ZTEST Electronics Inc.

Consolidated Financial Statements

June 30, 2013 and 2012

(Stated in Canadian Dollars)

MNP LLP

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ZTEST Electronics Inc.

We have audited the accompanying consolidated financial statements of ZTEST Electronics Inc. which comprise the consolidated statement of financial position as at June 30, 2013 and the consolidated statements of changes in equity, comprehensive income and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditors' 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 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 ZTEST Electronics Inc. as of June 30, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of ZTEST Electronics Inc. for the year ended June 30, 2012 were audited by MSCM LLP of Toronto, Canada, prior to its merger with MNP LLP. MSCM LLP expressed an unmodified opinion on those statements on October 23, 2012.

MNP LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS

Toronto, Ontario

October 25, 2013

Consolidated Statements of Financial Position
(Stated in Canadian Dollars)
June 30, 2013 and 2012

	2013	2012
Assets		
Current assets		
Cash and cash equivalents	$ 120,614	$ 181,815
Restricted cash *(note 6)*	250,000	-
Accounts receivable	506,799	797,803
Inventories *(note 3)*	632,459	558,156
Prepaid expenses	7,944	3,834
	1,517,816	1,541,608
Lease deposit *(note 6)*	35,000	35,000
Equipment *(note 4)*	623,373	764,245
	$ 2,176,189	$ 2,340,853
Liabilities		
Current liabilities		
Customer deposits and deferred revenue	$ 5,113	$ -
Accounts payable and accrued liabilities *(note 8)*	565,524	685,935
Dividends payable	263,337	268,201
Current portion of long-term debt *(note 5)*	406,051	290,304
Preferred shares *(note 7)*	473,855	473,855
	1,713,880	1,718,295
Long-term debt *(note 5)*	45,788	698,648
	1,759,668	2,416,943
Shareholders' Equity		
Share capital *(note 7)*	22,330,215	22,065,037
Warrants *(note 7)*	76,677	81,564
Contributed surplus *(note 7)*	569,452	485,451
Deficit	(22,559,823)	(22,708,142)
	416,521	(76,090)
	$ 2,176,189	$ 2,340,853

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

Approved by the Board:

Signed: "Wojciech Drzazga"
Director

Signed: "John Perreault"
Director

Consolidated Statement of Changes in Equity
(Stated in Canadian Dollars)
June 30, 2013

	Share Capital	Warrants	Contributed Surplus	Deficit	Total
Balance, June 30, 2011	$ 22,065,037	$ 81,564	$ 485,451	$ (23,100,920)	$ (468,868)
Net income for the year	-	-	-	392,778	392,778
Balance, June 30, 2012	22,065,037	81,564	485,451	(22,708,142)	(76,090)
Private placement, net of costs	157,810	-	-	-	157,810
Allocated to warrants	(37,859)	37,859	-	-	-
Exchange of Class A shares for common shares	(91,049)	-	91,049	-	-
Stock options exercised	126,030	-	(54,030)		72,000
Warrants exercised	110,246	(42,746)	-	-	67,500
Share based payments	-	-	42,118	-	42,118
Derecognition of dividends	-	-	4,864	-	4,864
Net income for the year	-	-	-	148,319	148,319
Balance, June 30, 2013	**$ 22,330,215**	**$ 76,677**	**$ 569,452**	**$ (22,559,823)**	**$ 416,521**

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

Consolidated Statements of Comprehensive Income
(Stated in Canadian Dollars)
For the years ended June 30, 2013 and 2012

	2013	2012
Product sales	**$ 4,601,698**	$ 4,572,417
Cost of product sales (*note 3*)	**3,041,347**	2,885,846
	1,560,351	1,686,571
Expenses		
Selling, general and administrative	**1,259,041**	1,143,802
Stock-based compensation	**42,118**	-
Interest expense - long-term debt *(note 8)*	**86,152**	120,740
Interest expense - other	**596**	624
Financing fees (*note 6*)	**8,800**	9,600
Depreciation of equipment	**3,862**	4,731
Foreign exchange loss	**18,775**	16,138
	1,419,344	1,295,635
Income before miscellaneous income, loss on disposal of equipment and income taxes	**141,007**	390,936
Miscellaneous income	**7,312**	1,942
Loss on disposal of equipment	**-**	(100)
Income before provision for income taxes	**148,319**	392,778
Provision for income taxes *(note 9)*	**-**	-
Net income and comprehensive income for the year	**$ 148,319**	**$** 392,778
Net income per share		
Basic	**$ 0.02**	$ 0.06
Fully diluted	**$ 0.02**	$ 0.04
Weighted average shares outstanding		
Basic	**8,245,701**	7,062,488
Fully diluted	**8,841,043**	9,362,488

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

ZTEST Electronics Inc.

Consolidated Statements of Cash Flows
(Stated in Canadian Dollars)
For the years ended June 30, 2013 and 2012

		2013		2012
Cash flow from operating activities				
Net income for the year	**$**	**148,319**	$	392,778
Items not involving cash				
Debt forgiveness		**(5,380)**		(1,800)
Interest accretion		**20,593**		20,182
Depreciation of equipment		**154,895**		177,932
Loss on disposal of equipment		**-**		100
Stock-based compensation		**42,118**		-
Changes in non-cash working capital items				
Accounts receivable		**291,004**		(349,639)
Inventories		**(74,303)**		(248,644)
Prepaid expenses		**(4,110)**		(104)
Customer deposits and deferred revenue		**5,113**		(56,119)
Accounts payable and accrued liabilities		**(120,411)**		209,958
		457,838		144,645
Cash flow from investing activities				
Purchase of equipment		**(14,023)**		(38,974)
Cash flow from financing activities				
Restricted cash		**(250,000)**		-
Proceeds of share issuances		**315,500**		-
Costs of share issuance		**(18,190)**		-
Repayment of long-term debt		**(552,326)**		(330,716)
		(505,016)		(330,716)
Decrease in cash		**(61,201)**		(225,045)
Cash, beginning of year		**181,815**		406,860
Cash, end of year	**$**	**120,614**	$	181,815

Supplemental Disclosure of Cash Flow Information

During the year the Company had cash flows arising from interest and income taxes paid as follows:

Interest	**$**	**67,968**	$	102,756
Income taxes	**$**	**-**	$	-

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

1. Business of the Company

ZTEST Electronics Inc. ("the Company") amalgamated under the laws of Ontario and carries on business at 523 McNicoll Avenue, Toronto, Ontario designing, developing, and assembling printed circuit boards and other electronic equipment. The Company's shares trade on the Canadian Venture Exchange under the symbol "ZTE".

2. Significant Accounting Policies

Statement of compliance
The Company has prepared these consolidated financial statements in accordance with accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Basis of presentation and going concern considerations
These consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting, except for cash flow information, and in accordance with IFRS applicable to a "going concern". The Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and its ability to generate positive cash flow from operations. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. If the going concern assumption were not appropriate for these consolidated financial statements then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

Basis of consolidation
These consolidated financial statements include the accounts of the Company as well as the following subsidiaries' assets and liabilities and the revenues and expenses, arising subsequent to the date of acquisition:

Permatech Electronics Corporation ("PEC")	- 100%	owned [1]
Northern Cross Minerals Inc.	- 66.7%	owned (inactive)

[1] The Company has granted a creditor the right to acquire a 24% interest in PEC *(note 5).*

Significant accounting judgments and estimates
The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Financial instruments
The Company's financial instruments are comprised of the following:

Financial assets:	*Classification*
Cash and cash equivalents	Fair value through profit and loss
Restricted cash	Loans and receivables
Accounts receivable	Loans and receivables

2. Significant Accounting Policies - continued

Financial instruments - continued

Financial liabilities:	*Classification*
Customer deposits	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Dividends payable	Other financial liabilities
Preferred shares	Other financial liabilities
Long-term debt	Other financial liabilities

Fair value through profit and loss:
Financial assets are designated as fair value through profit and loss if they were acquired principally for the purpose of selling in the short term. Fair value through profit and loss assets are recognized and carried at their fair value.

Loans and receivables:
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Other financial liabilities:
Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument to the net carrying amount on initial recognition. Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

Impairment of financial assets:
Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the assets have been negatively impacted.

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in income for the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through income for the period to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial instruments recorded at fair value:
Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

2. Significant Accounting Policies - continued

Financial instruments - continued

Financial instruments recorded at fair value (continued):

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

As of June 30, 2013 and 2012 cash and cash equivalents and restricted cash are measured at fair value and are classified within Level 1 of the fair value hierarchy.

Financial instruments recorded at amortized cost:

Financial instruments recorded at amortized cost on the consolidated statement of financial position are amortized using the market rates of interest prevailing at the inception of the financial instrument applied to expected future cash flows. The amortized cost is recomputed in the event that the underlying terms, and therefore the expected future cash flows, of the financial instrument are altered with any change in the amortized cost being charged to income of the period. Dividends payable and preferred shares are each carried at historical cost as the future cash flows cannot be reasonably estimated.

Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the income for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in income for the period.

The Company has assessed the assets of all its operating entities and has determined that there is no impairment of its non-financial assets.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with maturity at the date of purchase of three months or less.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the amount, net of the estimated costs to complete assemblies and sell them, which the Company expects to realize from the sale of inventory in the ordinary course of business. An assessment of net realizable value is completed at the end of each reporting period and any resulting write-downs, or recovery of previous write-downs, are reflected in income for the period. Current assessments have determined that net realizable values equal or exceed the corresponding costs and accordingly all inventories are currently carried at cost.

2. Significant Accounting Policies - continued

Equipment

Equipment is stated at cost. Depreciation is provided over the related assets' estimated useful lives using the following methods and annual rates:

Computer equipment	-	30 %	declining balance
Office equipment and furniture	-	20 %	declining balance
Manufacturing equipment	-	20 %	declining balance
Leasehold improvements	-	10 yrs	straight-line

The Company reviews the estimated useful lives, residual values and depreciation method at the end of each reporting period, accounting for the effect of any changes in estimate on a prospective basis.

Revenue recognition

Revenue is recorded when the risks and rewards of ownership pass to the purchaser which is when the product is delivered and/or the service is completed and collection is reasonably assured.

Share based payment transactions

The fair value of share options granted to employees is recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At the end of each financial reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Income taxes

Income tax on the net income for the years presented comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the asset and 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: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable income; nor differences relating to investments 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 substantively enacted at the end of each financial reporting period.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance.

Income per share

The Company presents basic and diluted income per share data for its common shares, calculated by dividing the income attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted income per share is determined by adjusting the income attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

Stock options and warrants outstanding are excluded in the computation of diluted earnings per share if their inclusion would increase the income per share, or decrease the loss per share, or if their exercise price exceeds the average market price for the period of the Company’s shares.

(Stated in Canadian Dollars)

2. Significant Accounting Policies - continued

Foreign exchange
As at the transaction date all asset, liability, revenue, and expense amounts denominated in foreign currencies are translated into Canadian dollars using the exchange rate in effect as at that date. At the end of each financial reporting period all monetary assets and liabilities are translated into Canadian dollars using the exchange rate in effect as at that date. The resulting foreign exchange gains and losses are included in income for the period.

Segment Disclosure
The Company has one operating segment involving the design, development, and assembly of printed circuit boards and other electronic equipment. All of the Company's assets are located in Canada.

Accounting standards effective for future periods
IFRS 9, *Financial Instruments: Classification and Measurement*, issued in December 2009, effective for annual periods beginning on or after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's financial statements for the year beginning July 1, 2015 and has not yet considered the potential impact of its adoption.

IFRS 10 and 13 were issued in May 2011 and are effective for annual periods beginning January 1, 2013. These will be adopted in the Company's consolidated financial statements for the year beginning July 1, 2013 and are not expected to have any impact upon the amounts or disclosures presented herein.

IFRS 10, *Consolidated Financial Statements,* replaces the consolidation guidance in IAS 27, *Consolidated and Separate Financial Statements,* and SIC-12, *Consolidation — Special Purpose Entities,* by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee.

IFRS 13, *Fair Value Measurement,* replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. It defines and provides guidance on determining fair value and requires disclosures about fair value measurements, but does not change the requirements regarding which items are measured or disclosed at fair value.

IAS 28, *Investments in Associates and Joint Ventures*, amended in 2011, effective for annual periods beginning on or after January 1, 2013 prescribes the accounting for investments in associates and establishes the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This will be adopted in the Company's consolidated financial statements for the year beginning July 1, 2013 and is not expected to have any impact upon the amounts or disclosures presented herein.

3. Inventories

The carrying value of inventories is comprised of:

	2013	2012
Raw materials and supplies	**$ 592,668**	$ 552,244
Work in process	**12,877**	5,080
Finished goods	**26,914**	832
	$ 632,459	$ 558,156

Inventory utilization during the period was as follows:

	2013	2012
Raw materials and supplies used	**$ 2,044,591**	$ 1,764,787
Labour costs	**753,901**	776,883
Depreciation	**151,033**	173,201
Repairs and maintenance	**18,848**	47,405
Stencils and tooling	**42,407**	43,156
Shipping costs	**57,612**	42,765
Other costs	**6,833**	6,694
Net change in finished goods and work in process	**(33,878)**	30,955
Cost of product sales	**$ 3,041,347**	$ 2,885,846

(Stated in Canadian Dollars)

4. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
At June 30, 2011					
Cost	$ 168,449	$ 71,277	$ 2,250,093	$ 61,003	$ 2,550,822
Accumulated depreciation	(160,286)	(64,346)	(1,430,232)	(61,003)	(1,715,867)
Carrying amount	$ 8,163	$ 6,931	$ 819,861	$ -	$ 834,955
Year ended June 30, 2012					
Opening carrying amount	$ 8,163	$ 6,931	$ 819,861	$ -	$ 834,955
Additions, at cost	1,369	-	105,953	-	107,322
Depreciation	(2,639)	(1,387)	(173,906)	-	(177,932)
Disposals, at carrying amount	(100)	-	-	-	(100)
Closing carrying amount	$ 6,793	$ 5,544	$ 751,908	$ -	$ 764,245
At June 30, 2012					
Cost	$ 168,136	$ 71,277	$ 2,356,046	$ 61,003	$ 2,656,462
Accumulated depreciation	(161,343)	(65,733)	(1,604,138)	(61,003)	(1,892,217)
Carrying amount	$ 6,793	$ 5,544	$ 751,908	$ -	$ 764,245
Year ended June 30, 2013					
Opening carrying amount	$ 6,793	$ 5,544	$ 751,908	$ -	$ 764,245
Additions, at cost	1,016	-	13,007	-	14,023
Depreciation	(2,190)	(1,109)	(151,596)	-	(154,895)
Closing carrying amount	$ 5,619	$ 4,435	$ 613,319	$ -	$ 623,373
At June 30, 2013					
Cost	$ 169,152	$ 71,277	$ 2,369,053	$ 61,003	$ 2,670,485
Accumulated depreciation	(163,533)	(66,842)	(1,755,734)	(61,003)	(2,047,112)
Carrying amount	$ 5,619	$ 4,435	$ 613,319	$ -	$ 623,373

Specific manufacturing equipment is pledged as security for debentures payable *(note 5)*. The carrying amount of the pledged equipment at each date is as follows:

June 30, 2013	$ 352,492
June 30, 2012	$ 440,614

5. Long-Term Debt

	2013	2012
Non-interest bearing debenture has matured. (1)	**$ 39,600**	$ 39,600
Term loan, bore interest at 7.75% and was secured by a general security agreement covering the assets of PEC.	**-**	118,153
Debenture, bearing interest at 10.5%, secured by specific equipment *(note 4)* on a pro-rata basis with another debenture and matures September 2013. The debenture has a face value of $99,640. Blended monthly principal and interest payment of $68,445 is required July 2013 followed by two payments of $16,171. The holder of this debenture was issued 233,334 common shares of the Company. (2)	**99,580**	480,789
Balance forward	**$ 139,180**	$ 638,542

(Stated in Canadian Dollars)

5. Long-Term Debt - continued

		2013		2012
Balance forward	**$**	**139,180**	**$**	638,542
Debenture, bearing interest at 4.5%, secured by specific equipment *(note 4)* on a pro-rata basis with another debenture, matures December 2013. The debenture has a face value of $236,067. Monthly interest payments are required until September 2013 then two blended monthly principal and interest payments of $17,056, with the balance due at maturity. [3]		**228,962**		242,024
Term loan bearing interest at the April 30 prime lending rate plus 8%, adjusted annually and currently at 11.00%, secured by a general security agreement covering the assets of PEC, matures April 2015. The loan has a face value of $85,935. Blended monthly principal and interest payments of $3,692 are required until April 2014, then $4,920 until maturity. The creditor was granted an option to acquire a 24% interest in PEC for $200,000 on or before May 1, 2015. [4]		**83,697**		108,386
Total long-term debt		**451,839**		988,952
Less: Current portion		**406,051**		290,304
	$	**45,788**	$	698,648

The minimum annual future principal repayments are as follows:

2014	$	406,051
2015		45,788
	$	451,839

(1) The debenture has matured but no means of settlement has been reached. It is classified as current.
(2) During the period the Company made pre-payments aggregating $215,500 by way of cash payments of $212,500 plus $3,000 in debt forgiveness which has been included in miscellaneous income.
(3) During the period the Company made a pre-payment of $28,000 by way of a cash payment of $25,620 plus $2,380 in debt forgiveness which has been included in miscellaneous income.
(4) Payable to a corporate shareholder that is controlled by the spouse of a Director of the Company *(note 8).*

6. Commitments

Bank operating loan

The Company has a $250,000 line of credit with its financial institution from which nothing was drawn as at June 30, 2013 or 2012. The loan bears interest at the prime lending rate plus 0.5%, is due upon demand, is subject to renewal May 2014, and is secured by a $250,000 term deposit and a general security agreement covering the assets of PEC. The term deposit bears interest at 1.25% and matured July 22, 2013 at which time the principal was reinvested at 1.25% until October 21, 2013. Until May 2013 the loan was secured by the personal guarantee of an individual who was paid a fee of $800 per month and was issued 500,000 share purchase warrants which were exercised in May 2013.

Operating leases

The Company leases its operating facility under a lease that is due to expire March 31, 2021. A lease deposit in the amount of $35,000 has been paid and will be applied at the end of the lease. Minimum monthly rental payments ranging from $7,319 to $8,979 are required over the remaining term of the lease as follows:

2014	$	88,729
2015		90,993
2016		95,972
2017		100,952
2018		103,668
Remaining		294,935
	$	775,249

(Stated in Canadian Dollars)

7. Share Capital

(a) Authorized

Unlimited Common shares

Unlimited Non-voting, non-participating Class A special shares. All previously outstanding Class A special shares were exchanged for common shares.

Unlimited Preferred shares in one or more series. The following four series have been authorized to date:
Series A redeemable, voting shares were to be repurchased May 2004. [(1)]
Series B shares may no longer be issued and none remain outstanding.
Series C redeemable, voting shares were to be repurchased May 2007. [(1)]
Series D shares may no longer be issued and none remain outstanding.

[(1)] The right to vote at the meeting of common shareholders arises because the associated dividends are more than 12 months in arrears. Settlement of the repurchase price and the associated dividends payable has yet to be negotiated.

(b) Issued:

	2013	2012
Common shares	**$ 22,330,215**	$ 21,965,037
Class A special shares [(1)]	**-**	100,000
Share capital	**$ 22,330,215**	$ 22,065,037

Common shares	Number of Shares	Amount
Balance June 30, 2012 and 2011	7,062,488	$ 21,965,037
Common shares issued in exchange for Class A shares [(1)]	91,208	8,951
Private placement [(2)]	2,200,000	119,951
Stock options exercised	720,000	126,030
Warrants exercised	500,000	110,246
Balance June 30, 2013	10,573,696	$ 22,330,215

[(1)] During the year the shareholders approved the issuance of 99,454 common shares in exchange for the 1,193,442 Class A Special Shares then outstanding. The issuance was recorded at fair value at the approval date and the difference between the carrying value of the Class A shares and the fair value of the 99,454 common shares was allocated to contributed surplus. 91,208 common shares have been issued to date, representing the entitlement of the Class A shareholders the Company was able to identify. The remaining 8,246 common shares have been reserved and will be issued only in the event the remaining Class A shareholders identify themselves to the Company.

[(2)] Reported net of costs of $18,190 associated with this offering and $37,859 allocated to the warrants issued.

Preferred Shares:

	2013	2012
Balance June 30, 2013 and 2012	$ 473,855	$ 473,855

(c) Details of warrants outstanding:

	Number of Warrants	**Amount**
Balance June 30, 2012 and 2011	1,400,000	$ 81,564
Issued during the year	1,100,000	37,859
Exercised during the year	(500,000)	(42,746)
Balance June 30, 2013	2,000,000	$ 76,677

(Stated in Canadian Dollars)

7. Share Capital - continued

(c) Details of warrants outstanding - continued:

	Number of Warrants		Exercise Price	Expiry Date
Issued Mar. 24, 2011	900,000	$	0.100	Mar. 24, 2016
Issued Feb. 4, 2013	1,100,000	$	0.100	Feb. 4, 2016

	Number of Warrants		Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning of year	1,400,000	$	0.113	Mar. 18, 2015
Issued	1,100,000	$	0.100	Feb. 4, 2016
Exercised	(500,000)	$	0.135	May 18, 2013
End of year	2,000,000	$	0.100	Feb. 26, 2016

The following weighted average assumptions were used to calculate the fair value of the warrants issued during the year:

	2013	2012
Dividend yield	**Nil**	Nil
Risk free interest rate (%)	**1.17%**	None issued
Expected stock volatility (%)	**107.56%**	None issued
Expected life (years)	**3**	None issued

(d) Details of options outstanding:

	Common Shares Under Option	Number of Options Vested		Exercise Price	Expiry Date
Granted Nov. 30, 2010	300,000 [(1)]	300,000	$	0.10	Nov. 30, 2015
Granted Sept. 14, 2012	180,000 [(1)]	180,000	$	0.10	Sept. 14, 2017
Granted March 11, 2013	200,000 [(1)]	200,000	$	0.15	Mar. 11, 2018

	Common Shares Under Option		Weighted Average Price/Option	Weighted Average Expiry Date
Beginning of year	900,000	$	0.10	Nov. 30, 2015
Issued during year	500,000	$	0.12	Nov. 24, 2017
Exercised during year	(720,000)	$	0.10	Mar. 18, 2016
End of year	680,000 [(2)]	$	0.12	Jan. 20, 2017

(1) Directors and/or Officers of the Company hold these options.
(2) 75,000 stock options were exercised subsequent to the financial reporting date.

The following weighted average assumptions were used to calculate the fair value of the stock options granted during the year:

	2013	2012
Dividend yield	**Nil**	Nil
Risk free interest rate (%)	**1.34 - 1.40**	None issued
Expected stock volatility (%)	**106.53 - 107.26**	None issued
Expected life (years)	**5**	None issued

(Stated in Canadian Dollars)

7. Share Capital - continued

(e) Share based payment transactions and contributed surplus

The Company has a stock option plan. The aggregate number of common shares reserved for issuance under this plan cannot exceed 20% of the aggregate number of common shares of the Company that are issued and outstanding. The Company has granted options for the purchase of common shares to employees, directors, officers and other service providers. The fair values of stock options granted have been determined using the Black-Scholes model and are added to contributed surplus as follows:

		2013		2012
Contributed surplus, beginning of year	**$**	**485,451**	$	485,451
Dividends of PEC derecognized [1]		**4,864**		-
Conversion of Class A shares to common shares		**91,049**		-
Compensation expense related to stock options granted		**42,118**		-
Stock options exercised		**(54,030)**		-
Contributed surplus, end of year	**$**	**569,452**	$	485,451

[1] PEC declared dividends in the year 2000 of which a portion remained unpaid. The unpaid portion has been written off due to its age.

8. Related Party Transactions

In addition to key management personnel, the following related party had transactions with the Company during the year and outstanding balances *(note 5)* at the end of the year:

1114377 Ontario Inc. ("1114377")
A company which is controlled by the spouse of a Director of the Company.

All expenses and period end balances with related parties are at exchange amounts established and agreed to by the related parties. All transactions with related parties are in the normal course of operations and have been carried out on the same terms as those accorded to unrelated parties.

Description		**2013**		2012
Employee and consultant compensation [1]	**$**	**319,913**	$	317,689
Professional fees [1]		**26,034**		13,239
Interest expense – long-term		**12,309**		14,433
Share issuance costs [1]		**6,000**		-
	$	**364,256**	$	345,361
Stock-based compensation [1]	**$**	**42,118**	$	-

[1] Transactions with key management personnel. As at June 30, 2013 there was a balance of $28,694 (2012 - $52,251) payable to key management personnel and included in accounts payable and accrued liabilities.

9. Income Taxes

Current Income Taxes

A reconciliation of combined federal and provincial corporate income taxes at the Company's effective tax rate of 26.50% (2012 – 27.36%) is as follows:

		2013		2012
Net income before income taxes	**$**	**148,319**	$	392,778
Income taxes at statutory rates	$	**39,300**	$	107,464
Difference in current and deferred tax rates		**-**		(3,551)
Expenses not deductible for income tax purposes		**16,620**		5,522
Share issue expense deferred for income tax purposes		**(4,820)**		-
Impact of tax rate changes on opening tax benefits not recognized		**-**		(177,542)
Change in tax benefits not recognized		**(51,100)**		68,107
Income tax expense (recovery)	**$**	**-**	$	-

(Stated in Canadian Dollars)

9. Income Taxes - continued

Unrecognized Deferred Tax Assets

Deferred income taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	2013	2012
Share issuance costs	$ **38,690**	$ 25,648
Intangible assets	**43,280**	46,539
Property, plant and equipment	**237,640**	444,321
Resource related expenditures	**349,050**	349,050
Scientific research and experimental development	**1,050,618**	1,050,618
Non-capital loss carry forwards	**2,280,030**	2,292,036
Net capital loss carry forwards	**15,592,989**	15,592,989

Share issue costs expire from 2014 to 2017. The non-capital loss carry forwards expire from 2027 to 2032. The net capital loss carry forwards may be carried forward indefinitely, but can only be used to reduce capital gains. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

Tax Loss Carry-Forwards

The potential income tax benefits resulting from the application of income tax losses have not been recognized in these consolidated financial statements. The following losses include 100% of the respective losses of the subsidiary companies and will expire at the end of the taxation years as follows:

Year	
2027	$ 253,040
2030	1,331,780
2031	577,960
2032	14,860
2033	102,390
	$ 2,280,030

10. Financial risk factors

The Company is exposed in varying degrees to a variety of financial instrument related risks:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company’s primary exposure to credit risk is in its accounts receivable. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. Bad debt experience has not been significant and it has been determined that no allowance is required as all amounts outstanding are considered collectible.

Concentration of credit risk

Concentration of credit risk arises when a significant portion of the financial assets subject to credit risk arise from a single or limited number of sources. During the current year, one of the Company's customers accounted for more than 20% (36%) of total revenue (2012 –21%). Amounts due from this customer accounted for 24% of the Company’s accounts receivable at June 30, 2013 (2012 - 22%). The loss of this customer or significant curtailment of purchases by such customer could have a material adverse affect on the Company's results of operations and financial condition. The Company monitors the relationship with this customer closely and ensures that every customer is subject to the same risk management criteria.

10. Financial risk factors - continued

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company has reported a working capital deficiency of $196,064 (2012 - $176,687). This includes financial liabilities (a specific long-term debt instrument plus preferred shares and dividends payable) with an aggregate carrying amount of $776,792 (2012 - $781,656) which are past due and for which the timing of future cash flows are undetermined. The Company manages its liquidity risk through the management of its capital *(note 11)* which incorporates the continuous monitoring of actual and projected cash flows to ensure that it has sufficient liquidity to meet its operating commitments without incurring unacceptable losses or risking damage to the Company's reputation.

Market risks

The Company is exposed to currency risk related to accounts receivable and accounts payable denominated in US dollars and the potential for future cash flows to fluctuate because of changes in foreign exchange rates. Currency risk is closely monitored but not actively managed. The Company has reported a foreign exchange loss of $18,775 (2012 – $16,138).

Sensitivity to market risks

At June 30, 2013 the Company had US$131,220 (2012 –US$217,295) included in accounts receivable. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $6,935 in future cash inflow.

At June 30, 2013 the Company had US$186,818 (2012 – US$151,702) included in accounts payable. A 5% decrease in the value of the Canadian dollar relative to the US dollar would result in an increase of $9,874 in future cash outflow.

The existence of both accounts receivable and accounts payable denominated in US$ does not serve as a hedge with respect to currency risk.

Based upon observations of recent market trends management believes that each of these outcomes is possible but most likely exceed the Company's immediate market risk exposures.

11. Capital disclosures

The Company's objective when managing capital is to ensure its ability to meet operating commitments as they become due and to provide return for shareholders. This is achieved by continuously monitoring actual and projected cash flows and making adjustments to capital as necessary. Except for the repayment terms associated with long-term debt instruments, there are no externally imposed capital requirements.

	2013	2012
Long-term debt [1]	**$ 123,297**	$ 266,139
Share capital	**22,330,215**	22,065,037
Warrants	**76,677**	81,564
Contributed surplus	**569,452**	485,451
Deficit	**(22,559,823)**	(22,708,142)
Net capital under management	**$ 539,818**	$ 190,049

(1) Excludes long-term debts that are both secured by specific equipment and due to unrelated parties.

(Stated in Canadian Dollars)

12. Selling, general and administrative expenses

Selling, general and administrative expenses are comprised of the following amounts:

		2013		2012
Employee and consultant compensation *(note 8)*	**$**	**832,729**	$	752,170
Occupancy costs		**258,703**		260,807
Professional fees *(note 8)*		**66,024**		43,864
Regulatory fees		**30,677**		17,817
Other		**70,908**		69,144
	$	**1,259,041**	$	1,143,802