive cash flows or secure additional financial resources in order to meet its liabilities as they come due and to enable the Corporation to continue operations.

Whether and when the Corporation can achieve profitability or secure additional financial resources is uncertain. These uncertainties cast significant doubt about the Corporation’s ability to continue as a going concern.

These financial statements were approved and authorized for issuance by the Corporation’s Director on May 9, 2012.

### Note 2 BASIS OF PREPARATION

The financial statements are presented in Canadian dollars, the functional currency of the Corporation, using historical costs, except for financial instruments carried at fair value.

#### Statement of compliance

These financial statements have been prepared by management, in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The significant accounting policies set out below were applied consistently in all periods presented. The financial statements present the Corporation’s first annual financial statements in compliance with IFRS.

#### Future changes in accounting policies

The IASB issued a number of new and revised International Accounting Standards (“IASs”), International Financial Reporting Standards (“IFRSs”), amendments and related Interpretations (“IFRICs”), (collectively referred to as the “new IFRSs”), certain of which are effective for the Corporation’s financial period beginning January 1, 2012.

At the date of this report, the IASB has issued the following new IFRSs which are not yet effective at the reporting date.

- IFRS 9 Financial Instruments <sup>1</sup>
- IFRS 10 Consolidated Financial Statements <sup>1</sup>
- IFRS 11 Joint Arrangements <sup>1</sup>
- IFRS 12 Disclosure of Interest in Other Entities <sup>1</sup>
- IFRS 13 Fair Value Measurement <sup>1</sup>
- IAS 1 (Amendments) Disclosures – Presentation of Other Comprehensive Income
- IAS 12 (Amendments) Deferred Tax: Recovery of Underlying Assets <sup>2</sup>
- IAS 19 (Amendments) Disclosure and Measurement – Post-Employment Benefits and Termination Benefits Projects <sup>1</sup>
- IAS 27 (Revised 2011) Separate Financial Statements <sup>1</sup>
- IAS 28 (Revised 2011) Investments in Associates and Joint Ventures <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2013

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2012

Management has not assessed the effect of these new IFRSs on the Corporation’s financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### Note 3 SIGNIFICANT ACCOUNTING POLICIES

#### a. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition. Costs directly attributable to the acquisition are expensed within general and administrative expenses in the period in which they occur.

Goodwill is initially measured as the excess of the cost of the business combination over the Corporation's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

#### b. Foreign currency translation

The financial statements are presented in Canadian dollars, which is the Corporation's functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date. All differences are recorded in the statement of loss and comprehensive loss.

#### c. Revenue recognition

Revenue is recognized when evidence of an arrangement exists, services are rendered, the selling price is fixed and determinable and collectability is reasonably assured.

Advance payments received from customers, in excess of revenue recognized, are classified as deferred revenue until the service is provided or the product delivered.

Revenue from long-term service contracts, consisting of design and engineering services and installation of geoexchange systems, are recognized using the percentage-of-completion method of accounting. The degree of completion is determined by comparing the costs incurred to the total costs anticipated for the contract. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

Interest income is recognized as interest accrues (using the effective interest method). Interest income is included in finance income on the statement of loss and comprehensive loss.

#### d. Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where a deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and,
- at the time of the transaction, affects neither accounting profit nor taxable profit or loss.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward or unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses, can be utilized except:

- where a deferred income tax asset relating to the deductible temporary difference arise from the initial recognition of an asset or liability in a transaction that is not a business combination and,
- at the time of the transaction, affects neither accounting profit nor taxable profit or loss.

The carrying value of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

## NOTES TO THE FINANCIAL STATEMENTS

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is expected to be realized or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities.

### e. Financial assets

#### Initial recognition

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Corporation determines the classification of its financial assets at initial recognition.

Financial assets are recognized at fair value including directly attributable transaction costs, except in the case of investments recognized directly through profit or loss.

The Corporation's financial assets include cash, restricted cash and accounts receivable.

#### Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

**Financial assets at fair value through profit or loss:** Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term, generally defined as within the next twelve months. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with gains or losses recognized in the statement of loss and comprehensive loss.

**Loans and Receivables:** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of loss and comprehensive loss when the assets are derecognized or impaired.

**Held-to-maturity investments:** Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Corporation has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method. This method uses an effective interest rate that discounts estimated future cash flows to be received through the expected life of the financial asset to the net carrying value of the financial asset. Gains and losses are recognized in the statement of loss and comprehensive loss when the investments are derecognized or impaired, as well as through the amortization process. The Corporation did not have any held-to-maturity investments as at January 1, 2010, December 31, 2010 and December 31, 2011.

**Available-for-sale financial assets:** Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized directly in equity until the investment is derecognized, at which time the cumulative gain or loss recorded in equity is recognized in the statement of loss and comprehensive loss.

### f. Financial liabilities

#### Initial recognition

Financial liabilities are classified as financial liabilities at fair value through profit or loss, other liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Corporation determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value.

## NOTES TO THE FINANCIAL STATEMENTS

The Corporation's financial liabilities include accounts payable and accrued liabilities and amounts payable to the parent company.

### Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

**Financial liabilities at fair value through profit or loss:** Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through the statement of loss and comprehensive loss. Financial liabilities are classified as fair value through profit or loss if they are acquired for the purpose of selling in the near term.

### g. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

### h. Impairment of financial assets

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

### i. Derecognition of financial instruments

#### Financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Corporation has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Corporation has transferred substantially all the risks and rewards of the asset, or (b) the Corporation has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

#### Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

### j. Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated amortization and accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the property, plant and equipment. Likewise, when a major inspection is performed, its cost is recognized in the carrying value of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the statement of loss and comprehensive loss as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Amortization is calculated on a straight-line basis over the expected useful life of the asset at the following rates:

## NOTES TO THE FINANCIAL STATEMENTS

Office equipment	5 years
Computer equipment	3 years
Drilling equipment	3 years
Vehicles	3 years
Leasehold improvements	1 to 10 years

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the statement of loss and comprehensive loss in the period the asset is derecognized.

The assets' residual values, useful lives and methods of amortization are reviewed at each financial year end, and adjusted prospectively if appropriate.

### k. Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, i.e. whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Corporation substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the statement of loss and comprehensive loss.

Leased assets are amortized over the useful life of the asset. However, if there is no reasonable certainty that the Corporation will obtain ownership by the end of the lease term, the asset is amortized over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense in the statement of loss and comprehensive loss on a straight line basis over the lease term.

### l. Intangible assets

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Amortization expense on the intangible assets with finite lives is recognized in the statement of loss and comprehensive loss in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of loss and comprehensive loss when the asset is derecognized.

Intangible assets consist of customer contracts and customer relationships, and were amortized on a straight-line basis over one and three years, respectively.

### m. Research and development costs

Research and development costs are expensed as incurred.

### n. Inventories

Inventories are valued at the lower of cost and net realizable value.

## NOTES TO THE FINANCIAL STATEMENTS

The costs incurred to bring each product to its present location and condition are accounted for as follows:

- Raw materials – purchased cost on a first in, first out basis.
- Work in progress – cost of direct materials and labour.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

### **o. Impairment of non-financial assets**

At each reporting date, the Corporation assesses whether there is an indication that an asset or cash-generating unit (“CGU”) may be impaired. If indication exists, or when annual impairment testing for an asset or CGU is required, the Corporation estimates the recoverable amount. The recoverable amount is the higher of an asset’s or CGU’s fair value less costs to sell and its value in use, and is determined for an individual asset or the CGU when an individual asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying value of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered to be impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU, using an appropriate valuation model. These calculations are corroborated by calculation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognized in the statement of loss and comprehensive loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses no longer exist or may be decreased. If such indication exists, the Corporation estimates the asset or CGU’s recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of loss and comprehensive loss.

The following criteria are also applied in assessing impairment of specific assets:

#### **Goodwill**

Goodwill is tested for impairment annually, as at December 31, and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU to which goodwill relates. Where the recoverable amount of the CGU, including goodwill, is less than its carrying value, an impairment loss is recognized. Impairment losses related to goodwill cannot be reversed in future periods.

### **p. Cash**

Cash held to securitize corporate credit cards is treated as restricted cash (Note 6).

### **q. Loss per share**

Loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated using the treasury stock method, which assumes that any proceeds from the exercise of share options and warrants would be used to purchase shares at the average market price during the period, unless the effect would be anti-dilutive.

## **Note 4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Corporation’s financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date and the reported amounts of revenue and expenses for the periods presented. Estimates and judgements are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying value of the asset or liability affected in future periods.



## NOTES TO THE FINANCIAL STATEMENTS

The following are the key assumptions concerning the key sources of estimation uncertainty at December 31, 2011, that have a significant risk of causing adjustments to the carrying values of assets and liabilities.

### a. Going concern

These financial statements have been prepared on a going concern basis. The going concern basis assumes that the Corporation 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. As discussed in Note 1, there are uncertainties that cast significant doubt about the Corporation's ability to continue as a going concern.

### b. Assessment of impairments

The Corporation's impairment tests for goodwill and intangible assets are based on value in use calculations that use a discounted cash flow model. The value-in-use calculations employ the following key assumptions: future cash flows, growth projections including economic risk assumptions and estimates of achieving key operating metrics. The cash flows are derived from the Corporation's budget for the next three years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the asset base of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

### c. Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

### d. Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model.

## Note 5 INVENTORIES

	December 31 2011	December 31 2010	January 1 2010
Equipment, parts and materials	\$ 57,533	\$ 51,452	\$ 118,918
Work-in-progress	-	5,168	33,917
	\$ 57,533	\$ 56,620	\$ 152,835

The Corporation maintains inventory of equipment and spare parts for sale. Work-in-progress relates to costs incurred on geoechange installations and/or engineering services in progress.

The cost of sales for the year ended December 31, 2011 includes \$876,825 from the sale of equipment to customers (December 31, 2010 - \$1,374,593).

## Note 6 RESTRICTED CASH

As at December 31, 2011, the Corporation held \$106,613 (December 31, 2010 - \$105,308) on deposit as collateral against balances owing on corporate credit cards. At December 31, 2010, a certified cheque in the amount of \$225,000 was held as security for a bid on a prospective job and was also classified as current restricted cash.

## Note 7 LONG TERM DEPOSITS

Long term deposits represent deposits on rent and utilities for the premises and a security deposit paid on fuel credit cards.

## NOTES TO THE FINANCIAL STATEMENTS

### Note 8 GOODWILL

Goodwill arose as a result of the acquisition of certain assets and liabilities of Enerflo Geothermal Technologies Ltd. (“EGT”) and Lessoway Moir Partners Inc. (“LMP”) in July 2007. The purchase agreement provided for the payment of additional cash consideration provided the Corporation met certain earnings thresholds. In 2009, \$62,768 was accrued and added to goodwill, representing the final amount owing with respect to this contingent consideration.

### Note 9 INTANGIBLE ASSETS

	December 31 2011	December 31 2010	January 1 2010
Customer contracts	\$ 39,569	\$ 39,569	\$ 39,569
Customer relationships	230,464	230,464	230,464
	270,033	270,033	270,033
Accumulated amortization	(270,033)	(270,033)	(231,623)
	\$ -	\$ -	\$ 38,410

### Note 10 PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvements	Computer Equipment	Drilling Equipment	Office Equipment	Vehicles	Total
<b>Cost</b>						
At January 1, 2010	\$ 215,857	\$ 141,143	\$ 372,902	\$ 53,138	\$ 78,295	\$ 861,335
Additions	1,963	38,376	34,279	45,425	-	120,043
Disposals	-	-	(351,297)	-	(12,941)	(364,238)
At December 31, 2010	217,820	179,519	55,884	98,563	65,354	617,140
Disposals	(1,809)	(26)	-	-	(789)	(2,624)
<b>At December 31, 2011</b>	<b>\$ 216,011</b>	<b>\$ 179,493</b>	<b>\$ 55,884</b>	<b>\$ 98,563</b>	<b>\$ 64,565</b>	<b>\$ 614,516</b>
<b>Amortization</b>						
At January 1, 2010	\$ 38,000	\$ 88,663	\$ 150,853	\$ 18,051	\$ 26,536	\$ 322,103
Charge for the year	22,113	24,265	21,535	14,495	19,022	101,430
Disposals	-	-	(155,863)	-	(5,417)	(161,280)
At December 31, 2010	60,113	112,928	16,525	32,546	40,141	262,253
Charge for the year	21,617	33,549	19,063	16,687	24,424	115,340
<b>At December 31, 2011</b>	<b>\$ 81,730</b>	<b>\$ 146,477</b>	<b>\$ 35,588</b>	<b>\$ 49,233</b>	<b>\$ 64,565</b>	<b>\$ 377,593</b>

## NOTES TO THE FINANCIAL STATEMENTS

	Leasehold Improvements	Computer Equipment	Drilling Equipment	Office Equipment	Vehicles	Total
<b>Net book value</b>						
At January 1, 2010	\$ 177,857	\$ 52,480	\$ 222,049	\$ 35,087	\$ 51,759	\$ 539,232
At December 31, 2010	\$ 157,707	\$ 66,591	\$ 39,359	\$ 66,017	\$ 25,213	\$ 354,887
<b>At December 31, 2011</b>	<b>\$ 134,281</b>	<b>\$ 33,016</b>	<b>\$ 20,296</b>	<b>\$ 49,330</b>	<b>\$ -</b>	<b>\$ 236,923</b>

As at December 31, 2011, assets under finance leases included in office equipment, computer equipment and vehicles have a cost of \$83,482, \$4,112 and \$21,475, and accumulated amortization of \$37,567, \$2,776 and \$9,664, respectively.

As at December 31, 2010, assets under finance leases included in office equipment, computer equipment and vehicles have a cost of \$83,482, \$4,112 and \$21,475 and accumulated amortization of \$20,870, \$1,542 and \$5,369, respectively.

As at January 1, 2010, assets under capital leases included in office equipment, computer equipment and vehicles had a cost of \$83,482, \$4,112 and \$21,475 and accumulated amortization of \$4,174, \$308 and \$1,074, respectively.

### Note 11 PROMISSORY NOTE PAYABLE

As noted in Note 8, during 2009, \$62,768 was accrued as a payable to a former shareholder of EGT and LMP for contingent consideration based on the Corporation meeting certain earnings thresholds and the amount added to goodwill. This represented the final amount owing with respect to the contingent consideration. This amount was paid in full during 2010.

### Note 12 OPERATING LEASE OBLIGATIONS

A provision has been recognized for lease premiums on excess office space.

For the years ended December 31	2011	2010
Balance, beginning of year	\$ -	\$ -
Arose during year	583,322	-
Balance, end of year	\$ 583,322	\$ -
Current	\$ 139,700	\$ -
Non-current	443,622	-

## NOTES TO THE FINANCIAL STATEMENTS

### Note 13 FINANCE LEASE OBLIGATIONS

Future minimum payments under finance leases, along with the balance of the obligations under finance leases are as follows:

	December 31 2011	December 31 2010	January 1 2010
2010	\$ -	\$ -	\$ 74,487
2011	-	42,532	42,532
2012	37,126	39,981	39,582
2013	4,987	5,299	5,332
	42,113	87,812	161,933
Less amount representing interest at rates ranging from 5.15% to 25.20%	(3,659)	(13,249)	(27,412)
Present value of obligations under finance leases	\$ 38,454	\$ 74,563	\$ 134,521
Current (due within one year)	\$ 33,609	\$ 33,278	\$ 59,927
Non-current (within two to five years)	4,845	41,285	74,594

### Note 14 PAYABLE TO PARENT COMPANY

The Corporation receives advances from its parent company, Alter NRG Corp., as needed. The balance of the payable is secured by a promissory note with no fixed payment terms. The note bears interest at prime plus 3%, accrued monthly on the balance owing.

### Note 15 SHARE CAPITAL

#### Capital stock

The authorized share capital of the Company consists of an unlimited number of common shares.

	2011		2010	
	Number Issued	Amount	Number Issued	Amount
Balance, beginning and end of year	14,827,082	\$ 3,445,290	14,827,082	\$ 3,445,290

### Note 16 EQUITY SETTLED EMPLOYEE BENEFITS RESERVE

For stock options granted prior to December 31, 2009, the Corporation recorded compensation expense using the fair value method, determined using a Black-Scholes option pricing model. Compensation costs were recognized over the vesting period as an increase to stock-based compensation expense and equity settled employee benefits reserve. When options were exercised, the related fair value amount in equity settled employee benefits reserve was credited to share capital. The stock options were cancelled on October 2, 2009 upon the acquisition of the Corporation by Alter NRG Corp.

	December 31 2011	December 31 2010	January 1 2010
Balance, as at	\$ 92,086	\$ 92,086	\$ 92,086

## NOTES TO THE FINANCIAL STATEMENTS

### Note 17 RELATED PARTY TRANSACTIONS

The Corporation transacts with related parties in the normal course of business. The transactions are measured at the exchange amount, which is equivalent to the amounts that would be charged to an independent third party.

In the year ended December 31, 2011, the Corporation paid drilling costs of \$nil (December 31, 2010 - \$40,661) to a company of which a director of the parent company serves as a director. At December 31, 2011, \$nil was owed to related parties and \$nil was receivable from related parties (December 31, 2010 - \$nil and \$nil).

Included in general and administrative expenses is remuneration of key management personnel of the Corporation. For the year ended December 31, 2011, remuneration of \$382,021 included \$357,171 of salaries and \$24,850 of share-based compensation costs (December 31, 2010 - \$221,334, \$194,144 and \$27,190, respectively).

### Note 18 GENERAL AND ADMINISTRATIVE EXPENSES

For the year ended December 31	2011	2010
Employee costs, net of recoveries	\$ 1,727,623	\$ 3,864,389
Premises costs	1,179,993	475,303
Bad debts	546,547	543,915
Professional and consulting fees	457,321	829,540
Travel costs	279,262	428,732
Other costs	202,852	179,794
Office expenses	138,007	238,435
Other staff costs	58,898	51,498
Marketing costs	35,479	154,740
General and administrative expenses	\$ 4,625,982	\$ 6,766,346

### Note 19 COMMITMENTS

The Corporation has commitments under operating lease agreements for office space with future lease obligations for the remainder of the term as summarized below:

2012	\$ 544,369
2013	504,038
2014	511,457
2015	516,274
2016	359,700
Thereafter	719,400
	\$ 3,155,238
Within one year	\$ 544,369
Two to five years	1,891,469
More than five years	719,400

## NOTES TO THE FINANCIAL STATEMENTS

### Note 20 DEFERRED INCOME TAX

The provision for income taxes in the financial statements differs from the result that would be obtained applying the federal and provincial tax rates to the Corporation's loss before income taxes. The difference results from the following items:

For the year ended December 31	2011	2010
Loss	\$ (4,781,279)	\$ (7,091,318)
Expected income tax recovery at 27.4% (2010 – 28%)	\$ (1,310,070)	\$ (1,985,569)
Non-deductible expenses	6,261	209,299
Income tax rate changes	114,202	190,315
Changes in unrecognized deferred tax assets	1,189,607	1,585,955
Net income taxes	\$ -	\$ -

During the years ended December 31, 2011 and 2010, the Corporation recorded no deferred tax expenses or recoveries. Components of deferred income tax assets and liabilities were as follows:

As at December 31	2011	2010
<b>Unrecognized deferred tax assets</b>		
Non-capital losses carried forward	\$ 3,473,674	\$ 2,440,933
Property, plant and equipment	14,200	(14,635)
Other	225,007	96,976
<b>Total unrecognized deferred tax assets</b>	<b>\$ 3,712,881</b>	<b>\$ 2,523,274</b>

The Corporation has accumulated non-capital losses for income tax purposes that expire as follows:

2014	\$ 14,053
2015	229,397
2016	406,631
2027	570,243
2028	575,024
2029	1,762,579
2030	6,205,804
2031	4,130,964
	<b>\$ 13,894,695</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Note 21 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### a. Capital management

Operations are financed principally through shareholder advances. The Corporation's objectives when managing capital are to sustain its ability to continue as a going concern, maximize returns for shareholders and benefits for other stakeholders and provide resources to enable growth.

The Corporation manages the capital structure and responds to changes in economic conditions and planned requirements. Capital strategies may include debt financing and obtaining strategic partners to fund a portion of certain projects.

Capital management objectives and strategies remain substantially unchanged from the prior period. There are no external restrictions on the Corporation's capital, except as disclosed in Note 6.

#### b. Financial instrument risk exposure and management

##### Fair value

Financial instruments consist of cash, restricted cash, accounts receivable, long term deposits, promissory note payable, finance lease obligation, accounts payable and accrued liabilities and the payable to the parent company. Due to the nature of the Corporation's financial assets and liabilities, the carrying values approximate fair values.

The Corporation classifies financial instruments carried at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument.

**Level 1** – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

**Level 2** – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

**Level 3** – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The fair values of the Corporation's cash and restricted cash have been assessed using the fair value hierarchy described above, and have been determined using Level 1 inputs. The Corporation does not have any financial assets, carried at fair value, classified as Level 2 or Level 3.

The Corporation is exposed to credit risk, foreign currency risk, interest rate risk and liquidity risk.

##### Credit risk

The Corporation's cash of \$166,320 and restricted cash of \$106,613 (December 31, 2010 - \$787,625 and \$330,308, respectively) are held at chartered Canadian financial institutions. Management reviews the financial strength of the institutions on a regular basis.

Accounts receivable subject the Corporation to credit risk. The Corporation believes the remaining amounts will be collected. Accounts receivable are considered past due at 31 days or 46 days after the date of the invoice, depending on the specific terms negotiated with the client. The aging of accounts receivable is as follows:

	December 31 2011	December 31 2010	January 1 2010
Within 30 days	\$ 453,788	\$ 625,547	\$ 341,378
31 to 60 days	965,504	569,821	432,632
61 to 90 days	110,902	638,939	171,353
Over 90 days	1,064,577	1,165,618	453,596
Allowance for doubtful accounts	(722,012)	(803,594)	(292,499)
Accounts receivable, net	\$ 1,872,759	\$ 2,196,331	\$ 1,106,460

## NOTES TO THE FINANCIAL STATEMENTS

The changes in the allowance for doubtful accounts are as follows:

As at December 31	2011	2010
Balance, beginning of year	\$ 803,594	\$ 292,499
Additional allowance	637,015	535,362
Loans written off, net of recoveries	(718,597)	(24,267)
<b>Balance, end of year</b>	<b>\$ 722,012</b>	<b>\$ 803,594</b>

The maximum exposure is limited to the carrying amount of financial assets on the Corporation's statement of financial position that includes cash, restricted cash, and accounts receivable.

### Foreign exchange risk

The Corporation purchases a major portion of its inventory in United States ("US") dollars and does not currently engage in hedging activities. Accordingly, the Corporation is exposed to foreign exchange risk on a portion of its accounts payable and accrued liabilities and its US dollar bank account balance. Translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. A 10% strengthening or weakening of the Canadian dollar versus the US dollar would have increased or decreased the net loss for the year ended December 31, 2011 by approximately \$1,223 (December 31, 2010 - \$11,458). On December 31, 2011, the Corporation held US\$5,787 in cash (December 31, 2010 – US\$21,961).

### Interest rate risk

The Corporation is exposed to interest rate risk or fluctuating cash flows arising from changes in interest rates on its cash and restricted cash. The Corporation has deposited its cash with a Canadian financial institution in a low risk, interest-bearing account. As at December 31, 2011, the fluctuation in the Corporation's loss for the year ended December 31, 2011 would have been approximately \$4,821 (December 31, 2010 - \$4,137) for each 1.0% variation in the interest rate on its cash.

### Liquidity risk

The Corporation is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. At December 31, 2011 and December 31, 2010, the Corporation's exposure was limited due to having access to current assets in excess of total current liabilities. The majority of accounts payable are subject to normal 30 day payment terms.

## Note 22 TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

For all periods up to and including the year ended December 31, 2010, the Corporation prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The Corporation prepared financial statements that comply with IFRS for periods beginning on or after January 1, 2010, the Corporation's date of transition to IFRS. Any adjustments necessary to the opening balances at January 1, 2010, December 31, 2010 and comparative periods to reflect the revision of the financial statements from GAAP to IFRS have been made. Due to presentation requirements under IFRS, certain comparative figures have been reclassified to different headings on the financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1") sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the transitional reporting date with all adjustments to assets and liabilities recognized in retained earnings unless certain exemptions are applied. The Corporation has applied the following exemptions to its opening statement of financial position dated January 1, 2010:

### a. Share based payments

The Corporation has elected to take the IFRS 1 exemption that allows the Corporation an exemption on IFRS 2 Share Based Payments ("IFRS 2") for equity instruments that vested and settled before the Corporation's transition date to IFRS.

### b. Business combinations

IFRS 1 indicates that a first time adopter may elect not to apply IFRS 3 Business Combinations ("IFRS 3") retrospectively to business combinations that occurred before the date of transition to IFRS. The Corporation has taken advantage of this exemption and will apply IFRS 3 only to business combinations that occur on or after January 1, 2010.

No other optional IFRS exemptions were applicable and therefore have not been adopted.





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# Clean Energy Developments Corp.

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## Audited Financial Statements

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For the years ended  
December 31, 2010 and 2009

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# INDEPENDENT AUDITOR'S REPORT

## INDEPENDENT AUDITOR'S REPORT

### To the Director of Clean Energy Developments Corp.

We have audited the accompanying financial statements of Clean Energy Developments Corp., which comprise the balance sheets as at December 31, 2010 and 2009, and the statements of loss and comprehensive loss, deficit, and cash flows for the years then ended, and the notes to the financial statements.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Clean Energy Developments Corp. as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting.

*(signed) "Deloitte & Touche LLP"*

Chartered Accountants

May 9, 2012

Calgary, Alberta

# FINANCIAL STATEMENTS

## BALANCE SHEETS

As at December 31	2010	2009
<b>Assets</b>		
Current assets:		
Cash	\$ 787,625	\$ 137,258
Accounts receivable	2,196,331	1,106,460
Inventories (Note 3)	56,620	152,835
Restricted cash (Note 4)	330,308	-
Prepaid expenses	4,886	94,662
	3,375,770	1,491,215
Long-term deposit (Note 5)	78,561	36,123
Goodwill (Note 6)	575,478	575,478
Property, plant and equipment (Note 7)	354,887	539,232
Intangible assets (Note 8)	-	38,410
<b>Total Assets</b>	<b>\$ 4,384,696</b>	<b>\$ 2,680,458</b>
<b>Liabilities and Shareholder's Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,319,394	\$ 816,705
Deferred revenue	266,534	27,745
Promissory note payable (Note 6)	-	62,768
Current portion of deferred landlord inducements	6,164	11,363
Current portion of obligations under capital leases (Note 10)	33,278	59,927
	1,625,370	978,508
Obligations under capital leases (Note 10)	41,285	74,594
Deferred landlord inducements	38,888	45,052
Payable to parent company (Note 11)	10,872,406	2,721,558
<b>Total Liabilities</b>	<b>12,577,949</b>	<b>3,819,712</b>
Commitments (Note 17)		
Shareholder's equity		
Share capital (Note 12)	3,445,290	3,445,290
Contributed surplus (Note 13)	92,086	92,086
Deficit	(11,730,629)	(4,676,630)
<b>Total Shareholder's Equity</b>	<b>(8,193,253)</b>	<b>(1,139,254)</b>
<b>Total Liabilities and Shareholder's Equity</b>	<b>\$ 4,384,696</b>	<b>\$ 2,680,458</b>

See accompanying notes to the financial statements

*Approved by the Director:*  
*(Signed) "Mark Montemurro"*  
*Director*

## STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the years ended December 31	2010	2009
Sales	\$ 6,863,987	\$ 4,770,500
Cost of sales (Note 3)	6,657,570	3,157,044
Gross margin	206,417	1,613,456
General and administrative expenses (Note 16)	6,730,295	4,080,602
Interest on payable to parent company	363,030	22,063
Amortization	139,840	256,496
Interest and bank charges	23,021	38,313
Foreign exchange loss (gain)	12,240	(86,710)
Interest and other income	(8,010)	(2,575)
	7,260,416	4,308,189
Net loss and comprehensive loss for the year	\$ (7,053,999)	\$ (2,694,733)
Weighted average number of shares for the year		
Basic and diluted (Note 12)	14,827,082	14,289,537
Net loss per share	\$ (0.48)	\$ (0.19)

## STATEMENTS OF DEFICIT

For the years ended December 31	2010	2009
Deficit, beginning of year	\$ (4,676,630)	\$ (1,981,897)
Net loss and comprehensive loss for the year	(7,053,999)	(2,694,733)
Deficit, end of year	\$ (11,730,629)	\$ (4,676,630))

See accompanying notes to the financial statements

## STATEMENTS OF CASH FLOWS

For the years ended December 31	2010	2009
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the year	\$ (7,053,999)	\$ (2,694,733)
Add (deduct) items not involving cash		
Amortization of intangible assets	38,410	76,822
Amortization of property, plant and equipment	101,430	179,674
Bad debts	543,915	309,934
Deferred lease inducement	(11,363)	(11,364)
Interest on payable to parent company	363,030	22,063
Stock based compensation	-	15,401
Change in non-cash working capital	(748,755)	(489,454)
	<b>(6,767,332)</b>	<b>(2,591,657)</b>
<b>Financing activities</b>		
Advances from parent company	7,787,818	2,699,495
Bank indebtedness	-	(206,522)
(Repayment) issuance of promissory note payable	(62,768)	62,768
Issuance of share capital	-	542,000
Repayment of advance from a shareholder	-	(161,076)
Repayment of obligations under capital lease	(59,958)	(123,372)
Repayment of share purchase loan receivable	-	51,196
Restricted cash	(330,308)	-
	<b>7,334,784</b>	<b>2,864,489</b>
<b>Investing activities</b>		
Investment in goodwill	-	(62,768)
Proceeds on sale of property, plant and equipment	202,958	-
Purchase of property, plant and equipment	(120,043)	(72,806)
	<b>82,915</b>	<b>(135,574)</b>
Increase in cash	<b>650,367</b>	137,258
Cash, beginning of year	<b>137,258</b>	-
Cash, end of year	<b>\$ 787,625</b>	<b>\$ 137,258</b>
Interest paid during the year	<b>\$ 23,021</b>	<b>\$ 34,240</b>
Interest received during the year	<b>1,308</b>	2,580
Income taxes paid during the year	-	-

See accompanying notes to the financial statements

## NOTES TO THE FINANCIAL STATEMENTS

### Note 1 DESCRIPTION OF THE CORPORATION AND BUSINESS

Clean Energy Developments Corp. (the “Corporation”) is a privately held, Canadian based corporation providing turnkey geoexchange services in the residential, commercial and government sectors.

These financial statements have been prepared on a going concern basis. The going concern basis assumes that the Corporation 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.

### Note 2 ACCOUNTING POLICIES

#### a. Measurement uncertainty

These financial statements have been prepared by management, in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions regarding the Corporation’s recoverability and impairment of long-term assets, including resource properties, intangible assets and deferred costs. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent amounts and the reported amounts of revenues and expenses. Actual results could differ from these estimates and the differences could be material.

#### b. Cash

Cash held as refundable customer deposits and to securitize corporate credit cards is treated as restricted cash.

#### c. Inventories

Inventories are valued at the lower of cost, determined on the first-in, first-out (“FIFO”) basis, and net realizable value. Work-in-progress is valued at the lower of costs incurred and net realizable value.

#### d. Property, plant and equipment

Property, plant and equipment are recorded at cost. Major renewals and improvements that extend the useful life of the asset are capitalized, while repairs and maintenance expenses are charged to operations as incurred. Amortization is recognized over the expected useful lives of the assets using the declining balance method and the following annual rates:

Office equipment	20%
Computer equipment	30%
Vehicles	30%
Drilling equipment	30%

Leasehold improvements are amortized on a straight-line basis over the term of the leases which are currently between 1 and 10 years.

The carrying value of property, plant and equipment is assessed to determine if there are any events or circumstances that would indicate the carrying value will not be recovered in the future. If the carrying value is unlikely to be recovered, the carrying value in excess of the fair value is charged to earnings.

#### e. Intangible assets

Intangible assets, which have a finite life, are recorded at cost less accumulated amortization. Intangible assets consist of customer contracts and customer relationships, and are being amortized on a straight-line basis over one and three years, respectively.

#### f. Impairment

The Corporation conducts an impairment test annually at December 31 or whenever events or changes in circumstances indicate the carrying value of a long-term asset may not be recoverable.

## NOTES TO THE FINANCIAL STATEMENTS

### **g. Capital lease obligations**

Leases that transfer substantially all of the benefits and risks of ownership of property, plant and equipment to the Corporation are accounted for as capital leases. An asset is recognized at the time a capital lease is entered into together with its related long-term obligation. Property, plant and equipment recognized under capital leases are amortized on the same basis as described under property, plant and equipment. Payments on operating leases are expensed as incurred.

### **h. Future income taxes**

The Corporation follows the liability method of accounting for income taxes. Under this method, the change in future income tax assets or liabilities is charged to income. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities at rates substantively enacted applicable to the dates the differences are expected to reverse. Future income taxes are classified as current or long-term, depending upon the classification of the balance sheet items to which they relate. A valuation allowance is established, as needed, to reduce future income tax assets to the amount that is more likely than not to be realized.

### **i. Revenue recognition**

Revenue is recognized when evidence of an arrangement exists, services are rendered, the selling price is fixed and determinable and collectability is reasonably assured.

Advance payments received from customers, in excess of revenue recognized, are classified as deferred revenue until the service is provided or the product delivered.

Revenue from long-term service contracts consisting of design and engineering services is recognized when the service has been rendered and specific milestones have been reached. Revenue from contracts for installation of geoexchange systems is recognized using the percentage-of-completion method of accounting. The degree of completion is determined by comparing the costs incurred to the total costs anticipated for the contract.

### **j. Foreign currency translation**

Accounts denominated in a foreign currency have been translated into Canadian dollars as follows: monetary items at exchange rates in effect at the balance sheet date; non-monetary items at exchange rates in effect on the dates of the transactions; and revenue and expenses at average exchange rates prevailing during the year.

Gains and losses arising from foreign currency translation are included in income.

### **k. Stock based compensation**

The Corporation has a stock-based compensation plan for its eligible directors, officers and employees. Stock options granted under this plan are settled in stock. The Corporation accounts for stock options granted using the fair value method. This method consists of recording compensation costs to earnings over the vesting period of the options granted. When stock options are exercised, any consideration paid by the grantee and the related compensation expense recorded as contributed surplus in shareholder's equity are credited to capital stock. Forfeitures are accounted for as they occur.

### **l. Loss per share**

Loss per share is calculated using the weighted average number of shares outstanding during the period. Diluted per share amounts are calculated using the treasury method, which assumes that any proceeds from the exercise of share options and warrants would be used to purchase shares at the average market price during the period, unless the effect would be anti-dilutive.

### **m. Financial instruments**

The Corporation initially recognizes financial assets and financial liabilities at their fair value. Measurement in subsequent periods is dependent on the classification of the financial instrument, which is dependent on the purpose for which it was acquired and its characteristics. Financial instrument classifications are "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables" and "other financial liabilities".

## NOTES TO THE FINANCIAL STATEMENTS

Financial instruments classified as “held-for-trading” are subsequently re-valued to fair value with the changes in fair value included in earnings. Financial instruments classified as “available-for-sale” are subsequently re-valued to fair value with changes in the fair value included in other comprehensive income (loss). Financial instruments designated as “held-to-maturity”, “loans and receivables” and “other financial liabilities” are carried at amortized cost using the effective interest method of amortization.

The Corporation has made the following classifications for each of its significant categories of financial instruments:

Cash	Held-for-trading
Restricted cash	Held-for-trading
Accounts receivable	Loans and receivables
Long-term deposit	Held-for-trading
Accounts payable and accrued liabilities	Other financial liabilities
Promissory note payable	Other financial liabilities
Capital leases	Other financial liabilities
Payable to parent company	Held-for-trading

The Corporation does not apply hedge accounting and there are no outstanding derivatives as at December 31, 2010 and 2009. The Corporation reviews its contractual agreements for embedded derivatives and there were no embedded derivatives that required separate accounting as at December 31, 2010 and 2009.

The Corporation takes into account its own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments.

### n. Future accounting changes

#### International Financial Reporting Standards

In January 2006, the Accounting Standards Board (the “ASB”) of the Canadian Institute of Chartered Accountants adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards for public companies are required to converge with International Financial Reporting Standards (“IFRS”) for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis. In February 2008, the ASB confirmed the effective date of the initial adoption of IFRS. The Corporation’s effective date is January 1, 2011 with a transition date of January 1, 2010. The IASB has stated that it will continue to issue standards during 2011 and beyond. The change to IFRS and future IFRS standards will not have a significant impact on the Corporation’s future financial statements. The Corporation does not expect a significant impact to its business activities or cash flows from the transition to IFRS.

### Note 3 INVENTORIES

As at December 31	2010	2009
Equipment, parts and materials	\$ 51,452	\$ 118,918
Work-in-progress	5,168	33,917
	<b>\$ 56,620</b>	<b>\$ 152,835</b>

The Corporation maintains inventory of equipment and parts for repairs and sales. Work-in-progress relates to costs incurred on geoexchange installations and engineering services in progress.

The cost of sales includes \$1,373,846 (2009 - \$2,130,389) from the sale of equipment to customers.



## NOTES TO THE FINANCIAL STATEMENTS

### Note 4 RESTRICTED CASH

As at December 31, 2010, the Corporation holds \$105,308 on deposit as collateral against balances owing on corporate credit cards. A certified cheque in the amount of \$225,000, which is held as security for a bid on a prospective job, is also classified as restricted cash. Both are presented as current restricted cash. As at December 31, 2009, there were no amounts restricted to satisfy current obligations.

### Note 5 LONG TERM DEPOSIT

Long term deposits represent deposits on rent paid for the Corporation's office premises in Calgary, Alberta and Mississauga, Ontario.

### Note 6 GOODWILL

Goodwill arose as a result of the acquisition of certain assets and liabilities of Enerflo Geothermal Technologies Ltd. ("EGT") and Lessoway Moir Partners Inc. ("LMP") in July 2007. The purchase agreement provided for the payment of additional cash consideration provided the Corporation met certain earnings thresholds. In 2009, \$62,768 was accrued and added to goodwill, representing the final amount owing with respect to this contingent consideration.

### Note 7 PROPERTY, PLANT AND EQUIPMENT

As at December 31	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Leasehold improvements	\$ 217,819	\$ 60,114	\$ 157,705	\$ 215,857	\$ 38,000	\$ 177,857
Computer equipment	179,518	112,927	66,591	141,143	88,665	52,478
Drilling equipment	55,884	16,524	39,360	372,902	150,853	222,049
Office equipment	98,562	32,544	66,018	53,139	18,050	35,089
Vehicles	65,354	40,141	25,213	78,295	26,536	51,759
	\$ 617,137	\$ 262,250	\$ 354,887	\$ 861,336	\$ 322,104	\$ 539,232

As at December 31, 2010, assets under capital leases included in office equipment, computer equipment and vehicles have a cost of \$83,482, \$4,112 and \$21,475 and accumulated amortization of \$20,870, \$1,542 and \$5,369, respectively. As at December 31, 2009, assets under capital leases included in office equipment, computer equipment and vehicles had a cost of \$83,482, \$4,112 and \$21,475 and accumulated amortization of \$4,174, \$308 and \$1,074, respectively.

### Note 8 INTANGIBLE ASSETS

As at December 31	2010	2009
Customer contracts	\$ 39,569	\$ 39,569
Customer relationships	230,464	230,464
	270,033	270,033
Accumulated amortization	(270,033)	(231,623)
	\$ -	\$ 38,410

## NOTES TO THE FINANCIAL STATEMENTS

### Note 9 PROMISSORY NOTE PAYABLE

As noted in Note 6, during 2009, \$62,768 was accrued as a payable to a former shareholder of EGT and LMP for contingent consideration based on the Corporation meeting certain earnings thresholds and the amount added to goodwill. This represented the final amount owing with respect to the contingent consideration. This amount was paid in full during 2010.

### Note 10 OBLIGATIONS UNDER CAPITAL LEASES

Future minimum payments under capital leases, along with the balance of the obligations under capital leases are as follows:

As at December 31	2010	2009
2010	\$ -	\$ 74,487
2011	42,532	42,532
2012	39,981	39,582
2013	5,299	5,332
	87,812	161,933
Less amount representing interest at rates ranging from 5.15% to 25.20%	(13,249)	(27,412)
Present value of obligations under capital leases	74,563	134,521
Less: current portion	33,278	59,927
Non-current portion	\$ 41,285	\$ 74,594

### Note 11 PAYABLE TO PARENT COMPANY

The Corporation receives cash advances from its parent company, Alter NRG Corp., as needed. The balance of the payable is secured by a promissory note with no fixed payment terms. The note bears interest at prime plus 3%, accrued monthly on the balance owing.

### Note 12 SHARE CAPITAL

#### a. Capital stock

The authorized share capital of the Company consists of an unlimited number of common shares.

For the years ended December 31	2010		2009	
	Number Issued	Amount	Number Issued	Amount
Beginning of year	14,827,082	\$ 3,445,290	13,743,082	\$ 2,903,290
Issued during year	-	-	1,084,000	542,000
End of year	14,827,082	\$ 3,445,290	14,827,082	\$ 3,445,290
Weighted average number of shares during the year				
Basic and diluted	14,827,082		14,289,537	

During 2009, 1,084,000 units were issued for \$542,000 in cash proceeds.

## NOTES TO THE FINANCIAL STATEMENTS

### b. Stock Option Plan

The Corporation's stock option plan provides for granting options to employees in respect of the authorized common shares not yet issued. Under the terms of the plan, the Board of Directors determines the number of shares subject to each option, the option price, the expiration date of each option, the extent to which each option is exercisable from time to time during the term of the option and other terms related to each such option.

Options issued to two employees in 2009 had an exercise price per share of \$0.50 on the date of the option grant. These options vest over 3 years and, subject to certain events prior to expiry, all exercisable options expire on the tenth anniversary of the date of the grant.

The following table summarizes the information relating to the stock options:

As at December 31	2010		2009	
	# of options	Weighted average exercise price	# of options	Weighted average exercise price
Outstanding, beginning of year	-	\$ -	981,956	\$ 0.32
Granted	-	-	85,000	0.50
Cancelled	-	-	(1,066,956)	0.33
Outstanding, end of year	-	\$ -	-	\$ -
Exercisable	-	\$ -	-	\$ -

During 2009, the Corporation entered into an agreement whereby all outstanding common shares were sold to Alter NRG Corp. At that time, all outstanding stock options were cancelled.

The fair value of the options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted assumptions:

For the year ended December 31	2009
Risk-free interest rate	2.03%
Expected dividend yield	Nil
Expected life of options	10 years
Expected volatility	0.01%

General and administrative expenses for the year ended December 31, 2010 include \$ nil in stock-based compensation expense (2009 - \$15,401), with an equal amount charged to contributed surplus.

### Note 13 CONTRIBUTED SURPLUS

As at December 31	2010	2009
Balance, beginning of period	\$ 92,086	\$ 76,685
Stock based compensation expense	-	15,401
Balance, end of period	\$ 92,086	\$ 92,086

## NOTES TO THE FINANCIAL STATEMENTS

### Note 14 RELATED PARTY TRANSACTIONS

The Corporation may transact with related parties in the normal course of business. The transactions are measured at the exchange amount, which is equivalent to the amount the Corporation would charge to an independent third party.

In 2010, the Corporation paid drilling costs of \$40,661 (2009 - \$nil) to a company of which a director of the parent company serves. In 2009, a former shareholder of the Corporation purchased residential geoexchange services totalling \$83,530.

At December 31, 2010, \$nil was owed to related parties and \$nil was receivable from related parties (2009 - \$nil and \$nil).

### Note 15 FUTURE INCOME TAXES

A reconciliation of income taxes at Canadian statutory rates with the reported income taxes is as follows:

For the year ended December 31	2010	2009
Loss before income taxes	\$ (7,096,118)	\$ (2,694,733)
Expected income tax recovery at 29.1% (2009 – 31.2%)	\$ (2,064,970))	\$ (840,757)
Increase (decrease) resulting from:		
Change in valuation allowance	1,355,312	350,712
Income tax rate changes	363,111	220,607
Non-deductible expenses	201,031	104,562
Other	145,516	164,876
	\$ -	\$ -

### Temporary differences

In assessing the recoverability of future tax assets, management considers whether it is more likely than not that some portion or all the future tax assets will not be realized. The ultimate realization of the future tax assets is dependent upon the generation of future taxable income during the period in which these temporary differences become deductible. At this time, management believes that the recording of a valuation allowance to offset the future income tax assets is appropriate.

The following tax effects give rise to the Company's future income tax assets and liabilities:

For the year ended December 31	2010	2009
Tax value of property, plant and equipment in excess of carrying value	\$ (11,100)	\$ (61,608)
Other	92,447	109,453
Non-capital losses carried forward	2,211,292	889,482
Total future income tax asset	2,292,639	937,327
Valuation allowance	(2,292,639)	(937,327)
Future tax asset	\$ -	\$ -

## NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010, the Company has unused non-capital losses carried forward of approximately \$9,213,718. The benefits of these losses have not been recognized in these financial statements. These losses are available to reduce income for tax purposes in future years and, if not utilized, will expire as follows:

2014	\$ 14,053
2015	229,397
2016	406,631
2027	570,243
2028	575,024
2029	1,762,579
2030	5,655,791
	<b>\$ 9,213,718</b>

### Note 16 GENERAL AND ADMINISTRATIVE EXPENSES

For the year ended December 31	2010	2009
Employee costs, net of recoveries	\$ 3,828,337	\$ 2,382,670
Professional and consulting fees	829,540	513,430
Bad debts	543,915	309,934
Premises costs	475,304	441,892
Travel costs	428,732	117,943
Office expenses	238,435	204,422
Other costs	179,794	49,976
Marketing costs	154,740	11,515
Other staff costs	51,498	33,419
Stock compensation expense	-	15,401
General and administrative expenses	<b>\$ 6,730,295</b>	<b>\$ 4,080,602</b>

### Note 17 COMMITMENTS

The Corporation has commitments under operating lease agreements for office space with future lease obligations for the remainder of the term as summarized below:

2011	\$ 346,048
2012	341,462
2013	341,462
2014	341,462
2015	341,462
Thereafter	<b>1,024,386</b>

### Note 18 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### a. Capital management

Operations are financed principally through direct cash flows and shareholder advances, therefore, the Corporation's capital consists of shareholder's equity. The Corporation's objectives when managing capital are to sustain its ability to continue as

## NOTES TO THE FINANCIAL STATEMENTS

a going concern, maximize returns for shareholders and benefits for other stakeholders and provide resources to enable growth.

The Corporation manages the capital structure and responds to changes in economic conditions and planned requirements. It will continue to use cash flows from geoexchange sales and equity offerings to fund operations. Other capital strategies may include debt financing and obtaining strategic partners to fund a portion of certain development projects.

Capital management objectives and strategies remain substantially unchanged from the prior period. There are no external restrictions on the Corporation's capital except as disclosed in Note 4.

### b. Financial instrument risk exposure and management

The Corporation is exposed to various risks associated with its financial instruments. These risks are categorized as credit risk, foreign currency risk, interest rate risk and liquidity risk. The Corporation did not hold or issue any derivative financial instruments during 2010 or 2009.

#### Fair value

Financial instruments consist of cash, restricted cash, accounts receivable, long-term deposits, accounts payable and accrued liabilities, promissory note payable, capital lease obligations and payable to the parent company. Due to the short-term nature of the Corporation's financial assets and liabilities, excluding the capital lease obligations, the carrying values approximate fair values. The carrying value of capital leases equals fair value as the assets could be leased at the same implicit rate of interest as is currently being received.

The Corporation classifies financial instruments carried at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument.

**Level 1** – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

**Level 2** – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

**Level 3** – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Corporation's cash and restricted cash have been assessed using the fair value hierarchy described above, and have been classified as Level 1. The Corporation does not have any financial assets, carried at fair value, classified as Level 2 or Level 3.

#### Credit risk

The Corporation's cash of \$787,625 and restricted cash of \$330,308 (2009 - \$137,258 and \$nil, respectively) are held at chartered Canadian financial institutions. Management reviews the financial strength of the institutions on a regular basis.

Accounts receivable subject the Corporation to credit risk. The Corporation's credit risk with respect to accounts receivable has been mitigated by allowing for uncollectible amounts on a quarterly basis. The Corporation believes the remaining amounts will be collected.

The aging of accounts receivable is as follows:

As at December 31	2010	2009
Within 30 days	\$ 625,547	\$ 371,781
31 to 60 days	569,821	410,308
61 to 90 days	638,939	163,275
Over 90 days	1,165,618	453,595
Allowance for doubtful accounts	(803,594)	(292,499)
Accounts receivable total	\$ 2,196,331	\$ 1,106,460

## NOTES TO THE FINANCIAL STATEMENTS

The maximum exposure risk is limited to the carrying amount of financial assets on the Corporation's balance sheets that includes cash, restricted cash, and accounts receivable.

### Market risk

Changes in interest rates and foreign currency exchange rates can expose the Corporation to loss, and fluctuations in the fair value of its financial assets and liabilities.

### Foreign exchange risk

The Corporation purchases a major portion of its inventory in United States ("US") dollars and does not currently engage in hedging activities. Accordingly, the Corporation is exposed to foreign exchange risk on a portion of its accounts payable and accrued liabilities and its US dollar bank account balance. Translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. A 10% strengthening or weakening of the Canadian dollar versus the US dollar would have increased or decreased the net loss in 2010 by approximately \$12,278 (2009 - \$11,458). On December 31, 2010, the Corporation held US\$21,961 in cash (2009 - \$11,466 overdraft).

### Interest rate risk

The Corporation is exposed to interest rate risk or fluctuating cash flows arising from changes in interest rates on its cash and restricted cash. The Corporation has deposited its cash with a Canadian financial institution in a low risk, interest-bearing account. As at December 31, 2010, the fluctuation in the Corporation's loss for the year ended December 31, 2010 would have been approximately \$4,137 (2009 - \$2,307) for each 1.0% variation in the interest rate on its cash and cash equivalents.

### Liquidity risk

The Corporation is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. At December 31, 2010, the Corporation's exposure was limited due to having access to current assets in excess of total current liabilities.

## Note 19 SUBSEQUENT EVENT

On January 5, 2012, the Corporation's parent, Alter NRG Corp. ("Alter NRG") announced that it had signed an agreement to sell 100% of the issued and outstanding shares of the Corporation to Bellair Ventures Inc. ("Bellair"), in exchange for an amount equal to \$5,000,000 (representing a deemed price of \$0.50/share) payable in 10,000,000 Bellair shares. On or before the Closing Date, the Corporation will carry out an offering of up to 4,000,000 subscription receipts on a brokered, private placement basis to raise gross proceeds of up to \$2,000,000 at a purchase price of \$0.50 per Subscription Receipt, plus an over-allotment option of up to an additional 600,000 Subscription Receipts offered on the same terms and conditions for additional gross proceeds of up to \$300,000. Each Subscription Receipt will be exercisable by the holder, without payment of additional consideration, into one unit of the Corporation, each unit consisting of one common share and one common share purchase warrant. Each purchase warrant will entitle the holder to purchase one common share of the Corporation at a price of \$0.75 for a period of 24 months following the closing date. The sale is expected to close no later than May 31, 2012.

Bellair is a Canadian capital pool company and, once completed, the proposed transaction will constitute its qualifying transaction pursuant to policies of the TSX Venture Exchange. Alter NRG will initially be the largest shareholder of Bellair, but the parties have agreed that Bellair will maintain control of the Corporation at all times. Bellair will be able to nominate the majority of the seats on the board of directors of the Corporation and govern the financial and operating policies of the Corporation. Alter NRG irrevocably agreed that, where it owns greater than 50% of the issued and outstanding shares of Bellair, it will only vote a maximum of 49.9% of the issued and outstanding shares of Bellair voted in respect of any matter at any given time."

# **Clean Energy Developments Corp.**

## **Financial Statements December 31, 2008 and 2007**

**RSM Richter LLP**  
**Chartered Accountants**  
Toronto

RSM Richter LLP is an independent member firm of RSM International,  
an affiliation of independent accounting and consulting firms.



# Clean Energy Developments Corp.

## Financial Statements December 31, 2008 and 2007

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## Auditors' Report

To the Shareholders of  
**Clean Energy Developments Corp.**

We have audited the balance sheets of Clean Energy Developments Corp. as at December 31, 2008 and 2007 and the statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*RSM Richter LLP*

**Chartered Accountants  
Licenced Public Accountants**

Toronto, Ontario  
November 20, 2009

# Clean Energy Developments Corp.

## Balance Sheets

As At December 31, 2008 and 2007

	2008	2007
<b>Assets</b>		
<b>Current</b>		
Cash	\$ -	\$ 173,882
Accounts receivable	1,267,712	1,476,870
Prepays	141,102	31,315
Inventory (note 5)	195,873	50,148
	<b>1,604,687</b>	<b>1,732,215</b>
<b>Property, Plant and Equipment</b> (note 6)	<b>646,100</b>	<b>110,980</b>
<b>Intangible Assets</b> (note 7)	<b>115,232</b>	<b>197,485</b>
<b>Goodwill</b> (note 8)	<b>512,710</b>	<b>425,387</b>
	<b>\$ 2,878,729</b>	<b>\$ 2,466,067</b>
<b>Liabilities</b>		
<b>Current</b>		
Bank indebtedness (note 9)	206,522	-
Accounts payable and accrued liabilities	1,238,577	1,034,800
Current portion of obligations under capital leases (note 11)	131,845	-
Advance from a shareholder (note 12)	161,076	151,247
	<b>1,738,020</b>	<b>1,186,047</b>
<b>Obligations Under Capital Leases</b> (note 11)	<b>126,048</b>	<b>-</b>
<b>Deferred Landlord Inducements</b>	<b>67,779</b>	<b>17,490</b>
<b>Commitment and Contingency</b> (note 13)		
<b>Shareholders' Equity</b>		
<b>Capital Stock</b> (note 14)	<b>2,903,290</b>	<b>2,647,837</b>
<b>Share Purchase Loan Receivable</b> (note 15)	<b>(51,196)</b>	<b>(60,914)</b>
	<b>2,852,094</b>	<b>2,586,923</b>
<b>Contributed Surplus</b> (note 16)	<b>76,685</b>	<b>28,284</b>
<b>Deficit</b>	<b>(1,981,897)</b>	<b>(1,352,677)</b>
	<b>946,882</b>	<b>1,262,530</b>
	<b>\$ 2,878,729</b>	<b>\$ 2,466,067</b>

See accompanying notes

# Clean Energy Developments Corp.

## Statements of Deficit For the Years Ended December 31, 2008 and 2007

	2008	2007
<b>Balance - Beginning of Year</b>	<b>\$ (1,352,677)</b>	<b>\$ (710,051)</b>
Net loss	(631,352)	(645,671)
	<b>(1,984,029)</b>	<b>(1,355,722)</b>
Interest from share purchase loan receivable (note 15)	(2,132)	(3,045)
<b>Balance - End of Year</b>	<b>\$ (1,981,897)</b>	<b>\$ (1,352,677)</b>

See accompanying notes

# Clean Energy Developments Corp.

## Statements of Operations

For the Years Ended December 31, 2008 and 2007

	2008	2007
<b>Sales</b>	\$ 6,261,995	\$ 2,609,254
<b>Cost of Sales</b>	3,019,994	1,799,131
<b>Gross Profit</b>	3,242,001	810,123
<b>Expenses</b>		
Operating, general and administrative	3,894,966	1,364,307
Amortization	202,363	94,867
Foreign exchange loss (gain)	167,148	(7,050)
Interest and bank charges	11,094	9,398
	4,275,571	1,461,522
<b>Loss Before Undernoted Item and Income Taxes</b>	(1,033,570)	(651,399)
Other income (note 18)	402,218	-
<b>Loss Before Income Taxes</b>	(631,352)	(651,399)
Future income tax (recovery) (note 17)	-	(5,728)
<b>Net Loss and Comprehensive Loss</b>	\$ (631,352)	\$ (645,671)

See accompanying notes

# Clean Energy Developments Corp.

## Statements of Cash Flows

For the Years Ended December 31, 2008 and 2007

	2008	2007
<b>Funds Provided (Used) -</b>		
<b>Operating Activities</b>		
Net loss	\$ (631,352)	\$ (645,671)
Amortization	202,363	94,867
Stock-based compensation expense (note 14)	48,401	25,256
Future income tax (recovery)	-	(5,728)
Deferred lease inducement	50,289	17,490
	(330,299)	(513,786)
Changes in non-cash operating elements of working capital	70,100	(595,580)
	(260,199)	(1,109,366)
<b>Financing Activities</b>		
Bank indebtedness, net	206,522	-
Advance from a shareholder	87,323	-
Repayment of advance from a shareholder	(77,494)	(62,066)
Issuance of share capital (note 14)	255,453	1,517,550
Interest from share purchase loan receivable	2,132	3,045
Advance of share purchase loan receivable	(11,602)	-
Repayment of share purchase loan receivable	21,320	-
Repayment of obligations under capital leases	(114,727)	-
	368,927	1,458,529
<b>Investing Activities</b>		
Additions to property, plant and equipment	(282,610)	(61,897)
Acquisition of net assets (note 8)	-	(127,659)
	(282,610)	(189,556)
<b>Increase (Decrease) in Cash</b>	<b>(173,882)</b>	<b>159,607</b>
<b>Cash</b>		
Beginning of Year	173,882	14,275
End of Year	\$ -	\$ 173,882
<b>Additional Cash Flows Information:</b>		
Interest paid	\$ 12,837	\$ 7,707

See accompanying notes

# Clean Energy Developments Corp.

## Notes to Financial Statements December 31, 2008 and 2007

### 1. Nature of Business

Clean Energy Developments Corp.'s (the "company") business activity consists of a complete geoexchange technology package comprising in-house design engineer services, the sale of a full line of geoexchange equipment and vertical drilling and loop installation. The company currently operates in Ontario, Alberta and British Columbia with offices in Calgary and Mississauga.

### 2. Change in Accounting Policies

#### Differential Reporting

For the year ended December 31, 2008, the company changed its accounting policy retroactively, in regards to differential reporting and has chosen to no longer report under this option. As a result, goodwill is tested annually for impairment. Previously, the company only had to test for impairment when an event or circumstance occurred which indicated that the fair value could be less than its carrying amount.

As a result of adopting this change in accounting policy, the company has determined that this change will have no impact on its financial statements.

#### Inventories

Effective January 1, 2008, the company has adopted the new recommendation of the Canadian Institute of Chartered Accountants' Handbook Section 3031, Inventories, which contains requirements on measurement and disclosure of inventories to converge with international financial reporting.

This change in accounting policy has been adopted retrospectively without restatement.

As a result of adopting these new recommendations, the company has determined that these changes will have no material effect on its financial statements, other than the additional disclosure in note 5.

#### Financial Instruments

Effective January 1, 2008, the company has adopted the new recommendations of the Canadian Institute of Chartered Accountants Handbook Section 1530 "Comprehensive Income", Section 3855 "Financial Instruments", and Section 3865 "Hedges".

These changes in accounting policy have been adopted retrospectively without restatement.

# Clean Energy Developments Corp.

## Notes to Financial Statements December 31, 2008 and 2007

### 2. Change in Accounting Policies, cont'd

#### Financial Instruments, cont'd

These recommendations establish standards for recognizing and measuring financial instruments, which include financial assets, financial liabilities, derivatives and embedded derivatives. Under these recommendations, all financial instruments are to be recorded initially at fair value. In subsequent periods, all financial instruments are re-measured based on the classification adopted for the financial instrument: held-to-maturity, loans and receivables, held for trading, available-for-sale or other liability.

#### Financial Assets

##### Held for trading

Financial assets that are held with the intention of generating profits in the near term and derivative contracts that are financial assets, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial assets can be designated by the company upon initial recognition as held for trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net earnings during the period.

##### Held-to-maturity

Financial assets that have a fixed maturity date and which the company has a positive intention and the ability to hold to maturity are classified as held-to-maturity, which are subsequently re-measured at amortized cost using the effective interest rate method.

##### Loans and receivables

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets in return for a promise to repay on a specified date, or on demand, usually with interest. Loans and receivables are subsequently re-measured at amortized cost using the effective interest rate method.

##### Available-for-sale

Available-for-sale assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets classified as available-for-sale are subsequently re-measured at fair value with the changes in fair value recorded in other comprehensive income.



# Clean Energy Developments Corp.

## Notes to Financial Statements December 31, 2008 and 2007

### 2. Change in Accounting Policies, cont'd

#### Financial Liabilities

##### Held for trading

Financial liabilities that are held with the intention of generating profits in the near term and derivative contracts that are financial liabilities, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial liabilities can be designated by the company upon initial recognition as held for trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net earnings during the period.

##### Other liabilities

Non-derivative financial liabilities that have not been designated as held for trading are classified as other liabilities, which are subsequently re-measured at amortized cost using the effective interest rate method.

The company has classified its financial instruments as follows:

<u>Financial Instrument</u>	<u>Classification</u>
Cash	Held for trading
Accounts receivable	Loans and receivables
Bank Indebtedness	Other liabilities
Accounts payable and accrued liabilities	Other liabilities
Advance from a shareholder	Other liabilities

CICA Handbook Section 3865 "Hedges", replaces CICA Handbook Accounting Guideline 13 "Hedging Relationships", which establishes standards for when and how hedge accounting may be applied. Consistent with financial instruments, it requires that all derivatives, including those designated as hedges, be measured at fair value. Changes in the fair value of a derivative which hedges the company's exposure to changes in the fair value of an asset or liability, a fair value hedge, are recognized in net earnings together with those of the respective offsetting hedged item. Changes in the fair value of a derivative which effectively hedges the company's exposure to changing cash flows, a cash flow hedge, are accumulated in other comprehensive income until the transaction being hedged affects net earnings.

# Clean Energy Developments Corp.

## Notes to Financial Statements December 31, 2008 and 2007

### 2. Change in Accounting Policies, cont'd

#### Financial Liabilities, cont'd

CICA Handbook Section 1530 "Comprehensive Income", establishes new measurements of earnings in the financial statements. Other comprehensive income consists of changes to unrealized gains and losses on available-for-sale financial assets, changes to unrealized gains and losses on the effective portion of cash flow hedges and changes to foreign currency translation adjustments of self-sustaining foreign operations during the period. Comprehensive income measures net earnings for the period plus other comprehensive income. Amounts reported as other comprehensive income are accumulated in a separate component of shareholders' equity as accumulated other comprehensive income.

As a result of adopting these new recommendations as of January 1, 2008, the company had no changes to its existing financial assets and liabilities, no changes to retained earnings, beginning of year and no accumulated other comprehensive income.

#### Financial Instruments - Disclosures

Effective January 1, 2008, the company has adopted the new recommendation of the Canadian Institute of Chartered Accountants' Handbook Section 3862, Financial Instruments – Disclosures, which increases the disclosures on the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value, qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk and quantitative disclosures on the sensitivity for each type of market risk to which the company is exposed, showing how net earnings and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable.

The additional disclosure required by the adoption of this change in accounting policy is disclosed in note 19.

#### Financial Instruments – Presentation

Effective January 1, 2008, the company has adopted the new recommendation of the Canadian Institute of Chartered Accounts' Handbook Section 3863, Financial Instruments – Presentation, which established standards for the presentation of financial instruments and non-financial derivatives by considering the classification of financial instruments between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset.

The adoption of these standards has not affected the presentation of the company's financial instruments in its financial statements.

# Clean Energy Developments Corp.

## Notes to Financial Statements December 31, 2008 and 2007

### 2. Change in Accounting Policies, cont'd

#### Capital Disclosures

Effective January 1, 2008, the company has adopted the new recommendation of the Canadian Institute of Chartered Accountants' Handbook Section 1535, Capital Disclosures, which requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance.

The additional disclosure required by the adoption of this change in accounting policy is disclosed in note 10.

#### General Standards on Financial Statement Presentation

Effective January 1, 2008, the company has adopted the new recommendation of the Canadian Institute of Chartered Accountants' Handbook Section 1400, General Standards on Financial Statement Presentation, which amends the requirements to assess an entity's ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern. The company has determined that this change in accounting policy has no material effect on its financial statements.

### 3. Summary of Significant Accounting Policies

#### Revenue Recognition

Revenue from in-house design engineering, vertical drilling and loop installation services are recognized when services are performed and when collection is reasonably assured.

Revenue from the sale of equipment is recognized at the time of shipment when significant risks and benefits of ownership are considered to be transferred and when collection is reasonably assured.

#### Inventory

Inventory is stated at the lower of cost (first-in, first-out method) and net realizable value.

#### Long-lived Assets

Long-lived assets, which comprise property, plant and equipment and intangible assets with finite lives, are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. If the sum of the undiscounted future cash flows expected from use and residual value is less than the carrying amount, the long-lived asset is considered impaired. An impairment loss is measured as the amount by which the carrying value of the long-lived asset exceeds its fair value.

# Clean Energy Developments Corp.

## Notes to Financial Statements December 31, 2008 and 2007

### 3. Summary of Significant Accounting Policies, cont'd

#### Amortization

On the declining balance method -

Furniture and fixtures	20%
Computer equipment	30%
Computer software	100%
Machinery and equipment	30%
Trucks	30%

On the straight-line method -

Leasehold improvements	over the lease term
------------------------	---------------------

#### Future Income Taxes

The company follows the liability method with respect to accounting for income taxes. Future tax assets and liabilities are determined based on differences between the carrying amount and the tax basis of assets and liabilities (temporary differences). Future income tax assets and liabilities are measured using substantively enacted tax rates that will be in effect when these differences are expected to reverse. Future income tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that the assets will be realized.

#### Foreign Currency Translation

Accounts in foreign currency have been translated into Canadian dollars as follows:

Monetary items - at exchange rates in effect at the balance sheet date;

Non-monetary items - at exchange rates in effect on the dates of the transactions; and

Revenue and expenses - at average exchange rates prevailing during the year.

Gains and losses arising from foreign currency translation are included in income.

#### Intangible Assets

Intangible assets, which have a finite life, are recorded at cost less accumulated amortization. Intangible assets consist of customer contracts and customer relationships and are being amortized on a straight-line basis over 1 and 3 years, respectively.

# Clean Energy Developments Corp.

## Notes to Financial Statements December 31, 2008 and 2007

### 3. Summary of Significant Accounting Policies, cont'd

#### Goodwill

Goodwill is recorded at the excess of the purchase price of an acquired business over the fair value of the net assets acquired. Goodwill acquired after June 30, 2001 is not amortized.

On an annual basis, management reviews the carrying amount of goodwill for possible impairment by conducting a two-step test. In the first step, fair value of the reporting unit, as determined by discounted cash flows, is compared to its carrying value. If the fair value is less than the carrying value, the second step is conducted whereby the fair value of goodwill is determined on the same basis as a business combination. If fair value of goodwill is less than the carrying value of goodwill, goodwill is written down to its estimated fair value.

#### Stock-based Compensation

The company has a stock-based compensation plan for eligible directors, officers and employees of the company. Stock options granted under the plan are settled in stock. The company accounts for stock options granted to eligible directors, officers and employees of the company using the fair value method. This method consists of recording compensation costs to earnings over the vesting period of the options granted. When stock options are exercised, any consideration paid by the grantee and the related compensation expense recorded as contributed surplus in shareholders' equity are credited to capital stock. Forfeitures are accounted for as they occur.

#### Use of Estimates

The preparation of the financial statements requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses recognized for the period reported. By their nature, these estimates are subject to measurement uncertainty and are reviewed periodically and adjustments, if necessary, are made in the period in which they are identified.

# Clean Energy Developments Corp.

## Notes to Financial Statements December 31, 2008 and 2007

### 4. Recent Accounting Pronouncements

Recent accounting pronouncements issued and not yet effective:

#### **Goodwill and Intangible Assets**

CICA Handbook Section 3064, Goodwill and Intangible Assets, which replaces CICA Handbook Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs, establishes the standards for recognition, measurement and disclosure of goodwill and intangible assets. Under these new standards, internally generated intangible assets may be recognized in the financial statements under certain circumstances. This standard is effective for the company for interim and annual financial statements beginning on January 1, 2009. The company has not yet determined the impact of the adoption of this change on its financial statements.

#### **Impaired Loans**

CICA Handbook Section 3025, Impaired Loans, has been amended to conform the definition of a loan to that in amended Section 3855 and to include held-to-maturity investments within the scope of this Section. These amendments are effective for the company for its annual financial statements beginning on January 1, 2009. The company has not yet determined the impact of the adoption of this change on its financial statements.

#### **Equity**

CICA Handbook Section 3251, Equity, has been amended as a result of issuing Section 1602, Non-controlling Interests, to require disclosure of non-controlling interests in equity. This amendment is effective for the company for its interim and annual financial statements beginning on January 1, 2011. The company has not yet determined the impact of the adoption of this change on its financial statements.

#### **Financial Instruments – Recognition and Measurement**

CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement has been amended to change the categories into which a debt instrument is required or permitted to be classified, change the impairment model for held-to-maturity financial assets to the incurred credit loss model in Section 3025 and require reversal of previously recognized impairment losses on available-for-sale financial assets in specified circumstances. These changes are effective for the company for its annual financial statements beginning on November 1, 2008. Also, Section 3855 has been amended to clarify the application of the effective interest method after a debt instrument has been impaired and when an embedded prepayment option is separated from its host debt instrument for accounting purposes. These changes are effective for the company for its interim and annual financial statements beginning on January 1, 2011. The company has not yet determined the impact of the adoption of these changes on its financial statements.

# **Clean Energy Developments Corp.**

## **Notes to Financial Statements December 31, 2008 and 2007**

### **4. Recent Accounting Pronouncements, cont'd**

#### **Financial Instruments – Disclosures**

CICA Handbook Section 3862, Financial Instruments – Disclosures has been amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure. These changes are effective for the company for its annual financial statements for the year ending December 31, 2009. The company has not yet determined the impact of the adoption of these changes on its financial statements.

#### **International Financial Reporting Standards**

The CICA plans to converge Canadian Generally Accepted Accounting Principles (GAAP) with International Financial Reporting Standards (IFRS) effective January 1, 2011. The impact of the transition to IFRS on the company's financial statements has not yet been determined.

### **5. Inventory**

The amount of inventory recognized as an expense in the period amounts to \$2,427,471 (2007 - \$1,097,294).

# Clean Energy Developments Corp.

## Notes to Financial Statements December 31, 2008 and 2007

### 6. Property, Plant and Equipment

	Cost	Accumulated Amortization	2008 Net Carrying Amount
Furniture and fixtures	\$ 44,755	\$ 10,328	\$ 34,427
Computer equipment	76,177	24,681	51,496
Computer software	37,336	25,720	11,616
Machinery and equipment	356,369	59,231	297,138
Trucks	58,009	8,701	49,308
Leasehold improvements	215,883	13,768	202,115
	<b>\$ 788,529</b>	<b>\$ 142,429</b>	<b>\$ 646,100</b>

	Cost	Accumulated Amortization	2007 Net Carrying Amount
Furniture and fixtures	\$ 35,631	\$ 2,860	\$ 32,771
Computer equipment	51,980	7,797	44,183
Computer software	14,105	7,052	7,053
Machinery and equipment	25,249	2,841	22,408
Leasehold improvements	6,334	1,769	4,565
	<b>\$ 133,299</b>	<b>\$ 22,319</b>	<b>\$ 110,980</b>

Included in computer software are assets under capital lease with an original cost of \$6,245 and related accumulated amortization of \$3,123. Additions to assets under capital leases during 2008 amounted to \$6,245 (2007 - \$Nil).

Included in machinery and equipment are assets under capital lease with an original cost of \$251,500 and related accumulated amortization of \$37,725. Additions to assets under capital leases during 2008 amounted to \$251,500 (2007 - \$Nil).

Included in leasehold improvements are assets under capital lease with an original cost of \$103,400 and related accumulated amortization of \$10,340. Additions to assets under capital leases during 2008 amounted to \$103,400 (2007 - \$Nil).

Included in trucks are assets under capital lease with an original cost of \$11,475 and related accumulated amortization of \$1,721. Additions to assets under capital leases during 2008 amounted to \$11,475 (2007 - \$Nil).



# Clean Energy Developments Corp.

## Notes to Financial Statements December 31, 2008 and 2007

### 7. Intangible Assets

	Cost	Accumulated Amortization	2008 Net Carrying Amount
Customer contracts	\$ 39,569	\$ 39,569	\$ -
Customer relationships	230,464	115,232	115,232
	<b>\$ 270,033</b>	<b>\$ 154,801</b>	<b>\$ 115,232</b>
	Cost	Accumulated Amortization	2007 Net Carrying Amount
Customer contracts	\$ 39,569	\$ 34,138	\$ 5,431
Customer relationships	230,464	38,410	192,054
	<b>\$ 270,033</b>	<b>\$ 72,548</b>	<b>\$ 197,485</b>

### 8. Acquisitions

- i) On May 31, 2007, the company acquired certain assets from Gary Poyntz and as consideration, the company issued 450,000 common shares for a total value of \$144,000 (note 14 (i)). The acquisition has been accounted for as a purchase and, accordingly, the results of operations from May 31, 2007 have been included in the financial statements. The consideration paid has been allocated to the assets acquired based on their fair values and the excess of the purchase price over the value of the assets acquired has been recorded as goodwill. The transaction can be summarized as follows:

Property, plant and equipment	\$ 10,000
Customer contracts	17,507
Goodwill	116,493
Fair market value of net assets acquired	<b>\$ 144,000</b>

The goodwill as determined in this transaction is not deductible for tax purposes.

# Clean Energy Developments Corp.

## Notes to Financial Statements December 31, 2008 and 2007

### 8. Acquisitions, cont'd

- ii) On July 16, 2007, the company acquired certain assets and liabilities of Enerflo Geothermal Technologies Ltd. ("EGT") and Lessoway Moir Partners Inc. ("LMP"), for cash consideration of \$127,659 (including acquisition costs of \$32,682), and the company issued 900,000 common shares for a total value of \$288,000 (note 14 (i)). These acquisitions were accounted for as a purchase and, accordingly, the result of operations from July 16, 2007 have been included in the financial statements. The consideration paid has been allocated to the assets acquired based on their fair values and the excess of the purchase price over the value of the net assets acquired has been recorded as goodwill. The transaction can be summarized as follows:

Current assets	\$	267,707
Property, plant and equipment		61,402
Customer contracts		22,062
Customer relationships		230,464
Goodwill		308,894
		<hr/> 890,529
Current liabilities		255,828
Advance from shareholder		213,314
Future income tax liability		5,728
		<hr/> 474,870
Fair market value of net assets acquired	\$	<hr/> 415,659 <hr/>

The goodwill in the amount of \$238,874 as determined in this transaction is deductible for tax purposes.

During 2008, \$87,323 was accrued as a payable to the former shareholder of EGT and LMP for contingent consideration based on the company meeting certain earnings thresholds, which has been added to goodwill. If the company continues to meet certain earnings thresholds, the further contingent consideration will be paid for the 2009 and 2010 fiscal year-ends, the amount of which is not yet determinable.

### 9. Bank Indebtedness

The company has a demand operating facility to a maximum of \$250,000 Canadian dollars or U.S. dollars equivalent. The operating facility bears interest at the bank's prime rate plus 2.5%. The operating facility is secured by all of the company's assets. The effective interest rate on the bank indebtedness is 6%.

Interest incurred during the year amounted to \$3,703.

# Clean Energy Developments Corp.

## Notes to Financial Statements December 31, 2008 and 2007

### 10. Capital Disclosures

The company's capital structure includes bank indebtedness, an advance from a shareholder and capital stock. The company's objective in managing its capital is to ensure sufficient liquidity to finance its financial obligations as they become due, general and administrative expenses, working capital and capital expenditures. The company manages its capital structure and makes adjustments to it in accordance with its stated objectives with consideration given to changes in economic conditions.

As part of the demand operating facility described in note 9, the company is subject to certain externally imposed capital requirements. As at December 31, 2008 and 2007, the company was in compliance with these covenants.

### 11. Obligations Under Capital Leases

Future minimum lease payments required under capital leases are:

2009	\$	146,205
2010		73,125
2011		35,937
2012		32,554
		<hr/> 287,821
Less: amounts representing interest (weighted average effective interest rate 4%)		<hr/> 29,928
		<hr/> 257,893
Less: current maturity		<hr/> 131,845
	\$	<hr/> 126,048

Interest incurred during the year on obligations under capital leases amounted to \$3,718.

### 12. Advance from a Shareholder

The advance from a shareholder is unsecured and bears interest at the Canadian prime rate. The loan has no specified terms of repayment. Interest incurred for the year on this loan amounted to \$5,783 (2007 - \$4,506). The effective interest rate on the advance is 3.5% (2007 - 6%).

# Clean Energy Developments Corp.

## Notes to Financial Statements December 31, 2008 and 2007

### 13. Commitment and Contingency

#### i) Lease Commitment

Minimum payments under operating leases for equipment and premises, exclusive of operating costs, as at December 31, 2008 are approximately as follows:

2009	\$	337,785
2010		333,838
2011		270,600
2012		259,040
2013		251,075

- ii) Under the terms of acquisition for EGT, the company is responsible for a potential claim against the company. Management has accrued US\$112,000 in these financial statements based on its best estimate of the amount of the potential claim.

### 14. Capital Stock and Stock Options

#### i) Capital Stock

<b>Dollar Value of Shares</b>	<b>2008</b>	<b>2007</b>
<hr/>		
Authorized without limit as to number -		
common shares		
Balance - beginning of year	\$ 2,647,837	\$ 330,347
Issued	255,453	2,317,490
Balance - end of year	\$ 2,903,290	\$ 2,647,837
<hr/>		
<b>Number of Shares</b>		
<hr/>		
Balance - beginning of year	13,232,176	2,641,474
Issued	510,906	10,590,702
Balance - end of year	13,743,082	13,232,176
<hr/>		

# Clean Energy Developments Corp.

## Notes to Financial Statements December 31, 2008 and 2007

### 14. Capital Stock and Stock Options, cont'd

#### i) Capital Stock, cont'd

During 2008, 510,906 common shares were issued for cash proceeds of \$255,453.

During 2007, 4,742,345 common shares were issued for cash proceeds of \$1,517,550.

During 2007, \$262,804 of debentures plus accrued interest of \$32,213 were converted into 3,628,153 common shares.

During 2007, the company issued 870,204 common shares in exchange for exercised employee stock options for consideration of a loan receivable in the amount of \$60,914 (note 15) and \$12,009 transferred from contributed surplus (note 16).

As described in note 8 in 2007, 1,350,000 common shares were issued as consideration for the purchase of assets. The value assigned to the shares was \$432,000 based on \$0.32 per share, which equalled the cash price paid during the year for the company's shares.

#### ii) Stock Options

The company's stock option plan provides for granting options to employees in respect of the authorized common shares not yet issued.

Under the terms of the plan, the Board of Directors shall determine the number of shares subject to each option, the option price, the expiration date of each option, the extent to which each option is exercisable from time to time during the term of the option and other terms relating to each such option.

Options issued to an employee in 2008, have an exercise price per share of \$0.32 on the date of the option grant. These options include awards for shares that vest based on the passage of time or performance criteria. Time-based options are exercisable 25% per year on the anniversary of the grant date in each of the four subsequent years. Performance-based options are exercisable 33% per specified earnings-based performance target, any part of the option which has not vested within three years of the grant date shall expire. Subject to certain prior events of expiry, all exercisable options expire on the tenth anniversary of the date of grant.

# Clean Energy Developments Corp.

## Notes to Financial Statements December 31, 2008 and 2007

### 14. Capital Stock and Stock Options, cont'd

#### ii) Stock Options, cont'd

The following table summarizes the information relating to the stock options outstanding:

	2008		2007	
	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price
Outstanding - beginning of year	946,956	\$ 0.32	1,042,160	\$ 0.11
Granted	35,000	0.32	775,000	0.32
Exercised	-	-	(870,204)	0.07
Outstanding - end of year	981,956	0.32	946,956	0.32
Exercisable - end of year	565,655	0.32	10,000	0.32

The fair value of the options is estimated as at the date of grant using the Black-Scholes option-pricing model with the following weighted assumptions:

	2008	2007
Risk-free interest rate	4.44%	4.47%
Expected dividend yield	Nil	Nil
Expected life of options	10	10
Expected volatility	Nil <sup>(1)</sup>	Nil <sup>(1)</sup>

<sup>(1)</sup>The company uses the minimal value approach to estimate volatility for options granted to employees of the company whereby expected volatility is expected to be Nil.

During the year, the company expensed employee compensation of \$48,401 (2007 - \$25,256) for stock-based compensation to employees.

The weighted average fair value at grant date of the options granted during the year is \$0.11 (2007 - \$0.11).

# Clean Energy Developments Corp.

## Notes to Financial Statements December 31, 2008 and 2007

### 14. Capital Stock and Stock Options, cont'd

Additional information concerning outstanding stock options as at December 31, 2008 is as follows:

Exercise Price	Number	Weighted Average Months to Expiry
\$0.32	981,956	103

### 15. Share Purchase Loan Receivable

	2008	2007
Interest bearing at 5% per annum, repayable in annual instalments of \$20,305, maturing December 2010, unsecured and due from officers (note 14 (i))	\$ 51,196	\$ 60,914
Less: current portion including interest	30,891	20,305
	\$ 20,305	\$ 40,609

Interest earned for the year on this loan receivable amounted to \$2,132 (2007 - \$3,045).

### 16. Contributed Surplus

Contributed surplus consists of the following activities:

	2008	2007
Balance - beginning of year	\$ 28,284	\$ 15,037
Compensation expense for the year (note 14 (ii))	48,401	25,256
Options exercised during the year (note 14 (i))	-	(12,009)
Balance - end of year	\$ 76,685	\$ 28,284

# Clean Energy Developments Corp.

## Notes to Financial Statements December 31, 2008 and 2007

### 17. Income Taxes

#### Provision for Income Taxes

Significant components of the income tax expense (recovery) are as follows:

	2008	2007
Combined basic federal and provincial income taxes at statutory rates	\$ (208,346)	\$ (195,420)
Adjustment to income tax resulting from:		
Amortization deducted for accounting in excess of tax	33,263	15,077
Non-deductible expenses for tax purposes	23,185	9,270
Other deductions	(37,860)	-
Benefit of tax loss carryforwards not recorded	189,758	165,345
	\$ -	\$ (5,728)

#### Future Income Taxes

The company's future income tax assets and liabilities as at December 31, 2008 and 2007 are as follows:

	2008	2007
<b>Future Income Tax Assets</b>		
Non-capital losses	\$ 517,060	\$ 351,453
Tax value of intangible assets in excess of accounting value	55,072	19,165
Other	14,483	(11,780)
Less: allocated against future income tax liabilities	(102,716)	(7,385)
Less: benefit of tax loss carryforwards not recorded	(483,899)	(351,453)
Net future income tax assets	-	-
<b>Future Income Tax Liabilities</b>		
Accounting value of property, plant and equipment in excess of tax value	(102,716)	(7,385)
Less: reduction due to allocation of applicable future income tax	102,716	7,385
Net future income tax liabilities	\$ -	\$ -



# Clean Energy Developments Corp.

## Notes to Financial Statements December 31, 2008 and 2007

### 17. Income Taxes, cont'd

As at December 31, 2008, there were tax losses that may be applied against earnings of future years, not later than as follows:

2014	\$	14,000
2015		229,000
2016		407,000
2027		570,000
2028		575,000
	\$	1,795,000

### 18. Other Income

During 2008, the company entered into an offer to lease office space in Calgary, Alberta. Prior to moving into the office space, the landlord offered the company \$400,000 in cash to terminate the offer, which the company accepted.

### 19. Financial Instruments

#### Fair Value

Accounts receivable, bank indebtedness and accounts payable and accrued liabilities are all short-term in nature and, as such, their carrying values approximate fair values.

For the share purchase loan receivable and obligations under capital leases, the carrying value approximates fair value based on discounted cash flows reflecting market interest rates.

A reasonable estimate of fair value could not be made for the advance from a shareholder as there are no fixed terms of repayment.

# Clean Energy Developments Corp.

## Notes to Financial Statements December 31, 2008 and 2007

### 19. Financial Instruments, cont'd

#### Financial Risk Management

The company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to these risks. The principal financial risks to which the company is exposed are described below:

#### Credit Risk

The company is exposed to credit risk in the event of non-payment by its officers for the share purchase loan receivable and by its customers for their accounts receivable. Allowances are provided for potential losses which could occur. The risk is mitigated by the large and diverse client base, the review of credit limits and amounts outstanding and the performance of credit checks on certain customers. The company has established a credit policy under which each new customer is analyzed for credit worthiness before the company's payment and delivery terms and conditions are offered. Purchase limits are established for each new customer, which represent the maximum open amount without requiring approval from senior management. The following tables outline the details of the aging of the company's receivables and related allowance for doubtful accounts:

	2008	2007
Current	\$ 523,389	\$ 1,476,870
<u>Past due amounts</u>		
1 - 60 days	523,172	-
Greater than 60 days	223,579	-
<u>Less: allowance for doubtful accounts</u>	<u>(2,428)</u>	<u>-</u>
Total accounts receivable, net	1,267,712	1,476,870
Allowance for doubtful accounts, beginning of period	-	-
<u>Provision for losses</u>	<u>(2,428)</u>	<u>-</u>
Allowance for doubtful accounts, end of period	\$ (2,428)	\$ -

#### Liquidity Risk

Liquidity risk is the risk that the company may not have cash available to satisfy financial liabilities as they come due. The company actively maintains a committed credit facility to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost.

# Clean Energy Developments Corp.

## Notes to Financial Statements December 31, 2008 and 2007

### 19. Financial Instruments, cont'd

#### Interest Rate Risk

The company is exposed to interest rate price risk with respect to its obligations under capital leases which bear a fixed rate of interest and exposed to interest rate cash flow risk with respect to its bank indebtedness and advance from a shareholder which bear interest at a floating rate based on the bank prime rate. The risk is reduced by the fact that the impact of interest rate fluctuations on the current level of borrowings will not be significant. Based on the average borrowings during 2008 and 2007, a 1% increase or decrease in the prime rate would have resulted in an increase or decrease in interest expense of \$2,594 and \$756, respectively.

#### Foreign Exchange Risk

The company purchases approximately 25% of its inventory in U.S. dollars and does not currently engage in hedging activities. Accordingly, the company is exposed to foreign exchange risk on a portion of its accounts payable and accrued liabilities and its U.S. dollar bank indebtedness. Translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. A one cent strengthening or weakening in the foreign exchange rate from Canadian dollars to U.S. dollars would have decreased or increased the net loss in 2008 and 2007 by \$5,476 and \$2,743, respectively.

### 20. Comparative Figures

Certain reclassification of 2007 amounts have been made to facilitate comparison with 2008.

### 21. Subsequent Events

- (i) In June of 2009, the company issued 1,084,000 common shares and 542,000 warrants for cash consideration of \$542,000.
- (ii) Subsequent to year-end, the company entered into an agreement whereby all outstanding equity instruments were sold to another company. As a result, all outstanding stock options and warrants were cancelled.
- (iii) Subsequent to year-end, the company was issued a statement of claim with respect to an alleged breach of contract totalling approximately \$100,000 plus interest. Management's best estimate of the potential settlement required is \$30,000, however, no accrual has been made in these financial statements.
- (iv) As discussed in note 13 (ii), the company accrued US\$112,000 for a potential claim filed against the company. Subsequent to year-end, the company increased this accrual to US\$200,000 based on its best estimate of the amount required to settle the claim. This increase has not been reflected in these financial statements.

**SCHEDULE "D"**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF CLEANENERGY**

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# Clean Energy Developments Corp.

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## Management's Discussion & Analysis

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For the three month periods ended  
March 31, 2012 and 2011

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") for Clean Energy Developments Corp. ("CleanEnergy", "the Corporation", "us" or "we"), prepared as at June 6, 2012, provides a review of the Corporation's financial results for the three months period ended March 31, 2012 and consideration of future opportunities. The MD&A should be read in conjunction with the unaudited condensed financial statements and accompanying notes for the Corporation for the period ended March 31, 2012. The unaudited condensed financial statements, and extracts of those financial statements provided within this MD&A, were prepared in Canadian dollars and are in accordance with International Financial Reporting Standards ("IFRS").

Readers are cautioned that this MD&A contains certain forward looking statements. Please see the "Forward Looking Statements" section at the end of this document for a discussion concerning the use of such information in this MD&A.

## Executive Summary

The Corporation is a wholly owned subsidiary of Alter NRG Corp. ("Alter NRG") and provides heating and cooling geoechange solutions for homes, commercial and industrial buildings using energy from the earth. CleanEnergy has been focused on providing services to larger commercial projects and has been successful in winning larger geoechange installations including hospitals, airports, apartment buildings, schools and hockey rinks.

During December 2011, as a result of its strategic review, Alter NRG decided to exit the geoechange business and on January 5, 2012 entered into an offer and sale agreement to dispose of all the issued and outstanding shares of CleanEnergy to BellAir Ventures Inc. ("BellAir") for \$5 million. Accordingly, the results of the Corporation's operations and assets and liabilities are now shown as discontinued operations in Alter NRG's annual financial statements available at [www.sedar.com](http://www.sedar.com).

## Selected Financial Information

### Income Statement and Cash Flow

For the three months periods ended March 31		2012		2011
Total revenues	\$	1,553,781	\$	1,057,448
Cost of sales		1,413,963		846,750
Finance and other income		322		329
Expenses		678,154		1,751,977
Net loss and comprehensive loss		538,014		1,540,950
Loss per share – basic and diluted		0.04		0.10
Cash used in operations	\$	818,595	\$	1,759,274

### Statement of Financial Position at March 31

		2012		2011
Total assets	\$	2,920,967	\$	3,503,163

Total liabilities		16,476,703		13,280,556
Shareholders' equity	\$	(13,555,736)	\$	(9,777,393)

## Overall Performance

The quarter ended March 31, 2012 was dominated by one large project for the Calgary International Airport, which has led to increased revenues of 47% over the prior year. Throughout 2011, management focused on reducing expenditures which have decreased by 73% over the prior year. CleanEnergy has been executing effectively on the Calgary International Airport job which we believe is Canada's largest job with a lower cost structure that allows it to effectively compete and grow in large commercial geoeexchange sales.

## QUARTERLY INFORMATION

Quarter ended		Sales		Net loss		Loss per share
March 31, 2012	\$	1,553,781	\$	(538,014)	\$	(0.04)
December 31, 2011		1,136,870		(1,366,337)		(0.09)
September 30, 2011		778,019		(984,741)		(0.07)
June 30, 2011		2,185,725		(889,251)		(0.06)
March 31, 2011		1,057,448		(1,540,950)		(0.10)
December 31, 2010		2,001,194		(1,641,268)		(0.11)
September 30, 2010		2,435,536		(2,535,121)		(0.18)
June 30, 2010		1,369,973		(1,483,072)		(0.10)

## SALES AND DIRECT COSTS

For the three month periods ended March 31		2012		2011
Sales	\$	1,553,781	\$	1,057,448
Cost of sales		1,413,963		846,750
Gross margin	\$	139,818	\$	210,698

Revenues are earned on services provided for the design and engineering of geoeexchange projects, the sale of geoeexchange equipment and the installation of geoeexchange systems. Revenue has increased overall by 47% from 2011. The Corporation continues to bid on larger commercial jobs.

Direct cost of sales includes direct labour and expenditures for services provided, as well as equipment costs and materials for geoexchange projects. There were a greater proportion of higher margin dealer sales and engineering contracts in the first quarter of 2011 versus the first quarter of 2012, which resulted in a higher gross margin percentage in 2011.

## GENERAL AND ADMINISTRATIVE EXPENSES

For the three month periods ended March 31	2012	2011
Employee costs, net of recoveries	\$ 147,891	\$ 812,285
Premises costs	130,422	171,223
Professional and consulting fees	85,802	99,098
Office expenses	26,727	49,248
Other costs	14,780	61,152
Travel costs	13,046	126,283
Other staff costs	6,368	18,106
Marketing costs	2,495	21,829
Bad debts (recovery) expenses	(3,269)	188,733
<b>General and administrative expenses</b>	<b>\$ 424,262</b>	<b>\$ 1,547,957</b>

Total general and administrative expenses for the first quarter of 2012 decreased by 73% compared to the first quarter of 2011.

Employee costs, net of recoveries, accounted for approximately 35% of total general and administrative expenses in the first quarter of 2012, a reduction from 52% of total general and administration expenses in the first quarter of 2011. The decrease reflects the reduction in the staff complement from the previous year, from 27 full time employees at March 31, 2011 to 8 full time employees at March 31, 2012.

Premises costs decreased in 2012 due to the recognition of \$36,458 of onerous lease costs initially recorded at December 31, 2011. These costs relate to office space leased in British Columbia in excess of the Corporation's requirements.

Professional and consulting fees included legal, accounting, external recruiting and engineering consulting fees. The fees in 2011 included subcontractor fees not present in 2012.

The reduction in other costs resulted from a change in the sales software leased and a reduction in the equipment rentals not allocated and charged to specific projects.

The decrease in travel costs and office expenses reflect the reduction in staff complement and the Corporation's commitment to controlling business development and sales costs in line with revenue.

Bad debt expense was recognized for specific amounts for CleanEnergy that are greater than 90 days old. The Corporation has completed a review of all outstanding accounts receivable and believes all amounts in excess of the allowance for doubtful accounts are recoverable. The Corporation has recovered some amounts previously sent to collections.



## INTEREST ON PAYABLE TO PARENT COMPANY

For the three month periods ended March 31	2012	2011
Interest expense	\$ 224,548	\$ 169,943

The Corporation receives cash advances from its parent company, Alter NRG, as needed. The balance of the payable is secured by a promissory note with no fixed payment terms. The note bears interest at prime plus 3%, accrued monthly on the balance owing. The intercompany loan, including all interest will be forgiven as part of the sale of CleanEnergy to BellAir described in note 9 of the financial statements.

## AMORTIZATION

For the three months periods ended March 31	2012	2011
Amortization	\$ 21,171	\$ 26,004

The reduced amortization expense in 2012 reflects categories of assets that were previously fully depreciated, including vehicles.

## FINANCE AND OTHER INCOME

For the three month periods ended March 31	2012	2011
Interest income	\$ 322	\$ 329
Miscellaneous income	-	-
Total finance and other income	\$ 322	\$ 329

## FOREIGN EXCHANGE LOSS (GAIN)

For the three month periods ended March 31	2012	2011
Foreign exchange loss (gain)	\$ 1,994	\$ (2,357)

The foreign exchange fluctuations arise principally because the Corporation purchases a portion of its inventory in United States ("US") dollars. Accordingly, the Corporation records translation differences on a portion of its accounts payable, accrued liabilities and US dollar bank balances.

## NET LOSS

The net loss for the three months ended March 31, 2012 of \$538,014 decreased 65% over the net loss for the three months ended March 31, 2011 of \$1,540,950. The net loss reflects the Corporation's commitment to controlling costs in line with revenue earned and the reduction of the staff complement from 27 at March 31, 2011 to 8 at March 31, 2012.

Revenue in the first quarter of 2011 included a greater proportion of higher margin dealer sales and engineering revenue, resulting in a higher gross margin percentage.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Corporation's working capital balance was approximately \$1.34 million at March 31, 2012, an increase of \$0.3 million from the balance at the year ended December 31, 2011 of \$1.31 million. Working capital provides funds for the Corporation to meet its operational and capital requirements. For the near-term, management believes that revenues will provide the necessary capital to fund operations. As part of the sale to BellAir, CleanEnergy has raised \$2.34 million of subscription receipt financing which will convert to common shares of BellAir once the transaction closes to provide for the initial working capital needs. The Corporation might need to raise additional working capital if it experiences delays in sales revenues, diminished project profit margins or higher than expected expenses.

The Corporation has contractual commitments on capital lease obligations for approximately \$42,000 and operating lease commitments, as outlined in the notes to the financial statements, of approximately \$3.1 million over the next ten years (2010 - \$88,000 and \$2.7 million respectively). There have been no further material changes to the Corporation's contractual obligations during the quarter.

## **Outlook**

The geoexchange business has potential to increase revenues as we build our reputation in the commercial building communities. Management committed to general and administration cost reductions which has significantly reduced the cash burn to allow for profitability as the revenues increase.

Cash used in operations for the three months ended March 31, 2012 of \$0.819 million compared to \$1.759 million used in the three months ended March 31, 2011 – a decrease of \$0.941 million. This decrease reflects the Corporation's commitment to controlling costs in line with revenues. Cash used in operations is expected to decrease as the Corporation increases geoexchange revenues. The timing of these cash flows is a function of sales timing, type and margin and can be affected by various operating issues as outlined further in the "Business Conditions and Risks" section.

## **EQUITY**

The authorized share capital of the Corporation consists of an unlimited number of common shares. During the three months ended March 31, 2012, no shares were issued.

As at the date of the MD&A, March 31, 2012 and December 31, 2012, the Corporation had 14,827,082 common shares issued and outstanding.

## **RELATED PARTY TRANSACTIONS**

Included in general and administrative expenses is remuneration of key management personnel of the Corporation. For the three months ended March 31, 2012, remuneration of \$79,304 included \$84,236 of salaries and \$(4,932) of share-based compensation costs (March 31, 2011 - \$83,524, \$76,079 and \$7,445, respectively).

## **OFF-BALANCE SHEET ARRANGEMENTS**

During the periods ended and as at March 31, 2012 and December 31, 2011, the Corporation did not have any off-balance sheet arrangements.

## **FINANCIAL INSTRUMENTS**

The Corporation's financial instruments consist of cash, restricted cash, accounts receivable, long-term deposits, accounts payable and accrued liabilities, promissory note payable, capital lease obligations and payable to the parent company. Due to the short term nature of these financial assets and liabilities, the carrying values approximate the fair values. The carrying value of capital leases equals fair value as the assets could be leased at the same implicit rate of interest as is currently being received. The Corporation did not hold or issue any derivative financial instruments during the periods ended March 31, 2012 and December 31, 2011. For further information on financial instruments please refer to the Corporation's financial statements for the year ended December 31, 2011.

## RECENT CHANGES IN ACCOUNTING POLICIES

On December 31, 2011, the Corporation adopted International Financial Reporting Standards (“IFRS”) for financial reporting purposes, using a transition date of January 1, 2010. The financial statements for December 31, 2011, including required comparative information, have been prepared in accordance with International Financial Reporting Standards 1, First-time Adoption of International Financial Reporting Standards, and with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”). Previously, the Corporation prepared its Interim and Annual Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles (“previous GAAP”). Unless otherwise noted, 2010 comparative information has been prepared in accordance with IFRS. The adoption of IFRS has not had an impact on the Corporation’s operations, strategic decisions and cash flow.

As part of our transition to IFRS, we adopted all IFRS accounting standards in effect on December 31, 2011. A number of new standards and interpretations have been issued under IFRS, which are outlined in detail in Note 2 of the Corporation’s financial statements for the period ended December 31, 2011. These standards are required to be applied for accounting periods beginning on or after December, 2013, with early adoption permitted. When adopted, they may result in changes to our existing accounting policies and note disclosures. The Corporation is currently evaluating the impact that these standards may have on our results of operations and financial position.

## BUSINESS CONDITIONS AND RISKS

The business of CleanEnergy is subject to certain risks and uncertainties including financial and operational.

### Revenue Risk

The Corporation may experience delays in achieving revenues. Revenues may be delayed or negatively impacted by issues encountered by the Corporation or our customers including:

- unforeseen engineering and environmental problems;
- delays or inability to obtain required financing, licenses, permits and regulatory approvals;
- supply interruptions or labour disputes;
- foreign exchange fluctuations and collection risk; and
- competition from other geoexchange suppliers or alternate less capital intensive energy solutions.

### Regulatory and Environmental

There are geological risks when implementing geoexchange solutions. The geological risk of any required drilling is now outlined in the contract to be the responsibility of the customer or sub-contractor. If regulatory or environmental issues were to arise as a result of implementation of our products or solutions, the Corporation may be exposed to an unforeseen liability.

### Sensitivity to Fixed Costs

Fixed costs, including operating, administration, leases, labour and depreciation account for a significant portion of the Corporation’s costs and expenses. As a result, reduced productivity, reduced demand, equipment failure, weather or other factors could significantly affect financial results.

### Operational Risk

The Corporation’s business has grown rapidly in recent years with ongoing growth planned into the future. Accordingly, the Corporation’s future operating results will depend on its people, processes and technology in order to achieve product scalability and continued growth. There can be no assurance that the Company will be able to manage recent or any future expansion successfully and any inability to do so could have a material adverse effect on the Corporation’s business, results of operations and financial condition.

### Reliance on Management Key Personnel

The Corporation’s success and future operations are dependent upon the abilities, expertise, experience, judgment and efforts of senior management and key technical and field personnel of the Corporation and its subsidiaries. Any loss of the services of these personnel could have a materially adverse impact on the Corporation’s business, technical capabilities, operating results or financial condition or could result in delays to or abandonment of the Corporation’s projects and ultimately the Shareholders’ investments could be negatively affected.

## Reliance on Contracting Parties

The Corporation maintains strategic arrangements and sales relationships with various parties (e.g., consultants, suppliers, strategic partners, management, etc.). The Corporation's ability to fulfill its obligations as well as the ability and likelihood of the other parties to fulfill their obligations can have a material impact on the future success of the Corporation and future financial results. The Corporation relies on the technical ability, financial capacity and creditworthiness of these contracting parties.

## Financial Risk

The Corporation is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk and market price risk.

**(a) Credit risk:** Credit risk is the risk that a customer or third party to a derivative instrument fails to meet its contractual obligations. Financial instruments that are subject to credit risk include cash, restricted cash, accounts receivable and accounts payable. The Corporation's cash of (\$299,128) and restricted cash of \$106,935 (December 31, 2011 - \$166,320 and \$106,613, respectively) are held at chartered Canadian financial institutions. Management reviews the financial strength of the institutions on a regular basis

**(b) Liquidity risk:** Liquidity risk is the risk that the Corporation will be unable to meet its financial obligations on a current basis. The Corporation manages liquidity risk through regular cash-flow forecasting. At March 31, 2012, accounts payable and accrued liabilities were \$0.2 million.

**(c) Market risk:** Changes in interest rates and foreign currency exchange rates can expose the Corporation to loss, and fluctuations in the fair value of its financial assets and liabilities.

**(d) Foreign exchange risk:** The Corporation purchases a major portion of its inventory in US dollars and does not currently engage in hedging activities. Accordingly, the Corporation is exposed to foreign exchange risk on a portion of its accounts payable and accrued liabilities and its US dollar bank account balance. Translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. A 10% strengthening or weakening of the Canadian dollar versus the US dollar would have increased or decreased the net loss for the period ended March 31, 2012 by approximately \$1,988 (December 31, 2011 - \$1,223).

## Advisories

### FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A are "forward-looking statements". In particular, this MD&A contains forward-looking statements pertaining to capital expenditures, schedules and commencement of operations of existing projects and projects under development; availability of project financing; timing of sales; industry trends; factors influencing capital investments and development activities; the Corporation's reputation and market position within the industries in which it operates and the Corporation's strategy and competitive advantages and the anticipated sale to BellAir.

Forward-looking statements require management to make estimates and assumptions with respect to the outcome of future events. These estimates and assumptions could, in the future, turn out to be inaccurate and materially affect the final outcome. The significant estimates and assumptions within the Corporation's forward-looking statements include:

- availability and cost of key materials and labour and availability of funds with respect to the amount of capital expenditures and scheduled commencement of operations;
- timing of regulatory approval including various permits from federal, provincial, state and local authorities;
- the assessment of capital markets including the availability of debt and equity in current market conditions;
- commodity prices for electricity, natural gas, coal and other resources that impact the Corporation's operations directly and indirectly;
- extent of investment by government authorities in infrastructure projects;
- the financial and operational health of key partners in various projects;
- the completion of the sale to BellAir;
- the continued development of the Corporation's technology and its use in various application; and
- consumer demand for our solutions.

Forward-looking statements are frequently characterized by words such as “plan”, “expect”, “project”, “propose”, “target”, “intend”, “believe”, “should”, “anticipate”, “estimate” or other similar words, or statements that certain events or conditions “may” or “will” occur. Forward-looking statements are not based on historical facts but rather on the expectations of management of the Corporation regarding, among other things, the Corporation’s future plans and intentions, results of operations, levels of activity, future capital and other expenditures (including the amount, nature and sources of funding thereof), competitive advantages, business prospects and opportunities.

Forward-looking statements reflect management’s current beliefs and assumptions, based on information currently available to management. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, many of which are beyond the control of the Corporation. Among the material factors that could cause actual results to differ materially from those indicated by such forward-looking statements are:

- that the information is of a preliminary nature and may be subject to further adjustment;
- the completion of strategic partner’s projects;
- arrangements with key suppliers;
- potential product liability and other claims;
- other business risks outlined in this MD&A;
- the possible unavailability of financing at competitive rates and the related effect on development activities;
- the effect of energy price fluctuations;
- changes in government regulation, including changes to environmental regulations;
- the effects of competition;
- the dependence on senior management and key personnel; and
- fluctuations in currency exchange rates and interest rates.



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# Clean Energy Developments Corp.

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## Management's Discussion & Analysis

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For the years ended  
December 31, 2011 and 2010

(v1.0: 04/27/2012)

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis (MD&A) for Clean Energy Developments Corp. (CleanEnergy, the Corporation, us or we), prepared as at June 5, 2012, provides a review of the Corporation's financial results for the fiscal year ended December 31, 2011 and consideration of future opportunities. The MD&A should be read in conjunction with the audited financial statements and accompanying notes for the Corporation for the year ended December 31, 2011. The audited financial statements, and extracts of those financial statements provided within this MD&A, were prepared in Canadian dollars and are in accordance with International Financial Reporting Standards (IFRS).

Readers are cautioned that this MD&A contains certain forward looking statements. Please see the "Forward Looking Statements" section at the end of this document for a discussion concerning the use of such information in this MD&A.

## Executive Summary

The Corporation is a wholly owned subsidiary of Alter NRG Corp. ("Alter NRG") and provides heating and cooling geoexchange solutions for homes, commercial and industrial buildings using energy from the earth. During December 2011, as a result of its strategic review, Alter NRG decided to exit the geoexchange business and entered into an offer and sale agreement to dispose of all the assets and liabilities of Clean Energy. Accordingly, the results of the Corporation's operations and assets and liabilities are now shown as discontinued operations in Alter NRG's annual financial statements available at [www.sedar.com](http://www.sedar.com).

## Our Business

CleanEnergy is an industry leading geoexchange company that provides heating and cooling geoexchange solutions for homes, commercial and industrial buildings using free energy from the earth. The use of geoexchange solutions reduces the use of fossil fuels by 60% to 80% in most applications, which means a smaller carbon footprint and reduced energy costs. This is a solution that is used extensively in Europe as it reduces the use of fossil fuels for heating and cooling by up to 80%. In a highly fragmented industry, CleanEnergy provides complete solutions, which is unique in the Canadian market. CleanEnergy was acquired by Alter NRG Corp. on October 2, 2009.

CleanEnergy provides a complete energy solution and is able to provide engineering and design, geo installation, equipment and control systems as well as manage the complete project. In a highly fragmented Canadian market, CleanEnergy is the only complete solution provider that operates nationally.

## Selected Financial Information

Income Statement and Cash Flow		2011		2010	
Total revenues	\$	5,158,062	\$	6,863,987	
Cost of sales		4,392,823		6,657,570	
Finance and other income		6,569		8,010	
Expenses		5,553,087		7,305,745	
Net loss and comprehensive loss		4,781,279		7,091,318	
Loss per share – basic and diluted		0.32		0.48	
Cash used in operations	\$	3,817,888	\$	6,781,670	

Balance Sheet at December 31		2011		2010	
Total assets	\$	3,091,987	\$	4,384,696	
Total liabilities		16,109,709		12,621,139	
Shareholders' equity	\$	(13,017,722)	\$	(8,236,443)	

## Overall Performance

The year ended December 31, 2011 was a trying yet somewhat successful year with revenues decreasing by 25% over the prior year as a result of downsizing and delays in the Calgary Airport Authority contract.

Consistent with the focus on building brand and reputation through strategic partnerships, CleanEnergy has executed on larger scale projects in 2011 and successfully positioned itself to be the industry leading commercial geoexchange corporation focused on larger scale jobs from \$0.5 million to \$4.5 million. CleanEnergy has executed and achieved the following:

- Finalized CleanEnergy's largest contract to date and the project schedule for the Calgary Airport (YYC) geoexchange installation contract for a total of \$4.5 million in revenue. The Calgary Airport Authority has begun a major development project at YYC, including building a new runway and doubling the size of the Air Terminal Building with the addition of a new concourse. YYC has chosen to incorporate geoexchange as part of its sustainable design principles that are expected to reduce the carbon footprint by 4,900 tonnes per year, which is equivalent to taking 1,200 cars off the road permanently.
- Continued construction on a geoexchange installation in Truro, Nova Scotia for \$2.05 million to complete the Central Nova Scotia Civic Centre for all geoexchange aspects of the building including, making ice for the rink, heating the pool and heating and cooling the buildings. This facility will feature a NHL-sized ice surface with seating for 3,200 spectators. It will also be home to an indoor aquatic centre, an exercise track, a fitness centre and space for events like concerts, tradeshow and community gatherings.
- Completed geoexchange installation on a state of the art hospital in Ontario for \$1.5 million. Mental Health Centre Penetanguishene aims to achieve Leadership in Energy and Environmental Design (LEED®) Gold certification for the design and construction of the new facility; CleanEnergy's geoexchange system will help the Health Centre achieve it.

Overall expenses decreased by 32% over 2010. The Corporation is focused on decreasing general and administrative expenses and management believes they have built a strong team of people focused on attaining revenue and cost reduction goals.



## QUARTERLY INFORMATION

Quarter ended		Sales		Net loss		Loss per share
December 31, 2011	\$	1,136,870	\$	(1,366,337)	\$	(0.09)
September 30, 2011		778,019		(984,741)		(0.07)
June 30, 2011		2,185,725		(889,251)		(0.06)
March 31, 2011		1,057,448		(1,540,950)		(0.10)
December 31, 2010		2,001,194		(1,641,268)		(0.11)
September 30, 2010		2,435,536		(2,535,121)		(0.18)
June 30, 2010		1,369,973		(1,483,072)		(0.10)
March 31, 2010		1,057,284		(1,431,857)		(0.10)

## SALES AND DIRECT COSTS

For the years ended December 31		2011		2010
Sales	\$	5,158,062	\$	6,863,987
Cost of sales		4,392,823		6,657,570
<b>Gross margin</b>	\$	<b>765,239</b>	\$	206,417

Revenues are earned on services provided for the design and engineering of geoexchange projects, the sale of geoexchange equipment and the installation of geoexchange systems. Revenue has decreased overall by 25% from 2010. The Corporation continues to bid on larger commercial jobs.

Direct cost of sales includes direct labour and expenditures for services provided, as well as equipment costs and materials for geoexchange projects. The margins in 2010 were heavily influenced by two large jobs that had negative margins due to unexpected operational challenges. In response, CleanEnergy amended its standard contracts and procurement strategy to prevent this from occurring in the future. The Corporation continues to increase revenues and manage costs in order increase net income in the future. The Corporation is focused on solidifying relationships with drilling subcontractors to reduce direct drilling costs and is working on establishing drilling practices that result in stronger economics.

## GENERAL AND ADMINISTRATIVE EXPENSES

For the years ended December 31		2011		2010
Employee costs, net of recoveries	\$	1,727,623	\$	3,864,389
Premises costs		1,179,993		475,303
Bad debts		546,547		543,915
Professional and consulting fees		457,321		829,540
Travel costs		279,262		428,732
Other costs		202,852		179,794
Office expenses		138,007		238,435
Other staff costs		58,898		51,498
Marketing costs		35,479		154,740
<b>General and administrative expenses</b>	\$	<b>4,625,982</b>	\$	<b>6,766,346</b>

Total general and administrative expenses for the year ended December 31, 2011 have decreased by 32% as compared to the prior year.

Employee costs, net of recoveries, account for approximately 37% of total general and administrative expenses, a reduction from 57% of total general and administration expenses in 2010. The decrease reflects the reduction in the staff complement from the previous year. At December 31, 2011, the team included 12 full time employees compared to 32 employees at December 31, 2010. Headcount by department is as follows:

As at December 31	2011	2010
Engineering and operations	8	19
Sales and marketing	3	9
Finance, corporate development and administration	1	4
<b>Total employees</b>	<b>12</b>	<b>32</b>

The reduction in other costs resulted from a change in the sales software leased and a reduction in the equipment rentals not allocated and charged to specific projects.

Professional and consulting fees include legal, accounting, external recruiting and engineering consulting fees.

Premises costs and related office expenses rose in 2011 due to \$583,322 in onerous lease costs. These costs relate to office space leased in British Columbia in excess of the Corporation's requirements.

The 35% decrease in travel costs for the year ended December 31, 2011 reflects the Corporation's commitment to controlling business development and sales costs in line with revenue.

Bad debt expense was recognized for specific amounts for CleanEnergy that are greater than 90 days old. The Corporation has completed a review of all outstanding accounts receivable and it believes all amounts in excess of the allowance for doubtful accounts are recoverable.

## INTEREST ON PAYABLE TO PARENT COMPANY

For the years ended December 31	2011	2010
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Interest expense	\$	785,896	\$	364,298
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The Corporation receives cash advances from its parent company, Alter NRG Corp., as needed. The balance of the payable is secured by a promissory note with no fixed payment terms. The note bears interest at prime plus 3%, accrued monthly on the balance.

## AMORTIZATION

For the years ended December 31	2011	2010
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Amortization	\$	115,340	\$	139,840
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Amortization expense decreased from the previous year due to the disposal of drilling and installation equipment in 2010.

## INTEREST AND OTHER INCOME

For the years ended December 31	2011	2010
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Interest income	\$	4,275	\$	1,308
Miscellaneous income		2,294		6,702
Total interest and other income	\$	6,569	\$	8,010

## FOREIGN EXCHANGE GAIN (LOSS)

For the years ended December 31	2011	2010
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Foreign exchange gain (loss)	\$	2,789	\$	(12,240)
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The foreign exchange fluctuations arise principally because the Corporation purchases a major portion of its inventory in United States (US) dollars. Accordingly, the Corporation records translation differences on a portion of its accounts payable, accrued liabilities and US dollar bank balances.

## NET LOSS

The net loss for the year ended December 31, 2011 of \$4.8 million decreased 32% over the previous year (2010 - \$7.1 million). The net loss reflects the Corporation's commitment to controlling costs in line with revenue earned.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Corporation's working capital balance is approximately \$1.31 million at December 31, 2011, an decrease of \$0.44 million from the balance at the year ended December 31, 2010 of \$1.75 million. Working capital provides funds for the Corporation to meet its operational and capital requirements. For the near-term, management believes that revenues will provide the necessary capital to fund operations. The Corporation might need to raise additional working capital if it experiences delays in sales revenues, diminished project profit margins or higher than expected expenses. At December 31, 2011, the Corporation has \$106,613 tied up in restricted cash as a security deposit on a prospective job and the Corporation's credit cards and carries a deferred revenue amount of \$1,262 for project work in process (2010 - \$330,308 and \$266,534 respectively).

The Corporation has contractual commitments on capital lease obligations for approximately \$42,000 and operating lease commitments, as outlined in the notes to the financial statements, of approximately \$3.1 million over the next ten years (2010 - \$88,000 and \$2.7 million respectively). There have been no material changes to the Corporation's contractual obligations during the year ended December 31, 2011.

## **OUTLOOK**

Moving into 2012, the Geoexchange business has potential to increase revenues from the year ended December 31, 2011, as we build our reputation in the commercial building communities. Management is committed to focusing on continued general and administration cost reductions while at the same time hiring the right personnel to deliver on the short term goals.

Our actual results in the first and second quarter of 2012 will dictate any decisions that may be necessary as we manage liquidity through to profitability.

Cash used in operations for the year ended December 31, 2011 of \$3.8 million (2010 - \$6.8 million) decreased over the previous year, largely due to the Corporation's commitment to controlling costs in line with revenues. Cash used in operations is expected to decrease as the Corporation increases geoexchange revenues. The timing of these cash flows is a function of sales timing, type and margin and can be affected by various operating issues as outlined further in the "Business Conditions and Risks" section.

## **EQUITY**

The authorized share capital of the Corporation consists of an unlimited number of common shares. As at December 31, 2011 and 2010 the Corporation had 14,827,082 common shares issued and outstanding. During the years ended December 31, 2011 and 2010, no shares were issued.

## **RELATED PARTY TRANSACTIONS**

The Corporation transacts with related parties in the normal course of business. The transactions are measured at the exchange amount, which is equivalent to the amounts that would be charged to an independent third party.

In the year ended December 31, 2011, the Corporation paid drilling costs of \$nil (December 31, 2010 - \$40,661) to a company of which a director of the parent company serves as a director. At December 31, 2011 and 2010, no amounts were receivable or payable to related parties as a result of drilling costs.

Included in general and administrative expenses is remuneration of key management personnel of the Corporation. For the year ended December 31, 2011, remuneration of \$382,021 included \$357,171 of salaries and \$24,850 of share-based compensation costs (December 31, 2010 - \$221,334, \$194,144 and \$27,190, respectively).

## **OFF-BALANCE SHEET ARRANGEMENTS**

During the years ended and as at December 31, 2011 and 2010, the Corporation did not have any off-balance sheet arrangements.

## **FINANCIAL INSTRUMENTS**

The Corporation's financial instruments consist of cash, restricted cash, accounts receivable, long-term deposits, accounts payable and accrued liabilities, promissory note payable, capital lease obligations and payable to the parent company. Due to the short term nature of these financial assets and liabilities, the carrying values approximate the fair values. The carrying value of capital leases equals fair value as the assets could be leased at the same implicit rate of interest as is currently being received. The Corporation did not hold or issue any derivative financial instruments during the years ended December 31, 2011 or 2010. For further information on financial instruments please refer to the Corporation's financial statements for the year ended December 31, 2011.

## RECENT CHANGES IN ACCOUNTING POLICIES

On December 31, 2011, the Corporation adopted International Financial Reporting Standards (“IFRS”) for financial reporting purposes, using a transition date of January 1, 2010. The financial statements for December 31, 2011, including required comparative information, have been prepared in accordance with International Financial Reporting Standards 1, First-time Adoption of International Financial Reporting Standards, and with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”). Previously, the Corporation prepared its Interim and Annual Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles (“previous GAAP”). Unless otherwise noted, 2010 comparative information has been prepared in accordance with IFRS. The adoption of IFRS has not had an impact on the Corporation’s operations, strategic decisions and cash flow.

As part of our transition to IFRS, we will adopt all IFRS accounting standards in effect on December 31, 2011. A number of new standards and interpretations have been issued under IFRS, which are outlined in detail in Note 2 of the Corporation’s financial statements for the year ended December 31, 2011. These standards are required to be applied for various accounting periods beginning on or after December, 2011, with early adoption permitted in some cases. When adopted, they may result in changes to our existing accounting policies and note disclosures. The Corporation is currently evaluating the impact that these standards may have on our results of operations and financial position.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements requires various accounting estimates in applying the Corporation’s accounting policies around the reported amount of revenues and expenses and the carrying values of assets and liabilities. Anticipating future events involves uncertainty and consequently the estimates used by management in the preparation of the financial statements may change as future events unfold, additional experience is acquired or the Corporation’s operating environment changes.

## REVENUE RECOGNITION

Revenue is recognized when evidence of an arrangement exists, services are rendered, the selling price is fixed and determinable and collectability is reasonably assured.

Advance payments received from customers, in excess of revenue recognized, are classified as deferred revenue until the service is provided or the product delivered.

Revenue from contracts for engineering and installation of geoeexchange systems is recognized using the percentage-of-completion method of accounting. The degree of completion is determined by comparing the costs incurred to the total costs anticipated for the contract.

## LONG-LIVED ASSETS

Long-lived assets are recorded at cost and include property, plant and equipment, intangible assets and goodwill. These assets are reviewed for impairment annually or whenever events or circumstances indicate the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the estimated discounted cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds the future cash flow, impairment is recognized equal to the amount that the carrying value exceeds the fair value.

## BUSINESS CONDITIONS AND RISKS

The business of CleanEnergy is subject to certain risks and uncertainties including the following:

### Revenue Risk

The Corporation may experience delays in achieving revenues. Revenues may be delayed or negatively impacted by issues encountered by the Corporation or our customers including:

- unforeseen engineering and environmental problems;
- delays or inability to obtain required financing, licenses, permits and regulatory approvals;
- supply interruptions or labour disputes;
- foreign exchange fluctuations and collection risk; and
- competition from other geoeexchange suppliers or alternate less capital intensive energy solutions.

## Regulatory and Environmental

There are geological risks when implementing geoechange solutions. The geological risk of any required drilling is now outlined in the contract to be the responsibility of the customer or sub-contractor. If regulatory or environmental issues were to arise as a result of implementation of our products or solutions, the Corporation may be exposed to an unforeseen liability.

## Sensitivity to Fixed Costs

Fixed costs, including operating, administration, leases, labour and depreciation account for a significant portion of the Corporation's costs and expenses. As a result, reduced productivity, reduced demand, equipment failure, weather or other factors could significantly affect financial results.

## Operational Risk

The Corporation's business has grown rapidly in recent years with ongoing growth planned into the future. Accordingly, the Corporation's future operating results will depend on its people, processes and technology in order to achieve product scalability and continued growth. There can be no assurance that the Company will be able to manage recent or any future expansion successfully and any inability to do so could have a material adverse effect on the Corporation's business, results of operations and financial condition.

## Reliance on Management Key Personnel

The Corporation's success and future operations are dependent upon the abilities, expertise, experience, judgment and efforts of senior management and key technical and field personnel of the Corporation and its subsidiaries. Any loss of the services of these personnel could have a materially adverse impact on the Corporation's business, technical capabilities, operating results or financial condition or could result in delays to or abandonment of the Corporation's projects and ultimately the Shareholders' investments could be negatively affected.

## Reliance on Contracting Parties

The Corporation maintains strategic arrangements and sales relationships with various parties (e.g., consultants, suppliers, strategic partners, management, etc.). The Corporation's ability to fulfill its obligations as well as the ability and likelihood of the other parties to fulfill their obligations can have a material impact on the future success of the Corporation and future financial results. The Corporation relies on the technical ability, financial capacity and creditworthiness of these contracting parties.

## Financial Risk

The Corporation is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk and market price risk.

**(a) Credit risk:** Credit risk is the risk that a customer or third party to a derivative instrument fails to meet its contractual obligations. Financial instruments that are subject to credit risk include cash, restricted cash, accounts receivable and accounts payable. The Corporation's cash of \$166,320 and restricted cash of \$106,613 (2010 - \$787,625 and \$330,308, respectively) are held at chartered Canadian financial institutions. Management reviews the financial strength of the institutions on a regular basis.

**(b) Liquidity risk:** Liquidity risk is the risk that the Corporation will be unable to meet its financial obligations on a current basis.

**(c) Market risk:** Changes in interest rates and foreign currency exchange rates can expose the Corporation to loss, and fluctuations in the fair value of its financial assets and liabilities.

**(d) Foreign exchange risk:** The Corporation purchases a major portion of its inventory in United States ("US") dollars and does not currently engage in hedging activities. Accordingly, the Corporation is exposed to foreign exchange risk on a portion of its accounts payable and accrued liabilities and its US dollar bank account balance. Translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. A 10% strengthening or weakening of the Canadian dollar versus the US dollar would have increased or decreased the net loss for the year ended December 31, 2011 by approximately \$1,223 (December 31, 2010 - \$11,458). On December 31, 2011, the Corporation held US \$5,787 in cash (December 31, 2010 - US \$21,961).

# Advisories

## FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A are “forward-looking statements”. In particular, this MD&A contains forward-looking statements pertaining to capital expenditures, schedules and commencement of operations of existing projects and projects under development; availability of project financing; timing of sales; industry trends; factors influencing capital investments and development activities; the Corporation’s reputation and market position within the industries in which it operates and the Corporation’s strategy and competitive advantages.

Forward-looking statements require management to make estimates and assumptions with respect to the outcome of future events. These estimates and assumptions could, in the future, turn out to be inaccurate and materially affect the final outcome. The significant estimates and assumptions within the Corporation’s forward-looking statements include:

- availability and cost of key materials and labour and availability of funds with respect to the amount of capital expenditures and scheduled commencement of operations;
- timing of regulatory approval including various permits from federal, provincial, state and local authorities;
- the assessment of capital markets including the availability of debt and equity in current market conditions;
- commodity prices for electricity, natural gas, coal and other resources that impact the Corporation’s operations directly and indirectly;
- extent of investment by government authorities in infrastructure projects;
- the financial and operational health of key partners in various projects;
- the continued development of the Corporation’s technology and its use in various application; and
- consumer demand for our solutions.

Forward-looking statements are frequently characterized by words such as “plan”, “expect”, “project”, “propose”, “target”, “intend”, “believe”, “should”, “anticipate”, “estimate” or other similar words, or statements that certain events or conditions “may” or “will” occur. Forward-looking statements are not based on historical facts but rather on the expectations of management of the Corporation regarding, among other things, the Corporation’s future plans and intentions, results of operations, levels of activity, future capital and other expenditures (including the amount, nature and sources of funding thereof), competitive advantages, business prospects and opportunities.

Forward-looking statements reflect management’s current beliefs and assumptions, based on information currently available to management. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, many of which are beyond the control of the Corporation. Among the material factors that could cause actual results to differ materially from those indicated by such forward-looking statements are:

- that the information is of a preliminary nature and may be subject to further adjustment;
- the completion of strategic partner’s projects;
- arrangements with key suppliers;
- potential product liability and other claims;
- other business risks outlined in this MD&A;
- the possible unavailability of financing at competitive rates and the related effect on development activities;
- the effect of energy price fluctuations;
- changes in government regulation, including changes to environmental regulations;
- the effects of competition;
- the dependence on senior management and key personnel; and
- fluctuations in currency exchange rates and interest rates.



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# Clean Energy Developments Corp.

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## Management's Discussion & Analysis

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For the years ended  
December 31, 2010 and 2009

(v2.0: 03/20/2012)

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis (MD&A) for Clean Energy Developments Corp. (CleanEnergy, the Corporation, us or we), prepared as at March 20, 2012, provides a review of the Corporation's financial results for the fiscal year ended December 31, 2010 and consideration of future opportunities. The MD&A should be read in conjunction with the audited financial statements and accompanying notes for the Corporation for the year ended December 31, 2010. The audited financial statements, and extracts of those financial statements provided within this MD&A, were prepared in Canadian dollars and are in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

Readers are cautioned that this MD&A contains certain forward looking statements. Please see the "Forward Looking Statements" section at the end of this document for a discussion concerning the use of such information in this MD&A.

## Executive Summary

Clean Energy focuses on the sale of geoexchange energy solutions to the commercial market segment in Canada and has become the market leader during 2010. Geoexchange energy solutions provide heating and cooling for commercial buildings using free energy from the earth which reduces the use of fossil fuels by up to 80%. Geoexchange solutions are used extensively in the European Union in colder climates (similar to Canada) that use more energy for heating and cooling. The Canadian geoexchange market has experienced significant growth over the last 5 years and the Canadian Geoexchange Coalition is expecting continued market growth going forward. During 2010, CleanEnergy provided geoexchange energy solutions for commercial buildings coast to coast in Canada from \$0.5 million to \$1.5 million per project which include an elementary school, condominium complex, swimming pool, hockey rink, film centre, commercial buildings and many others that has positioned CleanEnergy as the market leader.

## Our Business

CleanEnergy is an industry leading geoexchange company that provides heating and cooling geoexchange solutions for homes, commercial and industrial buildings using free energy from the earth. The use of geoexchange solutions reduces the use of fossil fuels by 60% to 80% in most applications, which means a smaller carbon footprint and reduced energy costs. This is a solution that is used extensively in Europe as it reduces the use of fossil fuels for heating and cooling by up to 80%. In a highly fragmented industry, CleanEnergy™ provides complete solutions, which is unique in the Canadian market. CleanEnergy was acquired by Alter NRG Corp. on October 2, 2009.

CleanEnergy provides a complete energy solution and is able to provide engineering and design, geo installation, equipment and control systems as well as manage the complete project. In a highly fragmented Canadian market, CleanEnergy is the only complete solution provider that operates nationally. In the last 12 months, CleanEnergy has won and executed on an elementary school, hockey rinks, a condominium complex, a swimming pool, shopping facilities and other larger scale projects. These projects have revenues of \$0.5 million to \$1.5 million and CleanEnergy has a pipeline of identified projects with revenues of \$0.5 million up to \$5.0 million. CleanEnergy is currently the commercial geoexchange leader in Canada and intends to continue to build market share doing increasingly larger projects in this growing market segment.

We are developing a vendor sales network that allows us to reach our markets with less capital and by piggy-backing on their vendor channels and existing customers.

## Selected Financial Information

Income Statement and Cash Flow		2010		2009	
Total revenues	\$	6,863,987	\$	4,770,500	
Interest income, other income and gain on sale		8,010		2,575	
Expenses		7,268,426		4,310,764	
Net loss and comprehensive loss		7,053,999		2,694,733	
Loss per share – basic and diluted		0.48		0.19	
Cash used in operations	\$	6,767,332	\$	2,591,657	

Balance Sheet at December 31		2010		2009	
Total assets	\$	4,384,696	\$	2,680,458	
Total liabilities		12,577,949		3,819,712	
Shareholders' equity	\$	(8,193,253)	\$	(1,139,254)	

## Overall Performance

The year ended December 31, 2010 was the most successful year in history with revenue growth of 44% or \$2.1 million

CleanEnergy closed on a number of large projects during the year including municipal, commercial and residential projects. Consistent with the focus on building brand and reputation through strategic partnerships, CleanEnergy also achieved the following:

- Sales of \$6.9 million for the year which is an increase of 44% over the 2009 results. CleanEnergy has executed on larger scale projects in 2010 and successfully repositioned itself as the industry leading commercial geexchange company focused on larger jobs from \$0.5 million to \$1.5 million and growing. The growing reputation has expanded the backlog of sales to over \$4.0 million and a high probability pipeline of identified opportunities from 2010 to 2012 of over \$20 million.
- Announced a strategic agreement with WaterFurnace Renewable Energy, Inc. (TSX:WFI) to expand CleanEnergy's exclusive region of distribution of WaterFurnace's Geostar branded heat pump product in Canada.
- Sold a geexchange installation in Truro, Nova Scotia for \$1.45 million to complete the Central Nova Scotia Civic Centre for all aspects of the building including, making ice for the rink, heating the pool and heating and cooling the buildings. This facility will feature a NHL-sized ice surface with seating for 3,200 spectators. It will also be home to an indoor aquatic centre, an exercise track, a fitness centre, and space for events like concerts, tradeshow and community gatherings.
- Completed a hockey rink in Fredericton, New Brunswick for \$975,000 to provide the complete heating, cooling and ice making.
- Executed on a pool complex in Cambridge, Ontario for \$550,000. The project was partially funded through the federal-provincial Infrastructure Program and the city has further green infrastructure spending to complete in 2011.
- Executed on an eight story condo development on Sudbury Street in Toronto for a large real estate developer for \$650,000.

- Executed on an elementary school in Kelowna, British Columbia, which is the first of many schools in BC that are focusing on going green and reducing their carbon footprint using geoexchange.
- Expanded our dealer network across Canada to 66 dealers to which CleanEnergy distributes the Waterfurnace Geostar branded heat pumps exclusively in Western and Central Canada. The dealer network sells geoexchange solution to the residential market.

Overall expenses increased by 69% over 2009. The Corporation is focused on decreasing general and administrative expenses and management believes they have built a strong team of people focused on attaining revenue and cost reduction goals 2011 and 2012.

## QUARTERLY INFORMATION

Quarter ended		Sales		Net loss		Loss per share
December 31, 2010	\$	2,002,070	\$	(1,448,123)	\$	(0.10)
September 30, 2010		2,434,660		(2,690,947)		(0.18)
June 30, 2010		1,369,973		(1,483,072)		(0.10)
March 31, 2010		1,057,284		(1,431,857)		(0.10)
December 31, 2009		902,218		(1,673,396)		(0.11)
September 30, 2009		1,254,480		(693,632)		(0.05)
June 30, 2009		1,262,198		(193,468)		(0.01)
March 31, 2009		1,351,604		(134,237)		(0.01)

## SALES AND DIRECT COSTS

For the years ended December 31		2010		2009
Sales	\$	6,863,987	\$	4,770,500
Cost of sales		6,657,570		3,157,044
Gross margin	\$	206,417	\$	1,613,456

Revenues are earned on services provided for the design and engineering of geoexchange projects, the sale of geoexchange equipment and the installation of geoexchange systems. Quarterly revenue has increased consistently quarter over quarter and the Corporation believes that revenues will continue to increase. The Corporation is bidding on larger commercial jobs, being awarded contracts for leading geoexchange projects such as schools, condominiums and hockey arenas, and is building a reputation with engineering, procurement and construction (EPC) vendors and within our dealer network.

Direct cost of sales includes direct labour and expenditures for services provided, as well as equipment costs and materials for geoechange projects. The gross margin has decreased from the prior year due to increased costs associated with drilling intensive projects and the costs associated with learning as the Corporation completed projects with new drilling configurations. In addition, the Corporation had committed to work with lower margins in order to establish relationships within the industry. The Corporation is focused on solidifying relationships with drilling subcontractors to reduce direct drilling costs and is working on establishing drilling practices that result in stronger economics.

## GENERAL AND ADMINISTRATIVE EXPENSES

For the years ended December 31	2010	2009
Employee costs, net of recoveries	\$ 3,828,337	\$ 2,382,670
Professional and consulting fees	829,540	513,430
Bad debts	543,915	309,934
Premises costs	475,304	441,892
Travel costs	428,732	117,943
Office expenses	238,435	204,422
Other costs	179,794	49,976
Marketing costs	154,740	11,515
Other staff costs	51,498	33,419
Stock compensation expense	-	15,401
<b>General and administrative expenses</b>	<b>\$ 6,730,295</b>	<b>\$ 4,080,602</b>

Total general and administrative expenses for the year ended December 31, 2010 of have increased by 65% as compared to the prior year.

Employee costs, net of recoveries, account for approximately 57% of total general and administrative expenses, and the Corporation continues to look at ways to manage these costs in line with revenue growth. The majority of the increase is due to the enactment of the Corporation's growth strategy. At December 31, 2010, the team included 32 full time employees compared to 23 employees at December 31, 2009. Headcount by department is as outlined:

As at December 31	2010	2009
Engineering and operations	19	13
Sales and marketing	9	4
Finance, corporate development and administration	4	6
<b>Total employees</b>	<b>32</b>	<b>23</b>

Professional and consulting fees include legal, accounting, external recruiting and engineering consulting fees. Consultants for the geoechange business included drilling subcontractors on take or pay contracts and these contracts were terminated by the end of the third quarter of 2010.

Premises costs and related office expenses rose slightly year over year due to set up costs for the Vancouver office in the third quarter of 2010. Additionally, the Corporation incurred implementation costs for new time-keeping software.

Travel costs increased for the year ended December 31, 2010 to cover travel for sales and business development.

Bad debt expense was recognized for specific amounts for CleanEnergy that are greater than 90 days old. The Corporation has completed a review of all outstanding accounts receivable and it believes all amounts in excess of the allowance for doubtful accounts are recoverable.

## INTEREST ON PAYABLE TO PARENT COMPANY

For the years ended December 31		2010		2009
Interest expense	\$	363,030	\$	22,063

The Corporation receives cash advances from its parent company, Alter NRG Corp., as needed. The balance of the payable is secured by a promissory note with no fixed payment terms. The note bears interest at prime plus 3%, accrued monthly on the balance owing.

## AMORTIZATION

For the years ended December 31		2010		2009
Amortization	\$	139,840	\$	256,496

Amortization expense decreased from the previous year due to the disposal of drilling and installation equipment.

## INTEREST AND OTHER INCOME

For the years ended December 31		2010		2009
Interest income	\$	1,308	\$	2,575
Miscellaneous income		6,702		-
Total interest and other income	\$	8,010	\$	2,575

## FOREIGN EXCHANGE LOSS (GAIN)

For the years ended December 31		2010		2009
Foreign exchange loss (gain)	\$	12,240	\$	(86,710)

The foreign exchange fluctuations arise principally because the Corporation purchases a major portion of its inventory in United States (US) dollars. Accordingly, the Corporation records translation differences on a portion of its accounts payable, accrued liabilities and US dollar bank balances.

## NET LOSS

The net loss for the year ended December 31, 2010 of \$7.1 million (2009 - \$2.7 million) increased over the previous year. The net loss reflects the Corporation's investment in employees and other infrastructure as the basis for future growth.

Geoexchange revenues have increased through expansion of the dealer network and with solution sales in the larger commercial, industrial, large residential, and government building markets. The net loss is due to lower expected margins from the solution sales. The margins were heavily influenced by two large jobs which had negative margins due to unexpected operational challenges. CleanEnergy has amended its standard contracts and procurement strategy to prevent this from occurring in the future. The Corporation continues to increase revenues and manage costs in order increase net income in the future.

## LIQUIDITY AND CAPITAL RESOURCES

The Corporation's working capital balance is approximately \$1.75 million at December 31, 2010, an increase of \$1.25 million from the balance at the year ended December 31, 2009 of \$0.5 million. Working capital provides funds for the Corporation to meet its operational and capital requirements. For the near-term, management believes that increases in revenues will provide the necessary capital to fund operations. With respect to geoexchange sales and services, the Corporation is experiencing continued sales growth quarter over quarter. Delays in sales revenues, diminished project profit margins or higher than expected expenses could result in the need to raise additional working capital. At December 31, 2010, the Corporation has \$0.3 million tied up in restricted cash as a security deposit on a prospective job and the Corporation's credit cards and carries a deferred revenue amount of \$267,000 for project work in process.

The Corporation has contractual commitments on capital lease obligations for approximately \$88,000 and operating lease commitments, as outlined in the notes to the financial statements, of approximately \$2.7 million over the next ten years. There have been no further material changes to the Corporation's contractual obligations during the year ended December 31, 2010.

## Outlook

Moving into 2011, the Geoexchange business has potential to increase revenues from the year ended December 31, 2010, as we build our reputation in the commercial building communities. Direct costs in 2010 were higher than expected, as the Corporation completed jobs new in nature. Management is committed to focusing on continued general and administration cost reductions while at the same time hiring the right personnel to deliver on the short term goals.

Our actual results in the first and second quarter of 2011 will dictate any decisions that may be necessary as we manage liquidity through to profitability.

Cash used in operations for the year ended December 31, 2010 of \$6.8 million (2009 - \$2.6 million) increased over the previous year, largely due to the operations growth following its late 2009 acquisition by Alter NRG Corp. Cash used in operations is expected to decrease as the Corporation increases geoexchange revenues. The timing of these cash flows is a function of sales timing, type and margin and can be affected by various operating issues as outlined further in the "Business Conditions and Risks" section.

## EQUITY

The authorized share capital of the Corporation consists of an unlimited number of common shares. During the year ended December 31, 2010, no shares were issued. During the year ended December 31, 2009, 1,084,000 shares were issued for proceeds of \$542,000.

As at December 31, 2010 the Corporation had 14,827,082 common shares issued and outstanding (2009 – 14,827,082).

## RELATED PARTY TRANSACTIONS

The Corporation may transact with related parties in the normal course of business. The transactions are measured at the exchange amount, which is equivalent to the amount the Corporation would charge to an independent third party.

In 2010, the Corporation paid drilling costs of \$40,661 (2009 - \$nil) to a company of which a director of the parent company serves. In 2009, a former shareholder of the Corporation purchased residential geoexchange services totalling \$83,530.

At December 31, 2010, \$nil was owed to related parties and \$nil was receivable from related parties (2009 - \$nil and \$nil).

## OFF-BALANCE SHEET ARRANGEMENTS

During the years ended and as at December 31, 2010 and 2009, the Corporation did not have any off-balance sheet arrangements.

## FINANCIAL INSTRUMENTS

The Corporation's financial instruments consist of cash, restricted cash, accounts receivable, long-term deposits, accounts payable and accrued liabilities, promissory note payable, capital lease obligations and payable to the parent company. Due to the short term nature of these financial assets and liabilities, the carrying values approximate the fair values. The carrying value of capital leases equals fair value as the assets could be leased at the same implicit rate of interest as is currently being received. The Corporation did not hold or issue any derivative financial instruments during the years ended December 31, 2010 or 2009. For further information on financial instruments please refer to the Corporation's financial statements for the year ended December 31, 2010.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements requires various accounting estimates in applying the Corporation's accounting policies around the reported amount of revenues and expenses and the carrying values of assets and liabilities. Anticipating future events involves uncertainty and consequently the estimates used by management in the preparation of the financial statements may change as future events unfold, additional experience is acquired or the Corporation's operating environment changes.

## REVENUE RECOGNITION

Revenue is recognized when evidence of an arrangement exists, services are rendered, the selling price is fixed and determinable and collectability is reasonably assured.

Advance payments received from customers, in excess of revenue recognized, are classified as deferred revenue until the service is provided or the product delivered.

Revenue from contracts for engineering and installation of geoexchange systems is recognized using the percentage-of-completion method of accounting. The degree of completion is determined by comparing the costs incurred to the total costs anticipated for the contract.

## LONG-LIVED ASSETS

Long-lived assets are recorded at cost and include property, plant and equipment, intangible assets and goodwill. These assets are reviewed for impairment annually or whenever events or circumstances indicate the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the estimated discounted cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds the future cash flow, impairment is recognized equal to the amount that the carrying value exceeds the fair value.

## BUSINESS CONDITIONS AND RISKS

The business of CleanEnergy is subject to certain risks and uncertainties including financial and operational. .

### Revenue Risk

The Corporation may experience delays in achieving revenues. Revenues may be delayed or negatively impacted by issues encountered by the Corporation or our customers including:

- unforeseen engineering and environmental problems;
- delays or inability to obtain required financing, licenses, permits and regulatory approvals;
- supply interruptions or labour disputes;
- foreign exchange fluctuations and collection risk; and
- competition from other geoexchange suppliers or alternate less capital intensive energy solutions.

## Regulatory and Environmental

There are geological risks when implementing geexchange solutions. The geological risk of any required drilling is now outlined in the contract to be the responsibility of the customer or sub-contractor. If regulatory or environmental issues were to arise as a result of implementation of our products or solutions, the Corporation may be exposed to an unforeseen liability.

## Sensitivity to Fixed Costs

Fixed costs, including operating, administration, leases, labour and depreciation account for a significant portion of the Corporation's costs and expenses. As a result, reduced productivity, reduced demand, equipment failure, weather or other factors could significantly affect financial results.

## Operational Risk

The Corporation's business has grown rapidly in recent years with ongoing growth planned into the future. Accordingly, the Corporation's future operating results will depend on its people, processes and technology in order to achieve product scalability and continued growth. There can be no assurance that the Company will be able to manage recent or any future expansion successfully and any inability to do so could have a material adverse effect on the Corporation's business, results of operations and financial condition.

## Reliance on Management Key Personnel

The Corporation's success and future operations are dependent upon the abilities, expertise, experience, judgment and efforts of senior management and key technical and field personnel of the Corporation and its subsidiaries. Any loss of the services of these personnel could have a materially adverse impact on the Corporation's business, technical capabilities, operating results or financial condition or could result in delays to or abandonment of the Corporation's projects and ultimately the Shareholders' investments could be negatively affected.

## Reliance on Contracting Parties

The Corporation maintains strategic arrangements and sales relationships with various parties (e.g., consultants, suppliers, strategic partners, management, etc.). The Corporation's ability to fulfill its obligations as well as the ability and likelihood of the other parties to fulfill their obligations can have a material impact on the future success of the Corporation and future financial results. The Corporation relies on the technical ability, financial capacity and creditworthiness of these contracting parties.

## Financial Risk

The Corporation is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk and market price risk.

**(a) Credit risk:** Credit risk is the risk that a customer or third party to a derivative instrument fails to meet its contractual obligations. Financial instruments that are subject to credit risk include cash, restricted cash, accounts receivable and accounts payable. The Corporation's cash of \$787,625 and restricted cash of \$330,308 (2009 - \$137,258 and \$nil, respectively) are held at chartered Canadian financial institutions. Management reviews the financial strength of the institutions on a regular basis

**(b) Liquidity risk:** Liquidity risk is the risk that the Corporation will be unable to meet its financial obligations on a current basis. The Corporation manages liquidity risk through regular cash-flow forecasting. At December 31, 2010, accounts payable and accrued liabilities were \$1.3 million.

**(c) Market risk:** Changes in interest rates and foreign currency exchange rates can expose the Corporation to loss, and fluctuations in the fair value of its financial assets and liabilities.

**(d) Foreign exchange risk:** The Corporation purchases a major portion of its inventory in United States ("US") dollars and does not currently engage in hedging activities. Accordingly, the Corporation is exposed to foreign exchange risk on a portion of its accounts payable and accrued liabilities and its US dollar bank account balance. Translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. A 10% strengthening or weakening of the Canadian dollar versus the US dollar would have increased or decreased the net loss in 2010 by approximately \$12,278 (2009 - \$11,458). On December 31, 2010, the Corporation held US\$21,961 in cash (2009 - \$11,466 overdraft).



## Recent Changes in Accounting Policies

There have been no changes in accounting policies during the year ended December 31, 2010 which are applicable to CleanEnergy. The Corporation is in the process of implementing and integrating International Financial Reporting Standards, effective for 2011.

## International Financial Reporting Standards (“IFRS”)

In February 2008, the Accounting Standards Board (AcSB) confirmed that accounting standards in Canada will converge with IFRS. Canadian firms will begin reporting under IFRS for interim and annual financial statements for fiscal years beginning January 1, 2011, with appropriate comparative information for the prior year.

The Corporation developed a changeover plan that addresses the impact of the changeover to IFRS, including accounting policies, financial reporting, internal controls, information systems, education, training and other business activities.

The Corporation's IFRS conversion project continues to be on target to release first quarter 2011 IFRS financial statements. The following is a status update of the IFRS conversion project.

### IFRS Training

IFRS training and communication sessions continued for key individuals and senior management.

### IFRS Infrastructure

The new accounting system implemented in first quarter 2010 allows information to be gathered for IFRS reporting and disclosures. The infrastructure to enable the IFRS adjustments to be processed is in place.

### IFRS Control Environment

No material changes are expected to the controls over financial reporting. Review of internal and disclosure controls over financial reporting for 2011 will be completed in the second quarter of 2011.

### IFRS Expected Accounting Policy Impacts

In addition to the policy changes outlined below, the Corporation continues to monitor IFRS developments. Accounting policies selected for the draft IFRS opening Consolidated Balance Sheet remain subject to change. The Corporation is not required to finalize IFRS accounting policies prior to the release of the first annual audited IFRS financial statements for the year ending December 31, 2011.

The following discussion provides further details on the impacts of accounting policy choices and changes on the draft IFRS opening Consolidated Balance Sheet, including exemptions available under IFRS 1 *First-Time Adoption of International Financial Reporting Standards*. IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS.

- Property, Plant and Equipment – There are not expected to be any material changes in values recognized from the implementation of these standards.
- IFRS 1 contains an exemption where an entity may elect to use fair value as deemed cost for assets at the date of transition. The Corporation has elected not to use this exemption.
- Share-Based Payments - Under Canadian GAAP the grant date of options is considered to be the date the grant is approved, however, under IFRS 2 Share-based Payment grant date might occur after the employees to whom the equity instruments were granted have begun rendering services. IFRS requires the entity to recognize the services when received. Although there is an exemption in IFRS 1 the Corporation's parent company decided to retrospectively apply this standard, which affected costs allocated to CleanEnergy. This has led to an approximate \$6,000 increase in the deficit at January 1, 2010 and an approximate \$37,000 increase in the expense for the year ended December 31, 2010.
- Business Combinations - Business combinations entered into prior to January 1, 2010 will not be retrospectively restated using IFRS principles as permitted by IFRS 1.

Additional IFRS accounting policy choices and changes have not had a material impact on the IFRS opening Balance Sheet and will continue to be monitored throughout 2011.

## IFRS Quarterly Earnings Impacts

The Corporation is currently finalizing the 2010 quarterly earnings impacts, but expects earnings to be impacted by:

- the adjustment to recognition of actual bonuses paid appose to accrued bonuses
- restated share-based compensation expense due to the restatement of the grant date of options

## IFRS Standards Not Considered

We have reviewed the following IFRS standards and determined them not to be applicable to our current business:

- IFRS 4 – Insurance Contracts
- IAS 23 – Borrowing Costs
- IAS 29 – Financial Reporting in Hyperinflationary Economies

This list will be reviewed in light of changes to the business upon the transition date to IFRS.

## Advisories

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- the effect of energy price fluctuations;
- changes in government regulation, including changes to environmental regulations;
- the effects of competition;
- the dependence on senior management and key personnel; and
- fluctuations in currency exchange rates and interest rates.

**SCHEDULE "E"**  
**PRO FORMA FINANCIAL STATEMENTS**

**Bellair Ventures Inc.**  
**Unaudited Pro Forma Consolidated Statement of Financial Position**  
**As at February 29, 2012**

	Bellair Ventures Inc. as at Feb 29, 2012	CleanEnergy Developments Corp. as at Mar 31, 2012	Note 3	Pro Forma Adjustments	Pro Forma Consolidated
	\$	\$		\$	\$
<b>Assets</b>					
<b>Current assets</b>					
Cash	68,346	-	(a) (e) (g) (h)	(1,488,311) (200,000) 2,394,000 (239,400)	534,635
Accounts receivable	-	1,895,858			1,895,858
Inventories	-	26,916			26,916
Restricted cash	-	106,935			106,935
Prepaid expenses	417	25,669			26,086
	68,763	2,055,378		466,289	2,590,430
Long-term deposits	-	74,359			74,359
Unallocated purchase price allocation	-	-	(a)	4,711,377	4,711,377
Goodwill	-	575,478	(a)	(575,478)	-
Property, plant and equipment	-	215,752			215,752
	68,763	2,920,967		4,602,188	7,591,918
<b>Liabilities</b>					
<b>Current liabilities</b>					
Bank indebtedness	-	299,128			299,128
Accounts payable and accrued liabilities	68,139	237,730			305,869
Deferred revenue	-	1,262			1,262
Deferred landlord inducements	-	5,691	(a)	(5,691)	-
Operating lease obligations	-	145,830	(a)	(145,830)	-
Finance lease obligations	-	28,947			28,947
	68,139	718,588		(151,521)	635,206
<b>Long-term liabilities</b>					
Finance lease obligations	-	1,488			1,488
Deferred landlord inducements	-	31,775	(a)	(31,775)	-
Operating lease obligations	-	401,034	(a)	(401,034)	-
Payable to parent company	-	15,323,818	(a)	(15,323,818)	-
	68,139	16,476,703		(15,908,148)	636,694
<b>Shareholders' Equity</b>					
Share capital (Note 4)	773,977	3,445,290	(a) (d) (f) (g) (h) (i)	5,000,000 (3,445,290) 282,000 2,394,000 (239,400) (125,866)	8,084,711
Contributed surplus (Note 5)	116,340	92,086	(c) (i) (j)	(92,086) 125,866 190,038	432,244
Deficit (Note 8)	(889,693)	(17,093,112)	(b) (e) (f) (j)	17,093,112 (200,000) (282,000) (190,038)	(1,561,731)
	624	(13,555,736)		20,510,336	6,955,224
	68,763	2,920,967		4,602,188	7,591,918

**Bellair Ventures Inc.**  
**Unaudited Pro Forma Consolidated Statement of Loss and Comprehensive Loss**  
**For the six months ended February 29, 2012**

	<b>Bellair Ventures Inc.</b>	<b>CleanEnergy Developments Corp.</b>	<b>Note 3</b>	<b>Pro Forma Adjustments</b>	<b>Pro Forma Consolidated</b>
	<b>\$</b>	<b>\$</b>		<b>\$</b>	<b>\$</b>
Sales	-	2,619,523			2,619,523
Cost of sales	-	(2,169,643)			(2,169,643)
Gross margin	-	449,880		-	449,880
General and administrative expenses	84,275	2,061,422			2,145,697
Interest on payable to parent company	-	429,882	(k)	(429,882)	-
Amortization	-	49,654			49,654
Foreign exchange loss	-	6,391			6,391
	84,275	2,547,349		(429,882)	2,201,742
Operating loss	(84,275)	(2,097,469)		429,882	(1,751,862)
Finance costs	-	(10,194)			(10,194)
Finance and other income	-	4,925			4,925
Loss and comprehensive loss for the period	(84,275)	(2,102,738)		429,882	(1,757,131)

**Bellair Ventures Inc.**  
**Unaudited Pro Forma Consolidated Statement of Loss and Comprehensive Loss**  
**For the year ended August 31, 2011**

	<b>Bellair Ventures Inc.</b>	<b>CleanEnergy Developments Corp.</b>	<b>Note 3</b>	<b>Pro Forma Adjustments</b>	<b>Pro Forma Consolidated</b>
	<b>\$</b>	<b>\$</b>		<b>\$</b>	<b>\$</b>
Sales	-	5,251,573			5,251,573
Cost of sales	-	(4,543,022)			(4,543,022)
Gross margin	-	708,551		-	708,551
General and administrative expenses	121,620	4,827,293	(e) (f) (j)	200,000 282,000 190,038	5,620,951
Interest on payable to parent company	-	751,410	(k)	(751,410)	-
Amortization	-	118,009			118,009
Foreign exchange gain	-	(952)			(952)
	121,620	5,695,761		(279,372)	5,738,008
Operating loss	(121,620)	(4,987,210)		279,372	(5,029,457)
Finance costs	-	(27,781)			(27,781)
Finance and other income	27,000	7,802			34,802
Write-down of note receivable	(256,500)	-			(256,500)
Loss and comprehensive loss for the period	(351,120)	(5,007,188)		279,372	(5,278,935)

## **1. Basis of presentation**

The unaudited pro forma consolidated statement of financial position as at February 29, 2012 and the unaudited pro forma consolidated statements of loss and comprehensive loss for the six months ended February 29, 2012 and for the year ended August 31, 2011 have been prepared by management based on historical financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), for illustrative purposes only, after giving effect to the proposed transaction between Bellair Ventures Inc. (the "Company" or "Bellair") and CleanEnergy Developments Corp. ("CleanEnergy") on the basis of the assumptions and adjustments described in note 2, 3, 4 and 5. The unaudited pro forma financial statements should be read in conjunction with the Filing Statement, the annual audited financial statements and interim unaudited financial statements of Bellair, including the accompanying notes, for the year ended August 31, 2011 and six months ended February 29, 2012, as well as for CleanEnergy for the year ended December 31, 2011 and the three months ended March 31, 2012.

The unaudited pro forma consolidated statement of financial position as at February 29, 2012 is presented as if the transaction occurred on February 29, 2012. The unaudited pro forma consolidated statement of loss and comprehensive loss for the year ended August 31, 2011 and the six months ended February 29, 2012 are presented as if the transaction occurred on September 1, 2010.

It is management's opinion that the unaudited pro forma statement of financial position includes all adjustments necessary for the fair presentation, in all material respects, of the transactions described in Notes 3 and 4 in accordance with IFRS, applied on a basis consistent with the Company's accounting policies. The unaudited pro forma statement of financial position and unaudited pro forma statements of loss and comprehensive loss are not necessarily indicative of the financial position that would have resulted if the combination had actually occurred on the dates indicated.

The pro forma adjustments and purchase price allocation have been determined from information available to the management of the Company at this time and incorporates and reflects management's preliminary assessment of the fair value of the net assets acquired. The actual adjustments to the financial statements of the Company will depend on a number of factors, including changes in working capital of CleanEnergy between February 29, 2012 and the actual acquisition date. Therefore, the actual adjustments will differ from the pro forma adjustments. The allocation of the purchase price to the assets and liabilities of CleanEnergy will be finalized after the final fair values of the assets and liabilities have been determined and, accordingly, the purchase price allocation is subject to change.

The unaudited pro forma consolidated statement of financial position should be read in conjunction with the historical financial statements and notes thereto of the Company and CleanEnergy, included elsewhere in this Filing Statement.

## **2. The transaction**

- a) On January 5, 2012, the Company and Alter NRG Corp. ("Alter") entered into an agreement, whereby the Company will acquire all of the issued and outstanding common shares of CleanEnergy in exchange for 10,000,000 common shares of the Company equal to an aggregate of \$5,000,000, based on the private placement pricing as described in note 2(b). The Company will pay for any working capital of CleanEnergy in excess of \$nil upon closing.
- b) On or before closing, CleanEnergy will use its reasonable commercial efforts to carry out an offering of 4,000,000 subscription receipts on a brokered, private placement basis to raise gross proceeds of \$2,000,000 at a purchase price of \$0.50 per subscription receipt. Subscription receipts will be exchanged into common shares of the Company concurrent with the transaction.
- c) Upon completion of the transaction, the former shareholders of CleanEnergy will own a controlling stake of the Company. However, due to an agreement between the Company and Alter, the current shareholders of the Company will maintain control. As such, the transaction has been treated as a business combination.

The acquisition is subject, but not limited, to regulatory and shareholder approvals.



### 3. Pro forma assumptions and adjustments

The unaudited pro forma consolidated statement of financial position and unaudited pro forma consolidated statements of loss and comprehensive loss reflect the following assumptions and adjustments:

*To give effect to the acquisition of CleanEnergy by the Company*

- (a) The total estimated purchase price has been calculated as follows:

	\$
Purchase price to vendors	5,000,000
Payment for working capital in excess of \$nil	1,488,311
Total purchase price	6,488,311

The Company will pay for any working capital of CleanEnergy in excess of \$nil upon closing and will be reimbursed for any working capital deficiency. The estimated working capital of CleanEnergy as at February 29, 2012 is \$1,488,311.

The following table reflects the preliminary purchase price allocation, which is subject to final determinations:

	Purchase price allocation	CleanEnergy financial position Mar 31, 2012	Pro Forma adjustments
Cash	-	-	-
Accounts receivable	1,895,858	1,895,858	-
Inventories	26,916	26,916	-
Restricted cash	106,935	106,935	-
Prepaid expenses	25,669	25,669	-
Long-term deposits	74,359	74,359	-
Intangible assets	-	-	-
Goodwill	-	575,478	(575,478)
Property, plant and equipment	215,752	215,752	-
Bank indebtedness	(299,128)	(299,128)	-
Accounts payable and accrued liabilities	(237,730)	(237,730)	-
Deferred revenue	(1,262)	(1,262)	-
Finance lease obligations	(30,435)	(30,435)	-
Deferred landlord inducements	-	(37,466)	37,466
Operating lease obligations	-	(546,864)	546,864
Payable to parent company	-	(15,323,818)	15,323,818
Unallocated purchase price allocation	4,711,377	-	4,711,377
Net assets acquired	6,488,311	(13,555,736)	20,044,047

- (b) An adjustment of \$17,093,112 to eliminate CleanEnergy's historical deficit.
- (c) An adjustment of \$92,086 to eliminate CleanEnergy's contributed surplus.
- (d) An adjustment of \$3,445,290 to eliminate CleanEnergy's share capital.
- (e) Transaction fees for the transaction have been estimated at \$200,000 and have been recorded as an expense through deficit and a reduction in cash.
- (f) An increase in the Company's share capital of \$282,000 and a corresponding expense through deficit to reflect an issuance of 564,000 common shares for consulting services performed in connection to the transaction.

### 3. Pro forma assumptions and adjustments (continued)

*To give effect to the concurrent private placement*

- (g) An increase in cash of \$2,394,000 and corresponding increases in the Company's share capital of \$2,394,000 to reflect a private placement of 4,788,000 subscription receipts at a price of \$0.50 per receipt. Subscription receipts automatically convert into one CleanEnergy share and one warrant exercisable into one CleanEnergy share at \$0.75 per share for a period of 2 years upon receipt of approval of the transaction. These shares and warrants will be tendered in exchange for securities of the Company concurrent with the transaction.

The full proceeds were allocated to share capital. The fair value of each warrant was calculated as \$0.12 using the Black-Scholes Option Pricing Model using a volatility of 100%, risk free rate of 1.10%, expected life of 2 years and dividend yield of 0%.

- (h) A decrease in cash of \$239,400 and corresponding decreases in share capital to reflect broker commission fees of 10% and other agent expenses.
- (i) An increase in broker warrants of \$125,866 and corresponding decreases in share capital to reflect 478,800 broker warrants (agent options) issued. Each broker unit warrant entitles the holder to purchase one common share with an exercise price of \$0.50 for a period of two years from listing. The broker warrants were valued using the Black-Scholes Option Pricing Model using a volatility of 100%, risk free rate of 1.10%, expected life of 2 years and dividend yield of 0%.
- (j) An increase in contributed surplus of \$190,038 and corresponding expense through deficit to reflect an issuance of 550,000 stock options issued upon closing. Each stock option entitles the holder to purchase one common share with an exercise price of \$0.50 for a period of four years from listing. The options were valued using the Black-Scholes Option Pricing Model using a volatility of 100%, risk free rate of 1.10%, expected life of 2 years, forfeiture rate of nil and dividend yield of 0%.

*To give effect to the forgiveness of intercompany debt*

- (k) An decrease in interest expense of \$751,410 for the year ended August 31, 2011 and \$429,882 for the six months ended February 29, 2012, with a corresponding reduction of deficit to reflect the forgiveness of intercompany debt as at September 1, 2010 of \$14,385,706 after giving effect to the transaction.

### 4. Pro forma share capital

	<u>Number</u>	<u>Amount</u>
The Company's common shares outstanding - February 29, 2012	1,956,600	\$ 773,977
Common shares issued to CleanEnergy's shareholders for transaction	10,000,000	5,000,000
Shares to be issued pursuant to the transaction for consulting in the adjustment in note 3(f)	564,000	282,000
Shares to be issued pursuant to the concurrent private placement in the adjustment in note 3(g)	4,788,000	2,394,000
Share issuance costs as described in the adjustments (notes 3(h and i)).	-	(365,266)
Pro forma share capital - February 29, 2012	<u>17,308,600</u>	<u>\$ 8,084,711</u>

<b>5. Pro forma contributed surplus</b>	<u>Amount</u>
The Company's contributed surplus	\$ 116,340
CleanEnergy's reserve	92,086
Elimination of CleanEnergy's reserve (note 3(c))	(92,086)
Issuance of agent options for the Company's common shares (note 3(i))	125,866
Issuance of stock options for the Company's common shares (note 3(j))	190,038
Pro forma contributed surplus - February 29, 2012	<u>\$ 432,244</u>

**6. Pro forma stock options**

	<u>Weighted average remaining contractual life (years)</u>	<u>Number outstanding</u>	<u>Number vested</u>	<u>Exercise price</u>
The Company's options	1.74	255,660	255,660	\$ 0.50
Expiration of stock options		(85,220)	(85,220)	\$ 0.50
Issuance of stock options for the Company's common shares in relation to the transaction (note 3(j))	4.00	550,000	550,000	\$ 0.50
Pro forma stock options - February 29, 2012		<u>720,440</u>	<u>720,440</u>	<u>\$ 0.50</u>

85,220 stock options held by a former director expired unexercised on June 18, 2012.

**7. Pro forma warrants**

	<u>Weighted average remaining contractual life (years)</u>	<u>Number</u>	<u>Exercise price</u>
Warrants to be issued pursuant to the private placement described in note 3(g)	2.00	4,788,000	\$ 0.75
Pro forma warrants - February 29, 2012		<u>4,788,000</u>	<u>\$ 0.75</u>

**8. Pro forma broker warrants (agent options)**

	<u>Weighted average remaining contractual life (years)</u>	<u>Number</u>	<u>Exercise price</u>
Agent options to be issued pursuant to the transaction described in note 3(i)	2.00	478,800	\$ 0.50
Pro forma broker warrants - February 29, 2012		<u>478,800</u>	<u>\$ 0.50</u>

<b>9. Pro forma deficit</b>	<u>Amount</u>
The Company's deficit	\$ (889,693)
CleanEnergy's deficit	(17,093,112)
Elimination of CleanEnergy's deficit (note 3(b))	17,093,112
Additional transaction costs (note 3(e))	(200,000)
Issuance of shares recorded as consulting transaction costs (note 3(f))	(282,000)
Share-based compensation expense on issuance of stock options (note 3(j))	(190,038)
Pro forma deficit - February 29, 2012	<u>\$ (1,561,731)</u>

**10. Pro forma loss per share**

For the purposes of the unaudited pro forma combined financial statements, the loss per share has been calculated using the weighted average number of shares of 17,308,600 which would have been outstanding after giving effect to the transactions described above in Note 3.

	<u>For the year ended Aug 31, 2011</u>	<u>For the six months ended Feb 29, 2012</u>
Net loss	\$ (5,278,935)	\$ (1,757,131)
Weighted average number of shares outstanding	17,308,600	17,308,600
Basic and diluted loss per share	<u>\$ (0.30)</u>	<u>\$ (0.10)</u>

**11. Pro forma income taxes and future income taxes**

The Company's has an expected income tax rate of 27.0%.

**SCHEDULE "F"**  
**STOCK OPTION PLAN**

BELLAIR VENTURES INC.

2008 STOCK OPTION PLAN

**1. Purpose of Plan**

The purpose of the stock option plan (the "**Plan**") of Bellair Ventures Inc. (the "**Corporation**"), is to advance the interests of the Corporation by encouraging the Directors, Employees and Consultants (as such terms are defined under TSX Venture Exchange Inc. (the "**Exchange**") Policy 4.4 (the "**Policy**")) of the Corporation, and of its subsidiaries and affiliates, if any, to acquire common shares in the capital of the Corporation (the "**Shares**"), thereby increasing their proprietary interest in the Corporation, encouraging them to remain associated with the Corporation and furnishing them with additional incentive in their efforts on behalf of the Corporation in the conduct of its affairs.

**2. Administration**

The Plan shall be administered by the board of directors of the Corporation (the "**Board**") or by a special committee of the directors appointed from time to time by the Board pursuant to rules of procedure fixed by the Board (such committee, if appointed, is also hereinafter referred to as the "**Board**"). A majority of the Board shall constitute a quorum, and the acts of a majority of the directors present at any meeting at which a quorum is present, or acts unanimously approved in writing by the Board, shall be binding and conclusive on all Participants (as hereinafter defined) and on their legal personal representatives and beneficiaries, the Corporation and all other interested individuals.

Subject to the provisions of the Plan, the Board shall have authority to construe and interpret the Plan and all option agreements entered into thereunder, to define the terms used in the Plan and in all option agreements entered into thereunder, to prescribe, amend and rescind rules and regulations relating to the Plan and to make all other determinations deemed necessary or advisable for the administration and implementation of the Plan. No member of the Board or any person acting pursuant to authority delegated by it hereunder shall be liable for any action or determination in connection with the Plan made or taken in good faith, and each member of the Board and each such person shall be entitled to indemnification by the Corporation with respect to any such action or determination.

Each option granted hereunder may be evidenced by an agreement in writing, signed on behalf of the Corporation and by the optionee, substantially in the form attached hereto as **Schedule "A" - Notice of Option Grant**, or in such other form as is determined by the Board.

Each option granted by the Corporation prior to the date of the approval of the Plan by the shareholders of the Corporation be and are continued under and shall be subject to the terms of the Plan after the Plan has been approved by the shareholders of the Corporation.

**3. Stock Exchange Rules**

All options granted pursuant to this Plan shall be subject to the rules and policies of the Exchange, or, if the Shares are not then listed on the Exchange, such stock exchange or

exchanges on which the Shares are then listed and any other government or regulatory body having jurisdiction.

#### **4. Shares Subject to Plan**

Subject to adjustment as provided in Section 19 hereof, the Shares to be offered under the Plan shall consist of authorized but unissued Shares. The aggregate number of Shares issuable upon the exercise of all options granted under the Plan shall not exceed 10% of the issued and outstanding Shares at the time of the stock option grant. If any option granted hereunder shall expire or terminate for any reason in accordance with the terms of the Plan without being exercised in full, the unpurchased Shares subject thereto shall again be available for the purpose of this Plan.

#### **5. Maintenance of Sufficient Capital**

The Corporation shall at all times during the term of the Plan reserve and keep available such numbers of Shares as will be sufficient to satisfy the requirements of the Plan.

#### **6. Eligibility and Participation**

Directors, Employees and Consultants (such persons hereinafter collectively referred to as "**Participants**") of the Corporation shall be eligible for selection by the Board to participate in the Plan on a voluntary basis and a selected Participant shall execute a Notice of Option Grant substantially in the form attached hereto as Schedule "A". Subject to compliance with applicable Exchange requirements, Participants may elect to hold options granted to them in a Company (as defined in Exchange Policy 1.1) wholly owned by them and such Company shall be bound by the Plan in the same manner as if the options were held by the Participant; provided, however, that such Company must agree not to effect or permit any transfer of ownership or option of shares of such Company nor to issue further shares of any class in such Company to any other individual or entity as long as the option granted under the Plan remains outstanding, except with the written consent of the Exchange.

Subject to the terms hereof, the Board shall determine to whom options shall be granted, the terms and provisions of the respective option agreements, the time or times at which such options shall be granted and vested, the number of Shares to be subject to each option and the exercise price of the options. In the case of options granted to Employees, Consultants or Management Company Employees (as defined in the Policy), the option agreements to which they are party must contain a representation of the Corporation that such Employee, Consultant or Management Company Employee, as the case may be, is a bona fide Employee, Consultant or Management Company Employee of the Corporation or its subsidiaries.

A Participant who has been granted an option may, if such Participant is otherwise eligible, and if permitted under the policies of the Exchange, be granted an additional option or options if the Board shall so determine.

## **7. Exercise Price**

- (a) The exercise price of the Shares subject to each option shall be determined by the Board, subject to applicable Exchange approval, at the time any option is granted and shall be specified on the Notice of Option Grant substantially in the form attached hereto as Schedule "A". In no event shall such exercise price be lower than the exercise price permitted by the Exchange.
- (b) Once the exercise price of the Shares subject to each option has been determined by the Board, accepted by the Exchange and the option has been granted, the exercise price of the Shares subject to the option may be reduced upon receipt of Board and Exchange approval, provided that in the case of options held by Insiders (as defined by Exchange Policy 1.1) of the Corporation, the exercise price of the Shares subject to such option may be reduced only if disinterested shareholder approval is obtained in accordance with Exchange requirements.

## **8. Number of Optioned Shares**

- (a) The number of Shares subject to an option granted to any one Participant shall be determined by the Board, but no one Participant shall be granted an option which exceeds the maximum number permitted by the Exchange.
- (b) No single Participant may be granted options to purchase a number of Shares equalling more than 5% of the issued Shares in any one twelve-month period unless the Corporation is classified as a "Tier 1" issuer by the Exchange and has obtained the requisite disinterested shareholder approval in respect of such grant and meets applicable Exchange requirements.
- (c) No more than 2% of the issued Shares may be issued to any one Consultant in any twelve-month period pursuant to the exercise of options granted under the Plan.
- (d) No more than an aggregate of 2% of the issued Shares may be issued to an Employee conducting Investor Relations Activities (as defined in Exchange Policy 1.1) in any twelve-month period pursuant to the exercise of options granted under the Plan. Options granted to Consultants performing Investor Relations Activities must contain vesting provisions such that vesting occurs over at least 12 months with no more than 1/4 of the options vesting in any 3 month period.

## **9. Duration of Option**

Each option and all rights thereunder shall be expressed to expire on the date set out in the Notice of Option Grant and shall be subject to earlier termination as provided in Sections 12 and 13, provided that in no circumstances shall the duration of an option exceed the maximum term permitted by the Exchange. For greater certainty, if the Corporation is listed on the Exchange, the maximum term may not exceed 10 years if the Corporation is classified as a "Tier 1" issuer,



and the maximum term may not exceed 5 years if the Corporation is classified as a "Tier 2" issuer.

#### **10. Option Period, Consideration and Payment**

- (a) The option period shall be a period of time fixed by the Board not to exceed the maximum term permitted by the Exchange, provided that the option period shall be reduced with respect to any option as provided in Sections 12 and 13 covering cessation as a Director, Employee or Consultant of the Corporation or its subsidiaries, or death of the Participant.
- (b) Subject to any vesting restrictions imposed by the Exchange, the Board may, in its sole discretion, determine the time during which options shall vest and the method of vesting, or that no vesting restriction shall exist.
- (c) Subject to any vesting restrictions imposed by the Board, options may be exercised in whole or in part at any time and from time to time during the option period. To the extent required by the Exchange, no options may be exercised under this Plan until this Plan has been approved by a resolution duly passed by the shareholders of the Corporation.
- (d) Except as set forth in Sections 12 and 13, no option may be exercised unless the Participant is at the time of such exercise a Director, Employee or Consultant of the Corporation or any of its subsidiaries.
- (e) The exercise of any option will be contingent upon receipt by the Corporation at its head office of a written notice of exercise substantially in the form attached hereto as **Schedule "B" - Notice of Option Exercise**, specifying the number of Shares with respect to which the option is being exercised, accompanied by cash payment, certified cheque or bank draft for the full purchase price of such Shares with respect to which the option is exercised.

#### **11. Share Certificates**

Upon exercise of the option and payment in full of the Shares subject to exercise of the option, the Corporation shall cause to be issued to the optionee within a reasonable period of time a duplicate certificate or certificates in the name of the optionee representing the number of Shares the optionee has purchased. The original share certificate(s) may be held by the Corporation as custodian, at the Corporation's option, to ensure compliance with the terms and conditions of the Plan and Notice of Option Grant, for delivery to the optionee in accordance with the Plan and Notice of Option Grant.

#### **12. Ceasing To Be a Director, Officer, Consultant or Employee**

If a Participant shall cease to be a Director, Employee or Consultant of the Corporation, or its subsidiaries, for any reason (other than death), such Participant may exercise his option to the extent that the Participant was entitled to exercise it at the date of such cessation, provided that if the Corporation is classified by the Exchange as a Tier 2 issuer at the time of grant, such

exercise must occur within 90 days after the Participant ceases to be a Director, Employee or Consultant, unless such Participant was engaged in Investor Relations Activities, in which case such exercise must occur within 30 days after such Participant ceases to be employed to provide Investor Relations Activities to the Corporation.

The granting of an option under the Plan does not confer upon the optionee any right to continue in the employment of the Corporation or any subsidiary of the Corporation or as a member of the Board, as the case may be, or any right to continue as a Consultant of the Corporation or any subsidiary of the Corporation, nor does it interfere in any way with the rights of the Participant or of the Corporation's rights to terminate the employment of the Participant's services at any time or of the shareholders' right to elect directors.

### **13. Death of Participant**

Notwithstanding section 12, in the event of the death of a Participant, the option previously granted to him shall be exercisable only within the one (1) year after such death and then only:

- (a) by the person or persons to whom the Participant's rights under the option shall pass by the Participant's will or the laws of descent and distribution; and
- (b) if and to the extent that such Participant was entitled to exercise the Option at the date of his death.

### **14. Rights of Optionee**

Optionees shall not have any rights as a shareholder with respect to Shares subject to option until (a) a share certificate or share certificates have been duly issued; and (b) payment has been made to the Corporation and provision satisfactory to the Corporation has been made for payment of, any federal, provincial or local withholding taxes required by law to be withheld in respect of an option.

### **15. Non-Exclusivity**

Nothing contained herein shall prevent the Board from adopting other or additional compensation arrangements for the benefit of any Participant, subject to any required stock exchange, regulatory or shareholder approval

### **16. Notices**

All written notices to be given by the optionee to the Corporation may be delivered personally or by registered mail, postage prepaid, addressed.

Any notice given by the optionee pursuant to the terms of the option shall not be effective until actually received by the Corporation. Any notice to be given to the optionee shall be sufficiently given if delivered personally (effective at the time of delivery), by facsimile transmission (effective one day after transmission) or by postage prepaid mail to the last

address of the optionee on the records of the Corporation and shall be effective five days after mailing.

#### **17. Corporate Action**

Nothing contained in the Plan or in any option shall be construed so as to prevent the Corporation or any subsidiary of the Corporation from taking corporate action that is deemed by the Corporation or the subsidiary to be appropriate or in its best interest, whether or not such action would have an adverse effect on the Plan.

#### **18. Proceeds from Sale of Shares**

The proceeds from the sale of Shares issued upon the exercise of options shall be added to the general funds of the Corporation and shall thereafter be used from time to time for such corporate purposes as the Board may determine.

#### **19. Adjustments**

The Board shall make such adjustments as it deems appropriate to (i) the number of Shares reserved for issuance pursuant to the Plan; (ii) the number of vested and unvested Shares subject to option; and (iii) the exercise price of Shares subject to option, to give effect to capital adjustments by reason of a stock dividend or split, recapitalization, consolidation, combination or exchange of shares, reclassification conversion or other fundamental change in the authorized or issued capital of the Corporation.

Furthermore, in the event of an amalgamation, merger, arrangement or any similar change affecting the Corporation or its securities, the Board may, in its sole discretion, treat the vested and unvested options issued under the Plan in the manner it deems fair and reasonable in light of the circumstances of the change, including without limitation taking any actions and/or making such adjustments to the number and kind of shares which thereafter may be offered to Participants under the Plan as it may deem equitable.

#### **20. Sale Transaction**

Notwithstanding the vesting dates set forth in the Notice of Option Grant, in the event that the Corporation or its shareholders receive and accept an offer to acquire all of the Shares or all or substantially all of the assets of the Corporation, whether effected through an acquisition for cash or securities, and whether structured as a purchase, business combination, amalgamation, merger, arrangement, reorganization or otherwise (in each case, a "Sale Transaction") at the purchase price for each Share of the Corporation as set forth in the sale transaction agreement (the "Sale Price"), the Board may, in its sole discretion, treat the options issued under the Plan in a manner it deems fair and reasonable in light of the circumstances of the Sale Transaction. Without limiting the generality of the foregoing, in connection with a Sale Transaction, the Board may, without any action or consent required on the part of any optionee, (i) accelerate, conditionally or otherwise, and on such terms as it sees fit the first vesting date or first date of

the exercise period; (ii) deem any or all options (vested or unvested) under the Plan to have been exercised and the shares subject to any or all of such option to have been tendered to the Sale Transaction, (iii) apply a portion of the optionee's proceeds from the closing of the Sale Transaction to the exercise price payable by that optionee for the exercise of his or her options, (iv) cancel the options and pay to an optionee the amount that the optionee would have received, after deducting the exercise price of the options, had the Options been exercised, (v) exchange unvested options, or any portion of them, for options to purchase shares in the capital of the acquirer or any corporation which results from an amalgamation, merger or similar transaction involving the Corporation made in connection with the Sale Transaction, or (vi) take such other actions, and combinations of the foregoing actions, as it deems fair and reasonable under the circumstances.

## **21. Transfer and Assignment**

The options and the rights relating thereto granted under the Plan are not assignable or transferable by the optionee or subject to any other alienation, gift, bequest, sale, pledge, mortgage, charge or encumbrance by such optionee during the optionee's lifetime and therefore, subject to Section 13, the options are exercisable during the optionee's lifetime only by the optionee. The obligations of each optionee shall be binding on his or her heirs, executors and administrators. Any purported assignment or transfer of options or the rights relating thereto will not be recognized by the Corporation and will result in the immediate expiry and termination of any such options and any rights relating thereto.

## **22. Amendment and Termination of Plan**

The Board reserves the right, in its sole discretion, to amend, suspend or terminate this Plan or any portion thereof at any time, in accordance with applicable legislation, without obtaining the approval of shareholders of the Corporation. Any amendment to any provision of the Plan will be subject to any required regulatory or shareholder approval. Subject to compliance with the applicable rules of the Exchange, no amendment, suspension or termination will alter or impair any options under the Plan, or any rights pursuant thereto, granted previously to any Participant without the consent of that Participant.

If this Plan is terminated, the provisions of this Plan and any administrative guidelines, and other rules adopted by the Board and in force at the time of this Plan, will continue in effect as long as any options under the Plan or any rights pursuant thereto remain outstanding. However, notwithstanding the termination of the Plan, the Board may make any amendments to the Plan or options it would be entitled to make if the Plan were still in effect.

## **23. Necessary Approvals**

The ability of a Participant to exercise options and the obligation of the Corporation to issue and deliver Shares in accordance with the Plan is subject to any approvals which may be required from shareholders of the Corporation and any regulatory authority or stock exchange having jurisdiction over the securities of the Corporation. If any Shares cannot be issued to any Participant for whatever reason, the obligation of the Corporation to issue such Shares shall terminate and any option exercise price paid to the Corporation will be returned to the Participant.

## **25. Governing Law**

The Plan is established under the laws of the Province of Ontario and the rights of all parties and the construction and the construction and effect of each provision of the Plan shall be according to the laws of the Province of Ontario and the laws of Canada applicable therein.

MADE by the Board as evidenced by the signature of the following director duly authorized in that behalf effective the 7<sup>th</sup> day of November, 2008.

### **BELLAIR VENTURES INC.**

Per:	<u>"Emlyn David" (signed)</u>
Name:	Emlyn David
Title:	Chief Executive Officer

Schedule "A"  
Notice of Option Grant

BELLAIR VENTURES INC.  
10 Bellair Street, Suite 509  
Toronto, Ontario  
M5L 1B9

[Date]

[Name & Address]

Dear [Name]:

This is to advise you that in recognition of your contribution to our business, you have been selected to participate in the 2008 Stock Option Plan (the "Plan") of Bellair Ventures Inc. (the "Corporation"). On \_\_\_\_\_, \_\_\_\_\_, you were granted non-assignable, non-transferable options (the "Options") to acquire \_\_\_\_\_ common shares of the Corporation ("Shares") at a price of \$\_\_\_\_\_ per Share.

The Options will vest as follows: ●

The Options will expire on \_\_\_\_\_.

By accepting the Options, you represent and warrant to the Corporation that your participation in the Plan is voluntary and that you have not been induced to participate by expectation of engagement, appointment, employment, continued engagement, continued appointment or continued employment, as applicable.

In addition to any resale restrictions under applicable securities laws, you acknowledge that in the event that the Corporation is classified as a "Tier 2 Issuer" by TSX Venture Exchange Inc. (the "Exchange"), the Shares issued on the exercise of the Options must be legended with a four month Exchange hold period commencing on the date the Options were granted.

To the extent you are not a resident of Canada, you further represent and warrant to the Corporation that the grant and exercise of the Options, and the sale of the underlying Shares, is exempt from the prospectus (or similar) requirements of all applicable securities legislation.

To the extent that the Options being granted hereunder are being granted to a Company (as defined in Exchange Policy 1.1), you further represent and warrant to the Corporation that such Company is wholly owned by you and you further agree not to effect or permit any transfer of ownership or option of shares of such Company, nor to issue further shares of any

class in such Company to any other individual or entity as long as the Option being granted hereunder remains outstanding, except with the written consent of the Exchange.

To the extent that the Options being granted hereunder are being granted to an Employee, Consultant, or Management Company Employee (as such terms are defined in Exchange Policy 4.4) of the Corporation, the Corporation represents that such optionee is a bona fide Employee, Consultant, or Management Company Employee, as the case may be, of the Corporation.

Yours sincerely,

\_\_\_\_\_  
Name: Emlyn J. David

Position: President, CEO, CFO, Secretary and Director

The undersigned acknowledges receipt of a copy of the Plan and acknowledges and agrees that the undersigned's options are subject to and governed by the provisions of the Plan. The undersigned further acknowledges and agrees that the Plan and the grant of options to acquire \_\_\_\_\_ Shares at a price of \$\_\_\_\_\_ per Share on the terms described in the foregoing notice of grant (the "Notice") constitutes the entire agreement between the parties with respect to the subject matter addressed herein and supercedes all prior agreements relating to the subject matter hereof. Other than the grant of options described in this Notice, the undersigned has no other written or oral agreement, option, understanding or commitment, or any right or privilege capable of becoming such for the purchase of Shares or any other interest in the Corporation.

Dated this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
[Name of Optionee]

**SCHEDULE “B”**  
**NOTICE OF OPTION EXERCISE**