Consolidated financial statements of

Totally Green, Inc.

December 31, 2014 and December 31, 2013

Totally Green, Inc.

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Independent auditor's report

To the Shareholders of
Totally Green, Inc.

We have audited the accompanying consolidated financial statements of Totally Green, Inc. (a Nevada corporation) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Totally Green, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As disclosed in Note 1 to the consolidated financial statements, the Company has sustained substantial losses and has not generated positive cash flows from operations. These conditions, along with other matters set forth in Note 1, raise substantial doubt about the Company's ability to continue as a going concern.

Grant Thornton LLP

March 31, 2015 — Chartered Accountants
Toronto, Ontario — Licensed Public Accountants

Totally Green, Inc.

Consolidated balance sheets
as at December 31, 2014 and December 31, 2013

(In US dollars)

	2014	2013
	$	$
Assets		
Current assets		
Cash and cash equivalents	**481,382**	2,688,587
Trade receivables, net	**148,255**	109,194
Recoverable sales tax	**53,541**	108,741
Inventory, net (Note 3)	**32,557**	24,207
Temporary investments - restricted (Note 4)	**62,064**	92,694
Prepaid expenses and other current assets	**58,118**	39,297
	835,917	3,062,720
Contract initiation costs	**137,883**	100,886
Property and equipment (Note 5)	**1,909,870**	1,526,561
	2,883,670	4,690,167
Liabilities		
Current liabilities		
Trade payables and other accrued liabilities	**507,920**	359,250
Other current liabilities	**69,811**	49,258
Current portion of loans payable (Note 7)	**-**	139,623
Deferred revenue	**-**	6,631
	577,731	554,762
Deferred lease inducement	**11,371**	16,078
Loans payable (Note 7)	**-**	57,621
	589,102	628,461
Commitments (Note 11)		
Stockholders' equity		
Common stock (Note 8)	**20,859**	20,888
Preferred stock (Note 8)	**119**	119
Additional paid-in capital	**17,003,035**	16,812,130
	17,024,013	16,833,137
Accumulated deficit	**(14,729,445)**	(12,771,431)
	2,294,568	4,061,706
	2,883,670	4,690,167

Totally Green, Inc.
Consolidated statements of operations
Years ended December 31, 2014 and December 31, 2013
(In US dollars)

	2014	2013
	$	$
Service fees	**961,128**	452,103
Sales of ORCAs, equipment and inventory	**420,843**	426,596
Other income	**2,817**	1,298
Gross sales	**1,384,788**	879,997
Costs of service and sales	**939,884**	582,012
Gross profit	**444,904**	297,985
Operating expenses		
General and administrative	**1,658,771**	1,898,069
Selling and marketing	**674,301**	428,904
Depreciation of property and equipment (Note 5)	**39,474**	16,599
Foreign exchange loss (gain)	**22,610**	(78,926)
Interest expense	**7,762**	35,796
Impairment of long-lived assets (Note 5)	**-**	86,954
	2,402,918	2,387,396
Net loss	**(1,958,014)**	(2,089,411)
Net loss per share of common stock, basic and diluted	**(0.09)**	(0.12)
Weighted-average number of common stock shares, basic and diluted	**20,866,833**	17,357,155

Totally Green, Inc.
Consolidated statements of stockholders' equity
Years ended December 31, 2014 and December 31, 2013
(In US dollars)

	Common stock	Preferred stock	Additional paid-in capital	Accumulated deficit	Total stockholders' equity
	$	$	$	$	$
Balance, January 1, 2013	**13,825**	**69**	**11,742,721**	**(10,682,020)**	**1,074,595**
Issuance of common stock	7,063	-	492,937	-	500,000
Issuance of preferred stock	-	50	4,499,950	-	4,500,000
Issuance of of non-cash stock compensation	-	-	76,522	-	76,522
Net loss	-	-	-	(2,089,411)	(2,089,411)
Balance, December 31, 2013	**20,888**	**119**	**16,812,130**	**(12,771,431)**	**4,061,706**
Issuance of of non-cash stock compensation	-	-	205,376	-	205,376
Repurchase of common stock	(29)	-	(14,471)	-	(14,500)
Net loss	-	-	-	(1,958,014)	(1,958,014)
Balance, December 31, 2014	**20,859**	**119**	**17,003,035**	**(14,729,445)**	**2,294,568**

Totally Green, Inc.

Consolidated statements of cash flows
Years ended December 31, 2014 and December 31, 2013
(In US dollars)

	2014	2013
	$	$
Operating activities		
Net loss	**(1,958,014)**	(2,089,411)
Changes in non-cash operating working capital (Note 12)	**182,190**	16,708
Contract initiation costs	**(75,255)**	(117,005)
Adjustments for non-cash items		
Depreciation of property and equipment (Note 5)	**307,893**	158,598
Impairment of long-lived assets (Note 5)	**-**	86,954
Issuance of non-cash stock compensation	**205,376**	76,522
Deferred lease inducement	**(4,707)**	16,078
Amortization of contract initiation costs	**38,258**	16,119
Net cash used in operating activities	**(1,304,259)**	(1,835,437)
Investing activity		
Purchase of property and equipment	**(691,202)**	(1,406,632)
Net cash used in investing activities	**(691,202)**	(1,406,632)
Financing activities		
Repurchase of common stock	**(14,500)**	-
Principal repayments of loans payable	**(197,244)**	(119,188)
Proceeds from debt issuance	**-**	316,433
Proceeds from issuance of stock	**-**	5,000,000
Net cash used in financing activities	**(211,744)**	5,197,245
Net (decrease) increase in cash and cash equivalents	**(2,207,205)**	1,955,176
Cash and cash equivalents, beginning of year	**2,688,587**	733,411
Cash and cash equivalents, end of year	**481,382**	2,688,587

1. Nature of operations and going concern

Description of business

Totally Green, Inc. ("Totally Green" or the "Company"), a Nevada corporation, was founded in 2007 and distributes the Organic Refuse Conversion Alternative ("ORCA") Green Machine which allows customers to dispose of food waste onsite, diverting waste from landfills. The Company has operations in the United States of America and Canada.

Going concern

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP"), and contemplate continuation of the Company as a going concern. However, the Company has sustained substantial losses from operations and the Company has used, rather than provided, cash in its operations. These circumstances raise substantial doubt about the Company's use of the going concern assumption.

The Company's growth has been funded primarily through capital raises and equipment financing from shareholders. The Company continues to focus on adding new customers to service contracts in a number of major North American markets, and believes this strategy will enable the generation of cash flow from operations and long term business success. To execute this strategy the Company will have to secure additional funding to help sustain operations for the near term. The Company already has in place a $15 million equipment financing loan which at December 31, 2014 no amounts were drawn against.

The consolidated financial statements do not reflect any adjustments that would be necessary if the going concern basis was not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, significant adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the classifications used on the consolidated statements of financial position.

2. Summary of significant accounting policies

Basis of presentation

The Company has prepared the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Basis of consolidation

The consolidated financial statements include the accounts of Totally Green, Inc. and its wholly-owned subsidiaries, TG Digesters Canada Inc. and ORCA Digesters Inc. All significant intercompany transactions and balances have been eliminated upon consolidation.

Use of estimates

In preparing financial statements in conformity with US GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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. Significant estimates include the inventory write-downs, allowance for doubtful accounts, deferred tax asset valuation allowance, product warranties, stock-based compensation, impairment of long-lived assets and estimated useful lives of property and equipment. Actual results could differ from those estimates.

(In US dollars)

2. Summary of significant accounting policies (continued)

Revenue recognition

The Company derives revenue primarily through service agreements for its ORCA green machine, whereby the Company enters into contracts with customers and recognizes revenue on a straight-line basis over the term of the contract, which is typically 61 months. Initial direct contract initiation costs, including salespersons commissions, are capitalized and amortized over the contract term. Rents billed in advance are initially deferred and recognized as revenue over the term of the service agreement.

Other revenues include outright sales of the ORCA green machine as well as parts and service to customers who have purchased machines outright, which the Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. Generally these criteria are met upon shipment of products and transfer of title to the customer for outright sales or sales of parts and inventory.

Cash

Cash includes interest and non-interest bearing deposits at depository institutions with original maturities of three months or less. The Company held actual cash in foreign bank accounts outside of the United States of America as of December 31, 2014 and December 31, 2013 of $341,876 and $2,216,941, respectively.

Trade receivables and credit policies

Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Trade receivables are written-off when deemed uncollectible. Recoveries of trade receivables previously written-off are recorded when received. Management has reviewed the trade receivables balances and has determined that no allowance for doubtful trade receivables is necessary as at December 31, 2014 and December 31, 2013.

Inventories

Inventories are stated at the lower of cost or market. Actual cost is used to value inventories. The cost of inventories is determined by the first-in, first-out method. The Company uses a systematic methodology that includes regular evaluation of inventory, identifying slow moving inventory and those items with a relatively high cost. Management has reviewed the related inventory balances and has determined that no write-downs of inventory is necessary as at December 31, 2014 and December 31, 2013.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Property and equipment is depreciated based on estimated useful lives using the following methods and rates:

Type of property and equipment	Depreciation term
Machinery and equipment for rent	Straight line, ranging from 5 to 8 years
Computer equipment and software	Straight line over 3 years
Furniture and fixtures	Straight line over 10 years
Leasehold improvements	Straight line over the term of the 5 year lease

Useful lives, components, the depreciation method and indications of impairment are reviewed at each balance sheet date. Such a review takes into consideration the nature of the assets and the expected evolution of the technology.

Upon sale or disposal, the related cost and accumulated depreciation are removed from the accounts and any gain or loss on disposal is reflected in earnings in the year of sale or disposal. Repairs and maintenance are expensed as incurred, whereas major improvements are capitalized.

2. Summary of significant accounting policies (continued)

Long-lived assets

The Company values long-lived assets at the lower of cost or, if impaired, fair value of the asset. Management evaluates the recoverability of long-lived assets periodically as events or circumstances indicate a possible inability to recover the carrying amounts. If such events or changes in circumstances occur, the Company will recognize an impairment loss if the undiscounted futures cash flows expected to be generated by the assets (or acquired business) are less than the carrying value of the related assets. The impairment loss would adjust the assets to their fair value. During the year ended December 31, 2013, $86,954 of impairment loss was recognized.

Product warranties

The ORCA machines sold to customers outright include a one-year limited warranty on the entire machine, and a three-year limited warranty on its frame. The Company currently determines its estimated liability for warranty claims based on past experience and industry averages. Estimated costs for product warranties are recognized at the time revenue is recognized. As at December 31, 2014 and December 31, 2013, the Company has estimated $30,000 and $24,700, respectively, in accrued product warranty claims, which are included in other current liabilities on the accompanying balance sheets.

Advertising and promotion costs

Advertising and sales promotion costs are expensed as incurred. During the years ended December 31, 2014 and December 31, 2013, advertising, promotion and related marketing expenses were $94,255 and $43,351, respectively, and are included in selling and marketing expenses in the statements of operations.

Rent expense

The Company recognizes rental expense based on a straight-line basis over the minimum contractual lease term. Lease incentives, if any, including free rent are also recognized on a straight line basis.

Foreign currency

The functional currency of the Company and its subsidiaries is the U.S. dollar. Monetary assets and liabilities denominated in foreign currencies have been translated using the exchange rates in effect at the balance sheet date. Revenues, costs and expenses denominated in foreign currencies have been translated using the exchange rate in effect at the date of the transactions. All transaction gains and losses are recorded in the statements of operations.

Stock-based compensation

The Company recognizes expense related to the fair value of equity-based compensation awards in the statements of operations.

The Company estimates the fair value of stock option awards on the date of grant using the Black-Scholes option-pricing model. A number of assumptions are used in the Black-Scholes option-pricing model to compute the grant date fair value, including expected price volatility, option term, risk-free interest rate, and dividend yield. These assumptions are established at each grant date based upon current information at that time. Expected volatilities are based on historical volatilities of the Company's stock. Given the limited history of the Company with respect to stock-based compensation, the Company has estimated the expected term of the option over 4 years. The dividend yield is based on historical dividend payments. The risk-free rate for periods within the contractual life of the option is based on the United States Treasury yield in effect at the time of grant for zero coupon United States Treasury notes with maturities approximating each grant's expected life. The fair value of awards that are ultimately expected to vest is recognized as expense over the requisite service periods in the statements of operations.

2. Summary of significant accounting policies (continued)

Income taxes

Deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of enacted tax laws. Deferred income tax provisions and benefits are based on changes to the assets or liabilities from year to year. In providing for deferred taxes, the Company considers tax regulations of the jurisdictions in which it operates, estimates of future taxable income and available tax planning strategies. If tax regulations, operating results or the ability to implement tax planning and strategies vary, adjustments to the carrying value of deferred tax assets and liabilities may be required. Valuation allowances are recorded related to deferred tax assets based on the “more likely than not” criteria.

Income taxes (continued)

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. There were no liabilities recorded for uncertain tax positions as of December 31, 2014 and December 31, 2013.

Shipping and handling

The Company includes shipping and handling charges in its gross invoice price to customers and classifies the total amount as revenue.

Loss per share

Basic net loss per share amounts are computed by dividing the net loss (less preferred stock dividends) by the weighted average number of common shares outstanding during the year. The Company did not have any stock options or warrants outstanding at December 31, 2014 or December 31, 2013 that would be dilutive.

Contingencies

Certain conditions may exist which may result in a loss to the Company, but which will only be resolved when one or more future events occurs or fail to occur. The Company’s management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company, or unasserted claims that may result in such proceeding, the Company’s legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, the estimated liability would be accrued in the Company’s consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probably but is reasonably possible, or is probable but cannot be estimated, the nature of the contingent liability, together with the estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they arise from guarantees, in which case the guarantees would be disclosed.

2. Summary of significant accounting policies (continued)

Fair value of financial instruments

Accounting standards establish a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value, as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

As of December 31, 2014, the Company's financial assets and financial liabilities consist of cash and cash equivalents, temporary investments – restricted, trade receivables and trade payables and other accrued liabilities.

The carrying values of these financial assets and liabilities approximate fair value due to the short-term nature of these instruments.

Concentrations of credit risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist principally of cash and cash equivalents, temporary investments – restricted, and trade receivables.

The Company places its cash and temporary cash investments with financial institutions that management considers to be of high quality. Such deposits may periodically exceed the Federal Deposit Insurance Corporation insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and investments.

The Company's customers are concentrated primarily in the United States of America and Canada. The Company generally extends credit without requiring collateral; however, it closely monitors extensions of credit and maintains allowances for potential credit losses. Credit losses incurred to date have been consistent with the Company's estimates.

Recent accounting pronouncements

There have been no recent account pronouncements which will have an impact on the Company's consolidated financial statements.

3. Inventory

The inventory on hand as at December 31, 2014 and December 31, 2013 are comprised entirely of finished goods. There is no write-down for obsolescence resulting from the inventory on hand as at December 31, 2014 and December 31, 2013.

4. Temporary investments - restricted

Restricted investments consist of certificates of deposit with a twelve month maturity bearing interest at an annual rate of 1.3% which is required to secure credit cards for the Company. These funds are considered to be restricted. The cost approximates fair value.

(In US dollars)

5. Property and equipment

Property and equipment consists of the following components at December 31:

	2014	2013
	$	$
Machinery and equipment for rent	**2,199,953**	1,560,991
Furniture and fixtures	**45,088**	40,183
Computer equipment and software	**96,196**	58,355
Leasehold improvements	**26,659**	17,165
	2,367,896	1,676,694
Accumulated depreciation	**(458,026)**	(150,133)
	1,909,870	1,526,561

Depreciation expense was $307,893 and $158,598 for the years ended December 31, 2014 and December 31, 2013 respectively, and was charged under the following classifications:

	2014	2013
	$	$
Costs of service and sales	**268,419**	141,999
Operating expenses	**39,474**	16,599
	307,893	158,598

Impairment losses of $Nil (2013 - $86,954) were recognized during the year.

In the prior year, the Company removed a number of machines from service previously included in machinery and equipment for rent and have permanently retired the machines from operations due to mechanical and other defects. As a result, the Company recorded an impairment loss of $86,954 to fully write-off the machines during the year ended December 31, 2013. The machines which were removed from service had an original cost of $107,431 and the Company had recorded accumulated depreciation of $20,477 relating to the machines prior to the recognition of the impairment at December 31, 2013.

6. Related parties transactions

The loans payable as of December 31, 2013 were payable to a stockholder of the Company as described in Note 7. These loans were settled on April 30, 2014 with no penalty to the Company.

7. Loans payable

The Company has available $15 million of equipment financing from a stockholder, which is secured by a general security agreement. The balance outstanding at the year ended December 31, 2014 and

December 31, 2013, is as follows:

	2014	**2013**
	$	**$**
Tranche 1		
Monthly repayment of $12,501 at an annual interest rate of 13.5%, maturing April 1, 2015	-	**161,403**
Tranche 2		
Monthly repayment of $2,617 at an annual interest rate of 13.5%, maturing May 1, 2015	-	**35,841**
	-	**197,244**
Less: current portion		**139,623**
	-	**57,621**

(In US dollars)

8. Stockholders' equity

Authorized

750,000,000 voting common stock shares, one vote per share, $0.001 par value

100,000 Series C preferred stock shares, redeemable at the option of the Company at $100 per share, not subject or entitled to any dividend payments, $0.001 par value

Any shareholder vote or consent required in the Articles of Incorporation of the Company or by law, requires the affirmative vote of at least a majority of the shares of Series C preferred stockholders.

12,000 non-voting Series E preferred stock shares, redeemable at the option of the Company at $100 per share, dividends payable on a pro rata basis with any dividends that may be paid to the holders of the Company's common stock, $0.001 par value

7,000 non-voting Series F preferred stock shares, redeemable at the option of the Company at $100 per share, dividends payable on a pro rata basis with any dividends that may be paid to the holders of the Company's common stock, $0.001 par value.

Issued and outstanding

Common stock

	2014	2013
	$	$
20,859,583 common stock shares (December 31, 2013 - 20,888,583)	**20,859**	20,888

During the year ended December 31, 2014, the Company repurchased 29,000 common stock shares for $14,500, of which, $29 was allocated to the value of the common stock shares and $14,471 was allocated to the additional paid-in capital of the common stock.

During the year ended December 31, 2013, the Company issued 7,062,796 common stock shares and 50,000 Series C preferred stock shares through a private placement for $5,000,000 in proceeds, of which $7,063 was allocated to the value of the common stock shares, $50 allocated to the value of the Series C preferred stock shares, $492,937 allocated to additional paid-in capital of the common stock and $4,499,950 allocated to the additional paid-in capital of the Series C preferred stock.

Preferred stock

	2014	2013
	$	$
100,000 Series C preferred stock shares	**100**	100
12,000 Series E preferred stock shares	**12**	12
7,000 Series F preferred stock shares	**7**	7
	119	119

(In US dollars)

8. Stockholders' equity (continued)

Stock-based compensation

The Company has in place a Stock Option Plan (the "Plan") to grant options to employees, directors and consultants to purchase common stock of the Company. Pursuant to the Plan, the Company may issue up to 1,300,000 options at fair market value. The determination of the fair market value, the selection of the eligible persons and the number of options is at the discretion of the Administrator, who is appointed by the Board of Directors.

The stock options typically vest over four years and are exercisable over a period not to exceed the contractual term of ten years from the date the stock options are granted. Continued vesting typically terminates when the employment or consulting relationship ends.

Stock-based compensation (continued)

The following table summarizes the option activity of the Company:

		Options outstanding	
	Shares available for grant	Number of options granted	Weighted average exercise price
			$
Balance, January 1, 2013	1,300,000	300,000	11.50
Granted	(530,550)	530,550	0.98
Balance, December 31, 2013	769,450	830,550	4.78
Granted	(200,000)	200,000	0.95
Balance, December 31, 2014	569,450	1,030,550	4.03

Additional information regarding all stock options outstanding and exercisable as of December 31, 2014 is summarized below:

	Options outstanding		Options exercisable
Exercise price	Number	Weighted average remaining contractual life (in years)	Number
$0.80	65,000	8.75	16,250
$0.89	100,000	8.75	25,000
$1.00	565,550	8.56	141,388
$11.50	300,000	1.97	300,000
	1,030,550	5.82	482,638

The Company utilizes the fair value method in recognizing stock-based compensation expense. Under the fair value method, the Company estimated the fair value of each option award on the grant date using the Black-Scholes option pricing model and the weighted average assumptions noted in the following table:

	2014	2013
Volatility	**102%**	78%
Risk-free interest rate	**1.56%**	1.55%
Expected life of the options	**4 years**	4 years
Dividend yield	**-**	-

(In US dollars)

8. Stockholders' equity (continued)

Compensation expense of $205,376 and $76,522 has been recorded in the statement of operations in respect of the stock-based compensation for the years ended December 31, 2014 and December 31, 2013 respectively.

As of December 31, 2014 and December 31, 2013 respectively, the Company has $157,286 and $229,641 of total unrecognized compensation expense, net of estimated forfeitures, that will be recognized over a period of 2.53 years and 3.53 years.

9. Income taxes

The Company has non-capital losses of approximately $9,667,500 and $3,900,000 available for carry-forward to reduce future years' income for tax purposes federally in the United States of America and Canada, respectively. If unused, these non-capital losses will expire between 2027 to 2033.

The Company has had recurring operating losses and thus cannot demonstrate that the benefit of the loss carry forwards and other deferred tax assets will more likely than not be realized. As a result, a valuation allowance has been provided to reduce the net deferred tax asset to $nil.

The tax loss carry forwards generated in the tax periods prior to the August 2012 ownership change of the Company will be subject to the annual limitation imposed by the United States of America's Internal Revenue Code Section 382. As substantially all operating assets of the Company have been transferred to its Canadian subsidiary and the Company is not expected to generate any taxable income in the United States in the foreseeable future, no attempt has been made to compute the annual limitation amount.

Deferred income taxes represent the net tax effect of non-capital tax losses and temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Significant components of the Company's deferred tax assets as at December 31 were as follows:

	2014	2013
	$	$
Deferred tax assets (liabilities)		
Net operating loss carry-forwards	**5,149,663**	4,678,258
Property and equipment	**(73,182)**	3,638
Gross deferred tax assets	**5,076,481**	4,681,896
Valuation allowance	**(5,076,481)**	(4,681,896)
Net deferred tax assets	**-**	-

10. Concentrations

The ORCA machines are currently being manufactured solely by one supplier.

11. Commitments

The Company leases warehouse facilities and vehicles under non-cancellable operating lease arrangements. Future minimum lease payments under operating leases for each of the next four years and thereafter are as follows, as of December 31, 2014:

2015	59,100
2016	58,500
2017	46,300
2018	27,000
	190,900

(In US dollars)

12. Supplemental consolidated statement of cash flows information

Changes in non-cash operating assets and liabilities, as well as other supplemental cash flow disclosures, are as follows:

	2014	2013
	$	$
(Increase) decrease in assets		
Trade receivables	(39,061)	(101,125)
Recoverable sales tax	55,200	(51,333)
Inventory	(8,350)	(7,313)
Temporary investments - restricted	30,630	(67,694)
Prepaid expenses and other current assets	(18,821)	(23,131)
	19,598	(250,596)
Increase (decrease) in liabilities		
Trade payables and other accrued liabilities	148,670	252,232
Deferred revenues	(6,631)	6,631
Other current liabilities	20,553	8,441
	162,592	267,304
Change in non-cash working capital items	182,190	16,708
Supplemental disclosure		
Interest paid	7,762	35,796
Non-cash transactions		
Issuance of common stock and options to various employees and consultants as compensation for services rendered	205,376	76,522

13. Subsequent events

We have considered all subsequent events through March 31, 2015, the date the financial statements were available for issuance.

Subsequent to year end the Company borrowed $1,000,000 against its $15 million equipment financing facility (Note 7). The loan bears interest at 13.5% and will be used to finance equipment purchases.