

The accompanying consolidated financial statements and other financial information in this annual report were prepared by management of Reko International Group Inc., reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the consolidated financial statements and believes that they fairly present the Company's financial condition and results of operation in conformity with International Financial Reporting Standards. Management has included in the Company's consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

These financial statements have been audited by the shareholders' auditors, PricewaterhouseCoopers LLP, and their report is presented herein.

"Diane Reko," B.Comm  
CHIEF EXECUTIVE OFFICER

"Carl A. Merton," CA, FCBV  
CHIEF FINANCIAL OFFICER

*October 9, 2012*

## INDEPENDENT AUDITOR'S REPORT

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### TO THE SHAREHOLDERS OF REKO INTERNATIONAL GROUP INC.

We have audited the accompanying consolidated financial statements of Reko International Group Inc. and its subsidiaries, which comprise the consolidated balance sheets as at July 31, 2012, July 31, 2011 and August 1, 2010 and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years ended July 31, 2012 and July 31, 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

### AUDITOR'S RESPONSIBILITY

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

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

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

### OPINION

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

*"PricewaterhouseCoopers LLP"*

Chartered Accountants, Licensed Public Accountants

Windsor, Ontario

October 9, 2012

*As at July 31*

*(in 000's, except for per share amounts)*

	2012	2011 (NOTE 24)	AUGUST 1, 2010 (NOTE 24)
<b>ASSETS</b> (Notes 10 and 11)			
Current			
Cash	\$ 1,213	\$ 1,589	\$ 1,303
Accounts receivable	11,609	10,686	10,657
Other receivables	694	526	367
Non-hedging financial derivatives (Note 6)	89	1,172	591
Income taxes receivable	18	22	22
Work-in-progress (Note 7)	12,277	12,537	20,009
Prepaid expenses and deposits	297	346	536
Assets held for sale (Notes 8 and 9)	2,469	2,135	--
	<b>28,666</b>	<b>29,013</b>	<b>33,485</b>
Capital assets (Note 8)	19,336	22,174	30,505
Deferred income taxes (Note 5)	5,779	6,048	5,938
	<b>\$ 53,781</b>	<b>\$ 57,235</b>	<b>\$ 69,928</b>
<b>LIABILITIES</b>			
Current			
Bank indebtedness (Note 10)	\$ 12,300	\$ 10,900	\$ 14,292
Accounts payable and accrued liabilities	4,694	6,398	6,201
Provisions payable (Note 18)	250	1,778	--
Unearned revenue on work-in-progress (Note 7)	349	451	183
Current portion of long-term debt (Note 11)	9,241	1,891	12,678
	<b>26,834</b>	<b>21,418</b>	<b>33,354</b>
Long-term debt (Note 11)	825	10,447	1,925
Deferred income taxes (Note 5)	90	608	226
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (Note 12)	18,772	18,772	18,772
Contributed surplus (Note 13)	1,758	1,755	1,750
Retained earnings	5,502	4,235	13,901
	<b>26,032</b>	<b>24,762</b>	<b>34,423</b>
	<b>\$ 53,781</b>	<b>\$ 57,235</b>	<b>\$ 69,928</b>

*Contingencies (Note 22)*

*The accompanying notes are an integral part of these consolidated financial statements*

**ON BEHALF OF THE BOARD**

“Diane Reko”  
DIRECTOR

“Andrew J. Szonyi”  
DIRECTOR

*As at July 31*  
*(in 000's, except for per share amounts)*

	SHARE CAPITAL	CONTRIBUTED SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL EQUITY
Balance at August 1, 2010	\$ 18,772	\$ 1,750	\$ 13,901	\$ --	\$ 34,423
Share-based payments	--	5	--	--	5
Net loss	--	--	(9,666)	--	(9,666)
Balance at July 31, 2011	\$ 18,772	\$ 1,755	\$ 4,235	\$ --	\$ 24,762
<b>Balance at August 1, 2011</b>	\$ 18,772	\$ 1,755	\$ 4,235	\$ --	\$ 24,762
Share-based payments	--	3	--	--	3
Net income	--	--	1,267	--	1,267
Balance at July 31, 2012	\$ 18,772	\$ 1,758	\$ 5,502	\$ --	\$ 26,032

*The accompanying notes are an integral part of these consolidated financial statements*

*Years ended July 31*  
*(in 000's, except for per share amounts)*

	2012	2011 (NOTE 24)
Sales	\$ 42,091	\$ 39,863
Costs and expenses		
Cost of sales	32,890	34,141
Selling and administrative (Note 19)	5,509	5,869
Amortization	2,010	2,755
	40,409	42,765
Income (loss) before the following items	1,682	(2,902)
Foreign exchange loss (gain)	109	(470)
Other income	(390)	(505)
Business transformation expenses	248	2,359
Asset impairment	--	3,795
Gain on sale of capital assets	(742)	(226)
Interest on long-term debt	774	864
Interest on other interest-bearing obligations	631	763
	630	6,580
Income (loss) before income taxes	1,052	(9,482)
Deferred income tax (recovery) provision (Note 5)	(215)	184
Net income (loss) and comprehensive income (loss)	\$ 1,267	\$ (9,666)
Earnings (loss) per common share (Note 14)		
Basic	\$ 0.20	\$ (1.51)
Diluted	\$ 0.20	\$ (1.51)

*The accompanying notes are an integral part of these consolidated financial statements*

Years ended July 31  
(in 000's, except for per share amounts)

	2012	2011 (NOTE 24)
<b>OPERATING ACTIVITIES</b>		
Net income (loss) for the year	\$ 1,267	\$ (9,666)
Adjustments for:		
Amortization	2,010	2,755
Asset impairment	--	3,795
Unrealized foreign exchange (gain) loss	(34)	240
Deferred income taxes	(215)	32
Gain on sale of capital assets	(742)	(226)
Stock compensation	3	5
	2,289	(3,065)
Net change in non-cash working capital (Note 20)	(3,029)	9,136
<b>CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	(740)	6,071
<b>FINANCING ACTIVITIES</b>		
Net proceeds from bank indebtedness	1,400	(3,392)
Payments on long-term debt	(2,272)	(2,265)
<b>CASH USED IN FINANCING ACTIVITIES</b>	(872)	(5,657)
<b>INVESTING ACTIVITIES</b>		
Investment in capital assets	(1,981)	(894)
Proceeds on sale of capital assets	3,217	766
<b>CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	1,236	(128)
Net change in cash	(376)	286
Cash, beginning of year	1,589	1,303
Cash, end of year	\$ 1,213	\$ 1,589

The accompanying notes are an integral part of these consolidated financial statements

## 1. SIGNIFICANT ACCOUNTING POLICIES

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### *Nature of operations*

The Company, incorporated under the laws of Ontario, has several subsidiaries, which operate or exist in Canada, the State of Michigan and the State of Alabama in the United States.

The Company's revenue is primarily generated from the sales of large custom machining, factory automation and manufacturing molds, primarily for the automotive sector.

The consolidated financial statements were approved by the Board of Directors on October 9, 2012.

### *Adoption of International Financial Reporting Standards ("IFRS")*

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate IFRS and to require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these consolidated financial statements. In these financial statements, the term "Canadian GAAP" and "previous GAAP" refers to Canadian GAAP before adoption of IFRS.

### *Statement of compliance*

These consolidated financial statements have been prepared in accordance with IFRS including IFRS 1 *First-Time Adoption of International Financial Reporting Standards*. Subject to certain transition elections disclosed in Note 24, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at August 1, 2010 (the "transition date") and throughout all periods presented, as if these policies had always been in effect. Note 24 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended July 31, 2011. Amounts previously reported for 2011 have been restated to give effect to these changes.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of July 31, 2012, the date the Board of Directors approved the statements.

### *Basis of consolidation*

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries Reko Tool & Mould (1987) Inc., Reko Manufacturing Group Inc., Reko International Sales, Inc. and Reko International Holdings, Inc.

Joint ventures are those entities over whose activities the Company has joint control, established by contractual agreement. The consolidated financial statements include the Company's proportionate share of the joint venture

entities' assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases. The consolidated financial statements include the accounts of the Company's 50% membership interest in Reko Global Services, LLC.

Intragroup balances, and any unrealized gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains and losses arising from transactions with jointly controlled entities are eliminated to the extent of the Company's interest in the entity.

*Foreign currency translation*

The reporting currency of the reporting entity is Canadian dollars. Transactions in foreign currencies are translated at the foreign exchange rate in effect at the date of the transaction. The Company translates monetary assets and liabilities denominated in foreign currencies at the exchange rate as at the balance sheet date. Foreign exchange differences arising on translation are recognized in profit or loss. Revenues and expenses are translated at rates prevailing on the date of the transaction. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates at the dates the fair value was determined. For the year ended July 31, 2012, the Company reported a foreign exchange loss of \$109.

The financial statements of U.S. subsidiaries, whose functional currency has been determined to be Canadian dollars, are translated such that monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average rates for the year. Translation gains or losses are included in income.

*Financial instruments*

The Company utilizes financial instruments in the management of its foreign currency exposure by economically hedging its foreign exchange exposure on anticipated net cash inflows in U.S. dollars through the use of U.S. dollar denominated debt and forward foreign exchange contracts. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading or speculative purposes.

Financial assets and financial liabilities are initially recognized at fair value. Subsequent to initial recognition, financial instruments are stated at fair value and their remeasurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. Settlement date accounting is used. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss.

**CLASSIFICATION**

Cash	Loans and receivables
Non-hedging financial derivatives	Fair value through profit or loss ("FVTPL")
Accounts receivable	Loans and receivables
Other receivables	Loans and receivables
Bank indebtedness	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Severance payable	Other financial liabilities
Long-term debt	Other financial liabilities



## **FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FVTPL**

Financial assets designated as FVTPL are financial assets typically held for trading or that are designated as FVTPL. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in non-operating items. Financial liabilities designated as FVTPL are those non-derivative financial liabilities that the Company elects to designate on initial recognition as instruments that it will measure at fair value through profit or loss. These are accounted for in the same manner as FVTPL assets.

## **HELD-TO-MATURITY**

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables that an entity has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest method. The Company has not designated any financial assets as held to maturity.

## **AVAILABLE-FOR-SALE**

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or held-for-trading investments. Available-for-sale financial assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized when the cumulative gain or loss is transferred to earnings. Interest on interest-bearing available-for-sale financial assets is calculated using the effective interest method. The Company does not have any non-derivative financial assets classified as available for sale.

## **LOANS AND RECEIVABLES**

Loans and receivables are accounted for at amortized cost using the effective interest method.

## **OTHER FINANCIAL LIABILITIES**

Other financial liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

## **TRANSACTION COSTS**

Transaction costs related to FVTPL financial assets are expensed as incurred. Transaction costs related to available-for-sale financial assets, held-to-maturity financial assets, other financial liabilities and loans and receivables are netted against the carrying value of the asset or liability and are then recognized over the expected life of the instrument using the effective interest method.

## **EFFECTIVE INTEREST METHOD**

The Company uses the effective interest method to recognize interest income or expense, which includes transaction costs or fees, premiums or discounts, earned or incurred for financial instruments.

#### *Use of significant accounting estimates and judgments*

The preparation of financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. These estimates are made on the assumption the Company will continue as a going concern and are based on information available at the time of preparation. Estimates may be revised where the circumstances on which they are based change or where new information becomes available.

Judgment is commonly used in determining whether a balance or transaction should be recognized in the consolidated financial statements and estimates and assumptions are more commonly used in determining the measurement of recognized transactions and balances. However, judgment and estimates are often interrelated.

The Company has applied judgment in its use of the going concern assumption, identifying cash generating units, identifying indicators for impairment of long-lived assets and deferred taxes and assessing the Company's functional currency. In the absence of standards or interpretations applicable to a specific transaction, management uses its judgment to define and apply accounting policies that provide relevant and reliable information in the context of the preparation of the financial statements.

Estimates are used when estimating the useful lives of long-lived assets for the purposes of quantifying amortization, when accounting for or measuring such items as allowance for uncollectible accounts, allowances for provisions on loss contracts, realizable value of tax losses and other tax credits, assessing the percent complete of work-in-progress, certain fair value measures including those related to share-based payments and financial instruments, and when testing long-lived assets for impairment. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

#### *Revenue recognition*

The Company deals primarily in contracts with a period of completion over several months. Revenue is recognized based on the percentage of completion method, provided the contract has progressed to the point where total costs can be reasonably estimated. The Company considers all jobs, which have completed all aspects of engineering and design to have progressed to the point where total costs can be reasonably estimated. Historically, this occurs somewhere between 15% and 25%, depending on the complexity of the job. The percentage of completion is determined by relating the actual cost of work performed to date to the current estimated total cost for each contract. Any projected loss is recognized immediately.

#### *Operating lease payments*

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized in profit or loss as an integral part of the total lease expense.

#### *Finance lease payments*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### *Cash*

Cash include cash on hand and balances with maturities less than 90 days.

### *Accounts receivable*

Accounts receivable are stated at their cost less impairment losses (see impairment loss accounting policy).

### *Work-in-progress*

Work-in-progress includes unbilled contract revenue and inventory. Tooling inventory is valued at the lower of cost and net realizable value, less any amounts billed to the customer. Cost includes the cost of materials, direct labour applied to the product and specifically identified manufacturing overhead. The results reported under the percentage of completion method are based on management's estimates. Actual results could differ from these estimates.

### *Capital assets and amortization*

#### **OWNED ASSETS**

Capital assets are stated at cost less accumulated amortization and impairment losses (see impairment loss accounting policy). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. The cost of self-constructed assets and acquired assets includes (i) the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and (ii) changes in the measurement of existing liabilities recognized for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Certain capital assets that had been revalued to fair value on August 1, 2010, the date of transition to IFRSs, are measured on the basis of deemed cost, being their fair value at the transition date.

When parts of capital assets have different useful lives, those components are accounted for as separate items of capital assets.

#### **LEASED ASSETS**

Leases for which the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. The capital assets acquired by way of a finance lease are stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated amortization and impairment losses (see impairment loss accounting policy).

#### **SUBSEQUENT COSTS**

The Company recognizes in the carrying amount of a capital asset the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognized in profit or loss as an expense as incurred.

## AMORTIZATION

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of each capital asset. Land is not amortized. The estimated useful lives are as follows:

- Buildings 25 years
- Building roofs 15 years
- Heating, ventilation and cooling 10 years
- Machinery and equipment 5 – 20 years
- Controls 10 years
- Tooling 5 years
- Leasehold improvements 10 years
- Equipment under capital lease 10 – 20 years

The residual value and estimated useful life is reassessed annually.

### *Trade and other payables*

Trade and other payables are stated at amortized cost.

### *Unearned revenue on work-in-progress*

In situations where the customer is billed more than the Company has recognized revenue on an individual project on the reporting date, the invoiced amount in excess of the revenue recognized is recorded as unearned revenue on work-in-progress.

### *Income taxes*

Income tax on the profit or loss from the periods presented comprises current and deferred income tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in comprehensive income, in which case it is recognized in comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date that are expected to apply when the deferred tax is realized/settled.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### *Share capital*

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares and presented as a deduction from total equity.

### *Comprehensive income*

Other comprehensive income, when it occurs, is presented below net income on the Consolidated Statements of Income and Comprehensive Income. Comprehensive income is composed of net income and other comprehensive income.

Accumulated other comprehensive income is a separate component of shareholders' equity which includes the accumulated balances of all components of other comprehensive income which are recognized in comprehensive income but excluded from net income.

### *Earnings (loss) per share*

Basic earnings per share is calculated on net income using the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated on the weighted average number of common shares that would have been outstanding during the year had all "in the money" stock options outstanding been exercised and converted into common shares using the treasury method.

### *Impairment losses*

The carrying amounts of the Company's long-lived non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such impairment exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss unless the asset is recorded at a revalued amount in which case it is treated as a revaluation decrease.

### *Reversals of impairment losses*

An impairment loss, for other than a held-to-maturity security, receivable carried at amortized cost, investment in an equity instrument classified as available-for-sale and in respect of goodwill, is reversed if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

### *Defined contribution employee benefit plans*

Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss as incurred.

### *Provisions*

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the

obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

#### *Restructuring provisions*

A provision for restructuring is recognized when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for in advance.

#### *Onerous contract provisions*

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

#### *Stock based compensation*

The share option programme allows certain Company employees to acquire shares of the Company. The fair value of options granted is recognized as an employee expense with a corresponding increase in equity. The Company measures the fair value of stock options at the grant date and spreads the expense over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured using the Black-Scholes option-pricing model. This model requires the input of a number of assumptions, including expected dividend yields, expected stock volatility, expected time until exercise and risk-free interest rates. Although the assumptions used reflect management's best estimates, they involve inherent uncertainties based on market conditions generally outside the Company's control. If other assumptions are used, stock-based compensation expense could be significantly impacted. As stock options are exercised, the proceeds received on exercise, in addition to the portion of the contributed surplus balance related to those stock options, is credited to share capital and contributed surplus is reduced accordingly.

#### *Consideration given to customers*

Cash consideration given by the Company to a customer, such as cash discounts and rebates, are presumed to be a reduction of the selling prices of the Company's products or services and are, therefore, accounted for as a reduction of revenue when recognized in the statement of income.

#### *New standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company*

The IASB has issued IFRS 9 *Financial instruments*. This standard is the first step in the process to replace IAS 39 *Financial instruments: recognition and measurement*. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. An investment in a debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest, otherwise it is recognized at fair value through profit or loss. IFRS 9 was also updated to include guidance on financial liabilities and derecognition of financial instruments. This guidance is similar to the guidance method included in IAS 39 relating to financial liabilities and derecognition of financial instruments. The standard is not yet effective until periods beginning on or after January 1, 2015 but is available for early adoption. The Company has not yet determined the impact that IFRS 9 will have on its consolidated financial position.

The IASB has published a package of five new and revised standards that address the scope of the reporting entity. The new standards in the package are IFRS 10 *Consolidated financial statements*, IFRS 11 *Joint arrangements* and

IFRS 12 *Disclosure of interests in other entities*. The revised standards are IAS 28 *Investments in associates and joint ventures* and IAS 27 *Separate financial statements*. The requirements contained in the package of five standards are effective for annual reporting periods beginning on or after January 1, 2013, with early adoption permitted so long as the entire package is early adopted together. The five standards are described below. The Company has not yet determined the impact of these new and revised standards on its consolidated financial statements.

IFRS 10 introduces a single control model that assesses whether to consolidate investees where an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

IFRS 11 introduces a concept of classification of a joint arrangement, being either a joint operation or a joint venture, depending on whether parties to the arrangement have rights to and obligations for underlying assets and liabilities. The accounting policy choice of joint ventures being accounted for using proportionate consolidation has been eliminated and must now be equity accounted investments.

IFRS 12 combines, in a single standard, the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities.

IAS 28 has been amended in line with changes to accounting for joint arrangements in IFRS 11. The amended standard prescribes the accounting for investments in associates and provides guidance on the application of the equity method when accounting for investments in associates and joint ventures.

IAS 27 has been amended to provide guidance on the accounting and disclosure requirements for investments in subsidiaries, associates and joint ventures when an entity prepares separate financial statements. The amended standard requires an entity preparing separate financial statements to account for investments at cost or in accordance with IFRS 9.

The IASB has issued IFRS 13 *Fair value measurement*. The standard establishes a single source of guidance for fair value measurements under IFRS. IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements. IFRS 13 does not include requirements on when fair value measurement is required; but it prescribes how fair value is to be measured if another standard requires it. The standard is not effective until periods beginning on or after January 1, 2013 but is available for early adoption. The Company has not yet determined the impact that IFRS 13 will have on its consolidated financial position.

The IASB has amended IAS 1 *Presentation of financial statements*. The standard has been amended primarily around the presentation of items within other comprehensive income. Certain items of other comprehensive income that may be reclassified to earnings in the future are to be presented separately from those items that would never be reclassified in the future. The amended standard is not effective until periods beginning on or after July 1, 2012 but is available for early adoption. The Company has not yet determined the impact that the amended IAS 1 will have on its consolidated financial position.

The IASB has amended IAS 19 *Employee benefits*. The standard has been amended with key changes including that all actuarial gains and losses be immediately recognized to other comprehensive income, the expected return of plan assets recognized to earnings is now based on the rate used to discount the defined benefit obligation, and additional disclosures for defined benefit plans. Other amendments include revised definitions of short-term versus long-term employee benefits and potential changes to the timing of recognition of termination benefits. The amended standard is not effective until periods beginning on or after January 1, 2013 but is available for early adoption. The Company has not yet determined the impact that amended IAS 19 will have on its consolidated financial statements.

## 2. GEOGRAPHIC INFORMATION

The following information reflects the geographic breakdown of revenues and capital assets based on the physical location of the Company's operations. The Company does not track revenues based on ship to locations.

	2012	
	REVENUES	CAPITAL ASSETS
Canada	\$ 38,071	\$ 21,805
United States	4,020	--
	\$ 42,091	\$ 21,805

  

	2011	
	REVENUES	CAPITAL ASSETS
Canada	\$ 35,863	\$ 24,296
United States	4,000	13
	\$ 39,863	\$ 24,309

## 3. CONTINUING OPERATIONS AND LIQUIDITY RISK

In prior years, the Company experienced reduced revenues and significant operating losses caused primarily by the temporary decline in capital equipment markets occurring concurrent with a global recession. The financial losses posed challenges to the Company's continued operations and its ability to meet its obligations as they fell due. In addition, the Company continues to work with its primary lender under reduced financial covenants. Management is addressing and has actively addressed this condition, as discussed in the following paragraphs.

### *Operating losses*

The Company needed to reduce and eliminate its operating losses. Through the recovery of the capital equipment market and the implementation of the Company's business transformation project, the Company addressed both reduced revenues and more appropriately matched its cost structure to its current level of revenues.

### *Continued support of its primary lender*

While the Company's profitability and debt services costs have changed sufficiently for the Company to have met its suspended debt service coverage ratio (see Note 4) at the end of year, the Company continues to operate under a monthly EBITDA target covenant with its primary lender. Despite the Company's ability to meet its suspended debt service coverage ratio, the Company needs to maintain the continued support of its primary lender, through the lender's willingness to work with the Company, when and if, issues arise with its financial covenants.

To address the continued support of its primary lender, the Company has built and will continue to build a proactive and open relationship with the lender, involving timely and frequent dialogue and a strategy of analyzing the Company based on rolling six month intervals as opposed to more traditional one year intervals.

### *Refinance of mortgage payable*

The Company's mortgage payable is due on July 1, 2013 (see Note 11). The Company needs to renew or refinance the mortgage payable accordingly. The Company has begun discussions with its existing and potential lenders.

As at July 30, 2012, the Company was in compliance with all of its financial covenants in effect on that date.



#### 4. FINANCIAL RISK MANAGEMENT

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The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has delegated authority of risk management to the Audit Committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

##### *Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and foreign exchange contracts.

##### **ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES**

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country, in which the customers operate, has less of an influence on credit risk. Approximately 65% of the Company's revenue is attributable to the Detroit 3 original equipment manufacturers and 70% of the Company's revenue is attributable to the automotive industry. Annually, between 80% and 90% of the Company's revenue is derived from customers who pay in United States dollars.

The Audit Committee has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, when available, and in some cases bank references. Open amount limits are established for each customer; actual open amounts are reported monthly to the Audit Committee and reviewed by the Audit Committee on a quarterly basis. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

Goods are sold subject to available financial liens, so that in the event of non-payment the Company may have a secured claim. The Company does not require collateral in respect of accounts receivables and other receivables. In addition, the Company maintains, to the extent available, industry standard accounts receivable insurance programs to reduce its exposure to credit risk.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of accounts receivable and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

The Company's financial assets that are exposed to credit risk consist primarily of cash, accounts receivable, non-hedging financial instruments and unbilled contract revenue.

Cash and cash equivalents and non-hedging financial instruments are subject to counterparty credit risk. The Company mitigates this credit risk by dealing with counterparties who are major financial institutions that the Company anticipates will be able to satisfy its obligations with the Company.

For the year ended, July 31, 2012, sales to the Company's three largest customers represented 9.7%, 9.1% and 8.3%, respectively, of our total sales. These same customers represent approximately 5.4%, 8.7% and 9.7% of our total accounts receivable, respectively as at July 31, 2012.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 150 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. As part of that ability, the Company maintains a \$20,000 line of credit facility that is secured against the Company's accounts receivable and work-in-process. Interest is payable on the drawn portion of the line-of-credit at the rate of LIBOR or Banker's Acceptance rates plus 400 basis points. As at July 31, 2012, the Company has undrawn lines of credit available to it of approximately \$8,700; however, under its current margining provisions with its lender, the maximum it can draw on its available lines of credit is limited to \$4,563.

#### *Market risk*

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

The Company buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Audit Committee.

## CURRENCY RISK

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the parent Company, the Canadian dollar. The Company's goal is to maintain foreign currency future contracts that are within \$2,000 of its total accounting foreign currency exposure. The Company uses forward foreign exchange contracts to mitigate its currency risk, with a maturity of less than one year from the reporting date.

At July 31, 2012, the Company had outstanding foreign exchange contracts, representing commitments to buy and sell foreign currencies. U. S. dollars contracts represent the significant commitments as follows:

	U.S. DOLLAR AMOUNT	WEIGHTED AVERAGE RATE
Sell U.S. dollars for delivery in 2012 under forward exchange contracts	\$ 9,500	1.0080
Sell U.S. dollars for delivery in 2013 under forward exchange contracts	4,000	1.0340
	<u>\$ 13,500</u>	<u>1.0119</u>

Based on the Company's foreign currency exposures, as at July 31, 2012, a change in the U.S. dollar/Canadian dollar foreign exchange rate to reflect a 100 basis point strengthening of the U.S. dollar would have increased net income by \$1. We caution that this sensitivity is based on an assumed net U.S. dollar denominated asset or liability balance at a point in time. Our net U.S. dollar denominated asset or liability position changes on a daily basis, sometimes materially.

## INTEREST RATE RISK

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary current assets and current liabilities. The Company uses LIBORs, bankers' acceptances and its line-of-credit to reduce the exposure to interest rate changes.

The Company's interest rate risk primarily arises from its floating rate debt, in particular its bank indebtedness and mortgage payable. At July 31, 2012, \$19,616 of the Company's total debt portfolio is subject to movements in floating interest rates.

Based on the value of interest-bearing financial instruments, subject to movements in floating interest rates, as at July 31, 2012, an assumed 0.5 percentage point increase in interest rates on the first day of the year would have decreased net income by \$98, with an equal but opposite effect for an assumed 0.5 percentage point decrease.

## OTHER MARKET PRICE RISK

The Company does not enter into commodity contracts other than to meet the Company's expected usage and sale requirements; such contracts are not settled net.

### *Capital management*

The Board's policy is to ensure sufficient liquidity to pursue its organic growth strategy, while at the same time taking a conservative approach to financial leverage and management of financial risk. The Company's capital is composed

of net debt and shareholders' equity. Net debt consists of interest-bearing debt less cash. The Company's primary uses of capital are to finance increases in non-cash working capital and capital expenditures for capacity expansion. The Company currently funds these requirements out of its internally generated cash flows and when internally generated cash flow is insufficient, its revolving bank credit facility.

The primary measure used by the Company to monitor its financial leverage is its ratio of net debt to shareholders' equity, which it aims to maintain at less than 1:1. The capital management criteria can be illustrated as follows:

	2012	2011	2010
<b>NET DEBT</b>			
Bank indebtedness	\$ 12,300	\$ 10,900	\$ 14,292
Current portion of long-term debt	9,241	1,891	12,678
Long-term debt	825	10,447	1,925
Less: cash	(1,213)	(1,589)	(1,303)
<b>NET DEBT</b>	<b>\$ 21,153</b>	<b>\$ 21,649</b>	<b>\$ 27,592</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>\$ 26,032</b>	<b>\$ 24,762</b>	<b>\$ 34,423</b>
<b>RATIO</b>	<b>0.81</b>	<b>0.87</b>	<b>0.80</b>

From time to time, the Company purchases its own shares on the market; the timing of these purchases depends on market prices.

There were no changes in the Company's approach to capital management during the year.

As part of the Company's existing debt agreements, three financial covenants are monitored and communicated, as required by the terms of credit agreements, on a monthly, quarterly or annual basis, by management, to ensure compliance with the agreements. The annual covenant is a debt service coverage ratio – calculated as EBITDA less cash taxes (for the previous 52 weeks) divided by interest expense plus repayments of long-term debt (based on upcoming 52 weeks). The quarterly covenants are: i) debt to equity ratio – calculated as total debt, excluding deferred income taxes divided by shareholders' equity minus minority interest, if any; ii) current ratio – calculated as current assets divided current liabilities and (iii) debt service coverage ratio – calculated as EBITDA less cash taxes (for previous 52 weeks) divided by interest expense plus repayments of long-term debt (based on upcoming 52 weeks). The quarterly debt service coverage ratio covenant is currently being waived by the Company's lender. The monthly covenant is an EBITDA based target.

The Company was in compliance with these at July 31, 2012.

#### *Fair Value*

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgement is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies.

The methods and assumptions used to estimate the fair value of financial instruments are described below:

#### ACCOUNTS RECEIVABLE, BANK INDEBTEDNESS, ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Due to the short period of maturity of the instruments, the carrying values as presented in the consolidated balance sheets are reasonable estimates of fair value.

#### *Categories of method of fair valuing non-hedging financial derivatives*

The following table provides an analysis of non-hedging financial derivatives that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	LEVEL 1	LEVEL 2	LEVEL 3	2012
<b>FINANCIAL ASSETS AT FVTPL</b>				
Cash	\$ 1,213	\$ --	\$ --	\$ 1,213
Non-hedging financial derivatives	--	89	--	89
	\$ 1,213	\$ 89	\$ --	\$ 1,302

	LEVEL 1	LEVEL 2	LEVEL 3	2011
<b>FINANCIAL ASSETS AT FVTPL</b>				
Cash	\$ 1,589	\$ --	\$ --	\$ 1,589
Non-hedging financial derivatives	--	1,172	--	1,172
	\$ 1,589	\$ 1,172	\$ --	\$ 2,761

	LEVEL 1	LEVEL 2	LEVEL 3	2010
<b>FINANCIAL ASSETS AT FVTPL</b>				
Cash	\$ 1,303	\$ --	\$ --	\$ 1,303
Non-hedging financial derivatives	--	591	--	591
	\$ 1,303	\$ 591	\$ --	\$ 1,894

#### LONG-TERM DEBT

The Company's long-term debt of \$1,750 is subject to fixed interest rates. Based on current interest rates for debt with similar terms and maturities, the fair value of the long-term debt is estimated to be \$1,824.

## 5. INCOME TAXES

Significant components of the Company's deferred income taxes are as follows:

	2012	2011	2010
<b>UNITED STATES</b>			
Non-capital loss carry-forwards	\$ --	\$ 828	\$ 2,814
	\$ --	\$ 828	\$ 2,814
<b>CANADA</b>			
<b>DEFERRED TAX ASSET</b>			
SR & ED tax credits	\$ 2,816	\$ 3,458	\$ 4,460
Undeducted SR&ED tax expenditures	1,963	1,145	745
Non-capital losses	473	680	--
Unbilled contract revenue	--	417	458
Capital assets	1,273	--	--
Other	291	54	98
<b>DEFERRED TAX ASSET</b>	<b>\$ 6,816</b>	<b>5,754</b>	<b>\$ 5,761</b>
Tax impact of SR & ED tax credits	\$ (704)	\$ (964)	\$ (1,274)
Unbilled contract revenue	(133)	--	--
Capital assets	(261)	(178)	(1,589)
Other	(29)	--	--
<b>DEFERRED TAX LIABILITY</b>	<b>\$ (1,127)</b>	<b>\$ (1,142)</b>	<b>\$ (2,863)</b>
<b>NET DEFERRED TAX ASSET</b>	<b>\$ 5,689</b>	<b>\$ 4,612</b>	<b>\$ 2,898</b>

Presented on the balance sheet as follows, based on net tax position of individual legal entities:

Deferred tax asset – United States	\$ --	\$ 828	\$ 2,814
Deferred tax asset - Canada	5,779	5,220	3,124
<b>DEFERRED TAX ASSET</b>	<b>\$ 5,779</b>	<b>\$ 6,048</b>	<b>\$ 5,938</b>
<b>DEFERRED TAX LIABILITY</b>	<b>\$ 90</b>	<b>\$ 608</b>	<b>\$ 226</b>

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the years in which these temporary differences and loss carry forwards are deductible. Management considers the scheduled reversal of future tax liabilities, the character of future income tax assets and available tax planning strategies in making this assessment.

The provision for income taxes reflects an effective tax rate which differs from the combined Federal and Provincial rate for the following reasons:

	2012	2011
Combined Federal and Provincial rate	27.1%	29.4%
Manufacturing and processing deduction	(1.5%)	(1.9%)
Decrease in net realizable value	(33.1%)	(26.9%)
Decrease in substantively enacted tax rates on deferred income taxes	--	(2.9%)
Permanent and other differences	(12.9%)	0.4%
<b>Effective rate</b>	<b>(20.4%)</b>	<b>(1.9%)</b>

The details of taxable losses by jurisdiction are as follows:

	2012	2011	2010
Canada, which expire in 2032	3,391	4,795	--
United States, which expire between 2022 and 2032	10,180	10,027	10,971

## 6. NON-HEDGING FINANCIAL DERIVATIVES

The Company utilizes financial instruments to manage the risk associated with fluctuations in foreign exchange. As at July 31, 2012, the Company had entered into foreign exchange contracts to sell an aggregate amount of \$13,500 (USD). These contracts mitigate the Company's expected exposure to U.S. dollar denominated net assets and mature at the latest at February 14, 2013, at an average exchange rate of 1.0119 Canadian. The mark-to-market value on these financial instruments as at July 31, 2012 was an unrealized gain of \$89, which has been recorded in net income (loss) for the year.

<i>As at July 31, 2012</i>	MATURITY	NOTIONAL VALUE	AVERAGE RATE	NOTIONAL USD EQUIVALENT	CARRYING & FAIR VALUE ASSET (LIABILITY)
<b>SELL USD / BUY CAD</b>	<b>0 – 6 MONTHS</b>	<b>\$ 11,536</b>	<b>\$ 1.0080</b>	<b>\$ 11,500</b>	<b>\$ 36</b>
<b>SELL USD / BUY CAD</b>	<b>7 – 12 MONTHS</b>	<b>2,053</b>	<b>1.0340</b>	<b>2,000</b>	<b>53</b>
		<b>\$ 13,589</b>	<b>\$ 1.0119</b>	<b>\$ 13,500</b>	<b>\$ 89</b>

  

<i>As at July 31, 2011</i>	MATURITY	NOTIONAL VALUE	AVERAGE RATE	NOTIONAL USD EQUIVALENT	CARRYING & FAIR VALUE ASSET
Sell USD / Buy CAD	0 – 6 MONTHS	\$ 12,812	\$ 1.0228	\$ 12,000	\$ 812
Sell USD / Buy CAD	7 – 12 MONTHS	4,360	1.0515	4,000	360
		<b>\$ 17,172</b>	<b>\$ 1.0300</b>	<b>\$ 16,000</b>	<b>\$ 1,172</b>

  

<i>As at August 1, 2010</i>	MATURITY	NOTIONAL VALUE	AVERAGE RATE	NOTIONAL USD EQUIVALENT	CARRYING & FAIR VALUE ASSET
Sell USD / Buy CAD	0 – 6 MONTHS	\$ 11,217	\$ 1.0659	\$ 10,800	\$ 417
Sell USD / Buy CAD	7 – 12 MONTHS	14,175	1.0468	14,000	175
		<b>\$ 25,391</b>	<b>\$ 1.0547</b>	<b>\$ 24,800</b>	<b>\$ 591</b>

## 7. WORK-IN-PROGRESS

Work-in-progress is comprised of:	2012	2011	2010
Work-in-progress incurred plus recognized profits less provision for future losses	\$ 29,352	\$ 31,282	\$ 33,420
Less: progress billings	(17,424)	(19,196)	(13,594)
	\$ 11,928	\$ 12,086	\$ 19,826

Recognized and included in the financial statements as:	2012	2011	2010
Work-in-progress	\$ 12,277	\$ 12,537	\$ 20,009
Unearned revenue on work-in-progress	(349)	(451)	(183)
	\$ 11,928	\$ 12,086	\$ 19,826

## 8. CAPITAL ASSETS

Capital assets are comprised of:

	LAND	BUILDINGS	MACHINERY & EQUIPMENT	LEASEHOLD IMPROVEMENTS	EQUIPMENT UNDER CAPITAL LEASE	EQUIPMENT UNDER CONSTRUCTION	TOTAL
<b>COST OR DEEMED COST</b>							
Balance at August 1, 2010	\$ 1,373	\$ 15,339	\$ 64,688	\$ 31	\$ 3,290	\$ 400	\$ 85,121
Additions	--	--	455	414	--	26	895
Disposals	(284)	--	(13,438)	--	--	--	(13,722)
<b>BALANCE AT JULY 31, 2011</b>	<b>\$ 1,089</b>	<b>\$ 15,339</b>	<b>\$ 51,705</b>	<b>\$ 445</b>	<b>\$ 3,290</b>	<b>\$ 426</b>	<b>\$ 72,294</b>
<b>ADDITIONS</b>	<b>14</b>	<b>13</b>	<b>537</b>	<b>22</b>	<b>5</b>	<b>1,674</b>	<b>2,265</b>
<b>TRANSFERS</b>	<b>--</b>	<b>--</b>	<b>3,295</b>	<b>--</b>	<b>(3,295)</b>	<b>--</b>	<b>--</b>
<b>DISPOSALS</b>	<b>(205)</b>	<b>(2,018)</b>	<b>(20,636)</b>	<b>--</b>	<b>--</b>	<b>(599)</b>	<b>(23,458)</b>
<b>BALANCE AT JULY 31, 2012</b>	<b>\$ 898</b>	<b>\$ 13,334</b>	<b>\$ 34,901</b>	<b>\$ 467</b>	<b>\$ --</b>	<b>\$ 1,501</b>	<b>\$ 51,101</b>

	LAND	BUILDINGS	MACHINERY & EQUIPMENT	LEASEHOLD IMPROVEMENTS	EQUIPMENT UNDER CAPITAL LEASE	EQUIPMENT UNDER CONSTRUCTION	TOTAL
<b>AMORTIZATION AND IMPAIRMENT LOSSES</b>							
Balance at August 1, 2010	\$ --	\$ 4,984	\$ 49,003	\$ 1	\$ 628	\$ --	\$ 54,616
Amortization for the year	--	434	2,247	4	70	--	2,755
Impairment loss	--	178	3,217	--	--	400	3,795
Disposals	--	--	(13,181)	--	--	--	(13,181)
<b>BALANCE AT JULY 31, 2011</b>	<b>\$ --</b>	<b>\$ 5,596</b>	<b>\$ 41,286</b>	<b>\$ 5</b>	<b>\$ 698</b>	<b>\$ 400</b>	<b>\$ 47,985</b>
<b>AMORTIZATION FOR THE YEAR</b>	<b>--</b>	<b>536</b>	<b>1,435</b>	<b>21</b>	<b>18</b>	<b>--</b>	<b>2,010</b>
<b>TRANSFERS</b>	<b>--</b>	<b>--</b>	<b>716</b>	<b>--</b>	<b>(716)</b>	<b>--</b>	<b>--</b>
<b>DISPOSALS</b>	<b>(--)</b>	<b>(816)</b>	<b>(19,483)</b>	<b>--</b>	<b>--</b>	<b>(400)</b>	<b>(20,699)</b>
<b>BALANCE AT JULY 31, 2012</b>	<b>\$ --</b>	<b>\$ 5,316</b>	<b>\$ 23,954</b>	<b>\$ 26</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ 29,296</b>



	LAND	BUILDINGS	MACHINERY & EQUIPMENT	LEASEHOLD IMPROVEMENTS	EQUIPMENT UNDER CAPITAL LEASE	EQUIPMENT UNDER CONSTRUCTION	TOTAL
<b>CARRYING VALUE</b>							
Balance at August 1, 2010	\$ 1,373	\$ 10,355	\$ 15,687	\$ 30	\$ 2,660	\$ 400	\$ 30,505
Balance at July 31, 2011	\$ 1,089	\$ 9,743	\$ 10,419	\$ 440	\$ 2,592	\$ 26	\$ 24,309
<b>BALANCE AT JULY 31, 2012</b>	<b>\$ 898</b>	<b>\$ 8,018</b>	<b>\$ 10,947</b>	<b>\$ 441</b>	<b>\$ --</b>	<b>\$ 1,501</b>	<b>\$ 21,805</b>

## 9. ASSETS HELD FOR SALE

During the year, the Company sold capital assets for net proceeds of \$2,939 that were listed as assets held for sale at the end of the previous year. \$1,013 of the net proceeds was used to reduce the Company's mortgage and \$1,926 of the proceeds was used to reduce the Company's bank indebtedness.

Subsequent to year-end, the Company sold land and building for net proceeds of \$2,811. All of the proceeds were used to reduce the Company's mortgage payable. At July 31, 2012, the assets subsequently sold were included in assets held for sale within current assets and were held at the lower of carrying value and fair value less costs to sell.

## 10. BANK INDEBTEDNESS

The bank indebtedness is payable over various maturities, not exceeding 90 days, with interest at various amounts ranging from LIBOR plus 400 basis points to bank prime plus 300 basis points, as follows:

	2012	2011	2010
Canadian dollar bankers' acceptances – bearing interest at 5.27%, due in less than 30 days	\$ 3,300	\$ --	\$ 2,000
Canadian dollar bankers' acceptances – bearing interest at 5.25%, due in less than 90 days	--	2,300	5,300
U.S. dollar LIBORs – bearing interest at 4.32% (2011 - 4.35%), due in less than 30 days	9,000	4,000	6,992
U.S. dollar LIBORs – bearing interest at 4.37%, due in less than 60 days	--	4,600	--
	<b>\$ 12,300</b>	<b>\$ 10,900</b>	<b>\$ 14,292</b>

The bank indebtedness is secured by a general assignment of book debts and work-in-process together with a second collateral mortgage of \$85,000 on all land and buildings. At July 31, 2012, the Company had available operating lines of credit totalling \$20,000.

## 11. LONG-TERM DEBT

The long-term debt is comprised of:

	2012	2011	2010
Mortgage payable – 580 basis points above the 90 day Bankers' Acceptance rate, repayable \$125 monthly including interest, due in full July 2013, secured by land and buildings and a second position on a general assignment of book debts and work-in-progress	\$ 8,316	\$ 10,397	\$ --
Mortgage payable – 6.26%, repayable \$111 monthly including interest, due in full July 2011, secured by land and buildings and a second position on a general assignment of book debts and work-in-progress	--	--	10,030
Mortgage payable – 6.52%, repayable \$15 monthly including interest, due in full July 2011, secured by land and buildings and a second position on a general assignment of book debts and work-in-progress	--	--	1,409
Loan payable – 7.25% repayable \$63 monthly plus interest, due in full July 2013, secured by equipment and a third position on a general assignment of book debts and work-in-progress	750	1,563	2,312
Loan payable – 6.50% repayable \$20 monthly including interest due in full August 2017 secured by equipment	1,000	--	--
Loan payable – 5.90% repayable \$14 monthly including interest due in full April 2012 secured by equipment	--	124	282
Obligations under capital leases payable \$30 monthly including interest, bearing interest at 6.05% expiring in March 2012	--	254	570
	<b>10,066</b>	<b>12,338</b>	<b>14,603</b>
Deduct - principal portion included in current liabilities	<b>9,241</b>	<b>1,891</b>	<b>12,678</b>
Long-term portion	<b>\$ 825</b>	<b>\$ 10,447</b>	<b>\$ 1,925</b>

Obligations under capital leases were secured by the specific leased assets, certain of the obligations maintain a second position on a general assignment of book debts and work-in-progress.

Total bank credit facilities and minimum lease payments are as follows:

YEAR	BANK CREDIT FACILITIES	CAPITAL LEASES	TOTAL
2013	\$ 9,241	\$ --	\$ 9,241
2014	187	--	187
2015	199	--	199
2016	213	--	213
2017	226	--	226
	<b>10,066</b>	<b>--</b>	<b>10,066</b>
Amount representing interest	--	--	--
Balance of obligation	<b>\$ 10,066</b>	<b>\$ --</b>	<b>\$ 10,066</b>

## 12. SHARE CAPITAL

Share capital is comprised of:

	AUTHORIZED	ISSUED SHARES	AMOUNT
Class A preference shares	Unlimited	Nil	--
Class B preference shares	Unlimited	Nil	--
Common shares – no par value	Unlimited	6,420,920	\$ 18,772
		SHARES	AMOUNT
Outstanding, August 1, 2010		6,420,920	\$ 18,772
Transactions during the year		--	--
Outstanding, July 31, 2011		6,420,920	18,772
Transactions during the year		--	--
Outstanding, July 31, 2012		6,420,920	\$ 18,772

The following table presents the maximum number of shares that would be outstanding if all the dilutive “in the money” instruments outstanding, as at July 31, 2012 were exercised:

Common shares outstanding at July 31, 2012	6,420,920
Stock options (Note 15)	27,000
	6,447,920

## 13. CONTRIBUTED SURPLUS

Contributed surplus is comprised of:

	2012	2011	2010
Balance, beginning of year	\$ 1,755	\$ 1,750	\$ 1,742
Amounts charged to contributed surplus in respect of the stock based compensation	3	5	8
Balance, end of year	\$ 1,758	\$ 1,755	\$ 1,750

## 14. EARNINGS PER SHARE

The calculation of basic earnings per share at July 31, 2012 was based on the net income attributable to common shareholders of \$1,267 and a weighted average number of common shares outstanding of 6,420,920 calculated as follows:

	2012	2011
<b>BASIC EARNINGS (LOSS) PER SHARE:</b>		
Net income (loss)	\$ 1,267	\$ (9,666)
Average number of common shares outstanding during the year	6,420,920	6,420,920
Basic earnings (loss) per share	\$ 0.20	\$ (1.51)

	2012	2011
<b>DILUTED EARNINGS (LOSS) PER SHARE:</b>		
Net earnings (loss) available to common shareholders	\$ 1,267	\$ (9,666)
Average number of common shares outstanding during the year	6,420,920	6,420,920
'In the money' stock options outstanding during the year	27,000	--
	6,447,920	6,420,920
Diluted earnings (loss) per share	\$ 0.20	\$ (1.51)

Diluted earnings (loss) per share excludes 21,000 common shares issuable under the Company's Stock Option Plan because these options were not 'in-the-money' and the effect would be anti-dilutive.

## 15. STOCK BASED COMPENSATION

The Company has established a stock option plan for directors, officers, and key employees. The terms of the plan state that the aggregate number of shares, which may be issued and sold, will not exceed 10% of the issued and outstanding common shares of the Company on a non-diluted basis. The issue price of the shares shall be determined at the time of grant based on the closing market price of the shares on the specified date of issue. Options shall be granted for a period of five years with a vesting progression of 30% in the year of grant, 30% in the second year, and 40% in the third year. Options given to outside directors vest immediately and can be exercised immediately.

As at July 31, 2012, the following options and warrants were outstanding:

NUMBER OF OPTIONS	EXERCISE PRICE	EXPIRY
19,000	\$ 1.50	2014
27,000	\$ 1.16	2014

The weighted average of the options is as follows:

	2012		2011	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at the beginning of the year	74,000	\$ 1.38	117,000	\$ 1.85
Expired during the year	(3,000)	3.27	(25,000)	2.66
Cancelled during the year	(25,000)	1.30	(18,000)	2.59
Outstanding at the end of the year	46,000	\$ 1.30	74,000	\$ 1.38
Exercisable at the end of the year	46,000	\$ 1.30	74,000	\$ 1.38

The description of the method and significant assumptions used during the year to estimate the fair values of options, including the weighted average information, is as follows:

	2012	2011
Expected life	5 years	5 years
Expected dividends	\$ Nil	\$ Nil
Expected volatility – based on a 60 month historical average	57.34%	46.16 %
Risk free rate of return	0.97%	2.56 %
Total compensation cost recognized in income for stock-based employee compensation awards	\$ 3	\$ 5

## 16. OPERATING LEASES – LEASES AS LESSEE

Non-cancellable operating lease rentals are payable as follows:

	2012	2011
Less than one year	\$ 30	\$ 30
Between one and five years	5	36
More than five years	--	--
	\$ 35	\$ 66

The Company leases a sales office under an operating lease until September 30, 2013. During the year ended July 31, 2012, \$30 was expensed with respect to operating leases.

## 17. BUSINESS TRANSFORMATION PROJECT

On April 28, 2011, the Company announced a business transformation project that enhanced its competitive position in North America and built a solid foundation for future profitability. The project placed greater emphasis on its custom machining operations, reduced fixed costs and eliminated capacity in its plastic mold building operations.

The project resulted in the closure of 7 manufacturing plants at two industrial sites, elimination of a portion of the Company's machining capacity related to plastic injection molds and an employee head count rationalization. The Company completed all of the steps associated with implementing the business transformation project by July 31, 2011 and anticipates completing all non-strategic business asset divestitures associated with the plan by the end of its 2013 fiscal year.

In 2011, when the project was announced, the Company recorded a severance charge of \$2,215, based on estimated payouts to employees caused by headcount reductions, and later reduced that estimate by \$425. In 2012, an additional severance charge of \$50 was recorded, and the estimate was further reduced by \$270. Decreases in estimates were the result of payments to fewer employees than originally anticipated. In addition to the severance costs, during the year, the Company incurred \$468 (2011 - \$569) in costs associated with the business transformation project, including real estate carrying costs and moving costs, and the resulting amount recorded as business transformation expenses was \$248 (2011 - \$2,359).

The following is a summary of the amounts accrued and paid related to severance costs:

	2012	2011
Opening balance	\$ 1,778	\$ --
Severance costs charged to expenses in current year	50	2,215
Reduction in management estimate	(270)	(425)
Cash payments	(1,508)	(12)
	\$ 50	\$ 1,778

## 18. PROVISIONS

The following is a summary of the amounts accrued as provisions:

	2012	2011	2010
Severance payable	\$ 50	\$ 1,778	\$ --
Other short-term provisions	200	--	--
	\$ 250	\$ 1,778	\$ --

## 19. RELATED PARTY TRANSACTIONS

### *Transactions with key management personnel*

In addition to their salaries, the Company also provides non-cash benefits to its executive officers and contributes to a post-employment defined contribution benefit plan on their behalf. In accordance with the terms of the plan, executive officers living in Canada are entitled to receive a \$1 contribution to the pension plan annually, once they have completed 5 years of service to the Company. Executive officers living in the United States are entitled to receive a contribution equal to 3% of annual salary to a defined contribution pension plan once they have completed 1 year of service. During the year, the Company expensed contributions of less than \$3 to the defined contribution plan in Canada and less than \$2 to the defined contribution plan in the United States. The previous contribution plans are identical to the contribution plans provided to all employees of the Company, dependent only on where the employee lives.

Executive officers are also eligible, as are all employees, to participate in the Company's share option programme.

Key management personnel compensation comprised:

	2012	2011
Salaries and cash bonuses	\$ 685	\$ 861
Short-term employment benefits	29	39
Post-employment benefits	5	10
Termination benefits	119	--
	\$ 838	\$ 910

### Key management personnel and director transactions

Directors of the Company control 3.6% of the voting shares of the Company. A relative of a director owns, directly or indirectly 51.8% of the voting shares of the Company.

In the prior year, two directors held positions in other entities that resulted in them having significant influence over the financial or operating policies of these related entities, however only one director holds a position in another entity that results in them having control or significant influence over the financial or operating policies of this related entity in the current year. Both of these entities transacted with the Company in the reporting years. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis. The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

DIRECTOR	TRANSACTION	NOTE	TRANSACTION VALUE YEAR ENDED		BALANCE OUTSTANDING AS AT	
			2012	2011	2012	2011
Jeff Slopen	Legal fees	i	\$ --	\$ 14	\$ --	\$ 22
Diane Reko	Promotion	ii	\$ 26	\$ 28	\$ --	\$ --

- i) The Company uses the legal services of Miller Canfield Paddock Stone LLP in relation to legal advice associated with the renewal and documentation of its revolving line-of-credit, mortgage and term loans. Mr. Slopen, a director of the Company in fiscal 2011, is a partner in Miller Canfield Paddock Stone LLP, which has been a service provider to the Company since 1976. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.
- ii) The Company engaged the photography and design services of St. John Photography in relation to the preparation of its annual report and for various ancillary photography and video documentation services in 2011. Ms. Reko is a director of St. John Photography and St. John Photography has been a service provider to the Company since 1980. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

## 20. SUPPLEMENTAL CASH FLOW INFORMATION

Net change in non-cash working capital (exclusive of assets held for sale) is comprised of:

	2012	2011
Accounts receivable	\$ (923)	\$ (29)
Other receivables	(168)	(159)
Non-hedging financial derivatives	1,083	(581)
Income taxes receivable	4	--
Work-in-progress	260	7,472
Prepaid expenses and deposits	49	190
Accounts payable and accrued liabilities	(1,704)	197
Provision payable	(1,528)	1,778
Unearned revenue on work-in-progress	(102)	268
	\$ (3,029)	\$ 9,136

### *Interest paid*

Interest paid during the year was \$1,453 (2011 - \$1,652).

### *Income taxes*

Income taxes paid during the year was \$8 (2011 - \$Nil).

## **21. REKO GLOBAL SERVICES, LLC**

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During the prior year, the Company began reporting financial results of its 50% membership interest in RGS, using proportional consolidation. At July 31, 2012, the following balances relate to the Company's share of the entity reporting under proportional consolidation.

	2012	2011
Current assets	\$ 512	\$ 278
Current liabilities	146	218
Revenues	1,744	389
Expenses	1,438	330
Net income	306	60
Cash flow from operating activities	589	257

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## **22. CONTINGENCIES**

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The Company, in the course of its operations, is subject to environmental and other claims, lawsuits and contingencies.

Provisions are made in instances where it is probable that a net outflow of cash will occur. The Company has no reason to believe that the ultimate outcome of these matters would have significant impact on its financial position, cash flows or results of operations.

## **23. SUBSEQUENT EVENT**

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Subsequent to year-end, the Company sold two real estate properties, which at year-end were included in assets held for sale. Net proceeds were \$2,811, all of which was used to reduce the Company's mortgage payable.

## **24. TRANSITION TO IFRS**

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As stated in note 1, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies in note 1 have been applied in preparing the consolidated financial statements for the year ended July 31, 2012, the comparative information for the year ended July 31, 2011 and the preparation of an opening IFRS balance sheet at August 1, 2010 (the Company's transition date).



In preparing its opening IFRS balance sheet, comparative information and financial statements for the year ended July 31, 2012; the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous GAAP. In addition, the Company has availed itself of the exemption in IFRS 1 *Implementation of International Financial Reporting Standards* related to business combinations.

During the year, the Company changed its application of using fair value as deemed cost for certain land and buildings, and instead chose to account for those assets at deemed cost. As a consequence, the increase in deemed cost based on fair value, as previously reported in the Company's first interim financial statements under IFRS as at August 1, 2010, was reduced from \$6,376 to \$2,091, a change of \$4,295. This resulted in a corresponding decrease in the associated deferred income tax liability of \$1,084, and a net decrease in retained earnings of \$3,201.

The impact at July 31, 2011 of this change was a decrease in reported capital assets of \$3,223, a decrease in the associated deferred tax liability of \$815, and a decrease in retained earnings of \$2,408. For the year ended July 31, 2011, the impact of the change was a decrease in amortization of \$138, a decrease in asset impairment of \$886, an increase in deferred income tax expense of \$231 and a decrease in net loss and comprehensive loss of \$793.

An explanation of how the transition from previous GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

		PREVIOUS GAAP	EFFECT OF TRANSITION	IFRS	PREVIOUS GAAP	EFFECT OF TRANSITION	IFRS
		IFRS OPENING BALANCE SHEET AUGUST 1, 2010			PRIOR YEAR BALANCE SHEET JULY 31, 2011		
<b>ASSETS</b>							
<b>Current</b>							
Cash		\$ 1,303		\$ 1,303	\$ 1,589		\$ 1,589
Accounts receivable		10,657		10,657	10,686		10,686
Other receivables		367		367	526		526
Non-hedging financial derivatives		591		591	1,172		1,172
Taxes receivable		22		22	22		22
Work-in-progress	a	19,826	183	20,009	12,086	451	12,537
Prepays		536		536	346		346
Assets held for sale	b	--		--	1,289	846	2,135
		33,302	183	33,485	27,716	1,297	29,013
Capital assets	b	32,825	(2,320)	30,505	24,965	(2,791)	22,174
Deferred income taxes	b, c, d	2,814	3,214	5,938	1,491	4,557	6,048
SR & ED tax credits	c	4,460	(4,460)	--	3,458	(3,458)	--
		\$ 73,401	(3,473)	\$ 69,928	\$ 57,630	(395)	\$ 57,235

		PREVIOUS	EFFECT OF	IFRS	PREVIOUS	EFFECT OF	IFRS
		GAAP	TRANSITION		GAAP	TRANSITION	
		IFRS OPENING BALANCE SHEET AUGUST 1, 2010			PRIOR YEAR BALANCE SHEET JULY 31, 2011		
<b>LIABILITIES</b>							
Current							
Bank indebtedness		\$ 14,292		\$ 14,292	\$ 10,900		\$ 10,900
Accounts payable and accrued liabilities	e	6,201		6,201	8,176	(1,778)	6,398
Severance payable	e	--		--	--	1,778	1,778
Unearned revenue on work-in-progress	a	--	183	183	--	451	451
Current portion of long-term debt		12,678		12,678	1,891		1,891
		33,171	183	33,354	20,967	451	21,418
Long-term debt		1,925		1,925	10,447		10,447
Deferred income taxes	b,d	2,149	1,923	226	--	608	608
<b>SHAREHOLDERS' EQUITY</b>							
Share capital		18,772		18,772	18,772		18,772
Contributed surplus		1,750		1,750	1,755		1,755
Retained earnings	f	15,634	(1,733)	13,901	5,689	(1,454)	4,235
		36,156	(1,733)	34,423	26,216	(1,454)	24,762
		\$ 73,401	(3,473)	\$ 69,928	\$ 57,630	(395)	\$ 57,235

- a) IAS 1 Presentation of Financial Statements requires payments received from customers in excess of work completed on construction contracts be disclosed as a liability.

*Effect at August 1, 2010*

The effect of the change in financial statement presentation for Unearned revenue on work-in-progress is an increase in Work-in-progress of \$183 and an increase in Unearned revenue on work-in-progress of \$183.

*Effect at July 31, 2011*

The effect of the change in financial statement presentation for Unearned revenue on work-in-progress is an increase in Work-in-progress of \$451 and an increase in Unearned revenue on work-in-progress of \$451.

- b) Certain land and buildings were measured at fair value at the date of transition to IFRSs and the remaining Capital assets were measured based on applying IAS 16 – *Capital Assets* retrospectively. Whereas under previous GAAP, land and buildings were measured based on historical cost.

*Effect at August 1, 2010*

The effect of measuring certain land and buildings at fair value results in an increase to Capital assets of \$2,091. The effect of measuring all of the other Capital assets based on applying IAS 16 – *Capital Assets* is a

decrease in Capital assets of \$4,411, as a result of applying componentization to the Company's capital assets. The net effect on Capital assets at August 1, 2010 is a decrease of \$2,320 and a decrease in the deferred tax liability of \$587.

*Effect at July 31, 2011*

The net effect on Capital assets at July 31, 2011, is an increase of \$846 to Assets held for sale and an decrease of \$2,791 for Capital assets and an increase in the Deferred income tax asset of \$491.

- c) Under previous GAAP, SR & ED tax credits were treated as investment tax credits and required separate balance sheet disclosure. Under IFRS, SR & ED tax credits are treated as part of deferred income taxes and do not require separate balance sheet disclosure.

*Effect at August 1, 2010*

The effect of the change in financial statement presentation for SR & ED tax credits is an increase in Deferred income tax asset of \$4,460 and a decrease in SR & ED tax credits of \$4,460.

*Effect at July 31, 2011*

The effect of the change in financial statement presentation for SR & ED tax credits is an increase in Deferred income tax asset of \$3,458 and a decrease in SR & ED tax credits of \$3,458.

- d) Under previous GAAP, Deferred tax balances were classified on a net basis by jurisdiction. Under IFRS, Deferred tax balances are classified on a gross basis by legal entity.

*Effect at August 1, 2010*

The impact is an increase in Deferred tax asset and an increase in Deferred tax liability of \$1,336.

*Effect at July 31, 2011*

The impact is a decrease in Deferred tax asset and an increase in Deferred tax liability of \$608.

- e) Under previous GAAP, amounts accrued for Severance payable could be classified as part of Accounts payable & accrued liabilities. Under IFRS, Provision payable requires separate balance sheet disclosure.

*Effect at July 31, 2012*

The effect of the transition to IFRS is a decrease to Accounts payable & accrued liabilities of \$1,778 and an increase in Provision payable of \$1,778.

- f) As a result of the transition to IFRS, application of the IFRS transition rules results in a net increase or decrease to a corporation's Retained earnings.

*Effect at August 1, 2010*

As at August 1, 2010, the net impact on the Company's Retained earnings was \$1,733.

*Effect at July 31, 2011*

As at July 31, 2011, the net impact on the Company's Retained earnings was \$1,454.

## RECONCILIATION OF INCOME FOR THE YEAR ENDED JULY 31, 2011

		PREVIOUS	EFFECT OF	IFRS
		GAAP	TRANSITION	
FOR THE YEAR ENDED JULY 31, 2011				
Sales	a	\$ 41,078	(1,215)	\$ 39,863
Costs and expenses				
Cost of sales	b	35,231	(1,090)	34,141
Selling and administrative		5,869		5,869
Amortization	c	3,487	(732)	2,755
		44,587	(1,822)	42,765
Loss before the following items		(3,509)	607	(2,902)
Gain on sale of capital assets		(226)		(226)
Unrealized foreign exchange loss (gain)	a	240	(710)	(470)
Other income	a	--	(505)	(505)
Asset impairment	d	3,400	395	3,795
Business transformation expenses		2,359		2,359
Interest on long-term debt		864		864
Interest on other debt bearing obligations, net		763		763
		7,400	(820)	6,580
Loss before income taxes		(10,909)	1,427	(9,482)
Deferred income taxes (recovery) expense	b, e	(964)	1,148	184
Net loss and comprehensive loss		\$ (9,945)	279	\$ (9,666)
Retained earnings, beginning of year	f	\$ 15,634	(1,733)	\$ 13,901
Net loss		(9,945)	279	(9,666)
Retained earnings, end of year		\$ 5,689	(1,454)	\$ 4,235
Basic loss per share	g	\$ (1.55)	0.04	\$ (1.51)
Diluted loss per share	g	\$ (1.55)	0.04	\$ (1.51)

- a) IAS 1 *Presentation of Financial Statements* requires a more discrete disclosure of sales than under previous GAAP, specifically as it relates to offsetting. As a result of the transition to IFRS, Sales decreased by \$1,215 and Unrealized foreign exchange gain on operations increased by \$710 and Other income increased by \$505.
- b) Under previous GAAP, SR & ED tax credits were treated as investment tax credits and changes in the valuation allowance associated with them were recorded as part of cost of sales. Under IFRS, changes in the valuation allowance of SR & ED tax credits are treated as part of deferred income taxes. Accordingly, Cost of sales decreased by \$1,090 and Deferred income taxes recovery decreased by \$1,090.

- c) As a result of applying IAS 16 – *Capital Assets* retrospectively, Amortization decreased by \$732 during fiscal 2011.
- d) As a result of measuring certain real estate at fair value on the date of transition, Asset impairment increased by \$395 during fiscal 2011.
- e) As a result of applying IAS 16 – *Capital Assets* retrospectively, Deferred income taxes recovery decreased by \$58, during fiscal 2011.
- f) As a result of applying IAS 16 – *Capital Assets* retrospectively and the corresponding change in Deferred income taxes, opening Retained earnings at August 1, 2010 decreased by \$1,733.
- g) As a result of applying IAS 16 – *Capital Assets* retrospectively, Basic loss per share and Diluted loss per share both increased by \$0.04.

As a result of the implementation of IFRS, there were no significant changes to the statement of cash flows for the year ended July 31, 2011, from that previously presented under previous GAAP.

**SUMMARY OF INCOME (LOSS)**

	2012	2011	2010	2009	2008	2007	2006
Sales	42,091	39,863	\$40,151	\$55,277	\$55,729	\$49,377	\$67,459
Cost and expenses							
Cost of sales	32,890	34,141	36,040	41,670	46,517	38,404	50,479
Selling and administrative	5,509	5,869	5,990	7,101	7,226	7,463	7,647
Depreciation and amortization	2,010	2,755	5,058	4,615	5,511	4,165	4,183
	40,409	42,765	47,088	53,386	59,254	50,032	62,309
(Loss) income before the following	1,682	(2,902)	(6,937)	1,891	(3,525)	(655)	5,150
(Gain) loss on sale of capital assets	(742)	(226)	(24)	116	15	(54)	(146)
Income – other	(390)	--	--	--	--	--	--
Unrealized foreign exchange (gain) loss	109	(975)	119	(3)	--	--	--
Asset impairment	--	3,795	--	--	--	--	--
Business transformation expenses	248	2,359	--	--	--	--	--
Interest on long-term debt	774	864	1,026	1,000	1,102	1,056	880
Interest on other interest bearing instruments, net	631	763	449	488	506	774	797
	630	6,580	1,570	1,601	1,623	1,776	1,531
Income (Loss) before income taxes	1,052	(9,482)	(8,507)	290	(5,148)	(2,431)	3,619
Income taxes (recovered)							
Current	--	--	--	8	30	(100)	2,392
Deferred	(215)	184	(1,038)	83	(1,649)	(779)	(2,004)
	(215)	184	(1,038)	91	(1,619)	(879)	388
Income (loss) before other equity adjustments	1,267	(9,666)	(7,469)	199	(3,529)	(1,552)	3,231
Net loss from discontinued operations	--	--	--	--	--	(2,072)	(2,303)
Net income (loss) for the year	1,267	\$ (9,666)	\$ (7,469)	\$ 199	\$ (3,529)	\$ (3,624)	\$ 928
Basic income (loss) per common share	0.20	\$ (1.51)	\$ (1.16)	\$ 0.03	\$ (0.49)	\$ (0.51)	\$ 0.12

Note: 2011 to 2012 figures are based on IFRS and 2006 to 2010 are based on Canadian GAAP.

**STATISTICAL DATA COSTS AND EXPENSES AS A PERCENT OF SALES BASED ON CONTINUING OPERATIONS**

	2012	2011	2010	2009	2008	2007	2006
Costs and expenses							
Cost of sales	78.1%	85.7%	90.0%	75.4%	83.5%	76.6%	74.8%
Selling and administration	13.1%	14.7%	14.9%	12.8%	13.0%	15.1%	11.3%
Depreciation and amortization	4.8%	6.9%	12.6%	8.3%	9.8%	8.4%	6.2%
	96.0%	107.3%	117.5%	96.5%	106.3%	100.1%	92.3%
Gross margin contribution before selling and administration expenses	17.1%	7.4%	(2.3%)	16.3%	6.6%	13.8%	19.0%
Return on sales	3.0%	(24.2%)	(18.6%)	0.4%	(6.3%)	(3.1%)	4.8%
Effective tax rate	(20.0%)	1.9%	12.2%	(31.4%)	(31.4%)	(36.2%)	10.7%