ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Financial Statements

September 30, 2013

(Stated in Canadian Dollars)

Responsibility for Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the unaudited condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of management. These condensed interim consolidated financial statements are presented on the accrual basis of accounting and accordingly, a precise determination of many assets and liabilities is dependent upon future events. Where necessary, management has made informed judgments and estimates in accounting for these assets and liabilities and for transactions which were not complete at the end of the reporting period. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these unaudited condensed interim consolidated financial statements have been fairly presented.

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on November 26, 2013. They have not been reviewed by the Company's auditors.

ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Statements of Financial Position
(Stated in Canadian Dollars)
September 30, 2013

	Sept 30 2013	June 30 2013
Assets		
Current assets		
Cash and cash equivalents	**$ 88,363**	$ 120,614
Restricted cash *(note 6)*	**250,000**	250,000
Accounts receivable	**549,077**	506,799
Inventories *(note 3)*	**578,837**	632,459
Prepaid expenses	**8,843**	7,944
	1,475,120	1,517,816
Lease deposit *(note 6)*	**35,000**	35,000
Equipment *(note 4)*	**592,064**	623,373
	$ 2,102,184	$ 2,176,189
Liabilities		
Current liabilities		
Customer deposits and deferred revenue	**$ 24,312**	$ 5,113
Accounts payable and accrued liabilities *(note 8)*	**505,523**	565,524
Dividends payable	**263,337**	263,337
Current portion of long-term debt *(note 5)*	**314,780**	406,051
Preferred shares *(note 7)*	**473,855**	473,855
	1,581,807	1,713,880
Long-term debt *(note 5)*	**32,498**	45,788
	1,614,305	1,759,668
Shareholders' Equity		
Share capital *(note 7)*	**22,343,053**	22,330,215
Warrants *(note 7)*	**76,677**	76,677
Contributed surplus *(note 7)*	**564,114**	569,452
Deficit	**(22,495,965)**	(22,559,823)
	487,879	416,521
	$ 2,102,184	$ 2,176,189

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

Approved by the Board:

Signed: "John Perreault"

Director

Signed: "Wojciech Drzazga"

Director

ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Statement of Changes in Equity
(Stated in Canadian Dollars)
September 30, 2013

	Share Capital	Warrants	Contributed Surplus	Deficit	Total
Balance, June 30, 2012	22,065,037	81,564	485,451	(22,708,142)	(76,090)
Exchange of Class A shares for common shares	(91,049)	-	91,049	-	-
Stock-based compensation	-	-	20,578	-	20,578
Net income for the period	-	-	-	8,789	8,789
Balance, September 30, 2012	21,973,988	81,564	597,078	(22,699,353)	(46,723)
Private placement, net of costs	157,810	-	-	-	157,810
Allocated to warrants	(37,859)	37,859	-	-	-
Stock options exercised	126,030	-	(54,030)		72,000
Warrants exercised	110,246	(42,746)	-	-	67,500
Stock-based compensation	-	-	21,540	-	21,540
Derecognition of dividends	-	-	4,864	-	4,864
Net income for the period	-	-	-	139,530	139,530
Balance, June 30, 2013	22,330,215	76,677	569,452	(22,559,823)	416,521
Stock options exercised	12,838	-	(5,338)		7,500
Net income for the period	-	-	-	63,858	63,858
Balance, September 30, 2013	**$ 22,343,053**	**$ 76,677**	**$ 564,114**	**$ (22,495,965)**	**$ 487,879**

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

ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Statements of Comprehensive Income
(Stated in Canadian Dollars)
For the three month periods ended September 30

	2013	2012
Product sales	**$ 1,134,250**	$ 1,072,656
Cost of product sales *(note 3)*	**712,708**	689,527
	421,542	383,129
Expenses		
Selling, general and administrative *(note 12)*	**344,576**	315,993
Stock-based compensation (*note 7)*	**-**	20,578
Interest expense - long-term debt *(note 8)*	**9,592**	29,024
Interest expense - other	**211**	149
Loan guarantee fees	**-**	2,400
Depreciation of equipment	**756**	948
Foreign exchange loss	**3,337**	7,905
	358,472	376,997
Income before miscellaneous income, loss on disposal of equipment and income taxes	**63,070**	6,132
Miscellaneous income	**788**	2,657
Income before provision for income taxes	**63,858**	8,789
Provision for income taxes *(note 9)*	**-**	-
Net income and comprehensive income for the period	**$ 63,858**	$ 8,789

	2013	2012
Net income per share - basic	**$ 0.006**	$ 0.001
- fully diluted	**$ 0.005**	$ 0.001
Weighted average shares outstanding - basic	**10,630,761**	7,080,333
- fully diluted	**12,147,813**	7,243,760

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

Unaudited Condensed Interim Consolidated Statements of Cash Flows
(Stated in Canadian Dollars)
For the three month periods ended September 30

	2013	2012
Cash flow from operating activities		
Net income for the period	**$ 63,858**	$ 29,367
Items not involving cash		
Interest accretion	**3,871**	8,886
Depreciation of equipment	**31,309**	38,445
Changes in non-cash working capital items:		
Accounts receivable	**(42,278)**	131,769
Inventories	**53,622**	(5,979)
Prepaid expenses	**(899)**	(3,774)
Customer deposits and deferred revenue	**19,199**	55,504
Accounts payable and accrued liabilities	**(60,001)**	(88,982)
	68,681	165,236
Cash flow from investing activities		
Purchase of equipment	**-**	(1,690)
Cash flow from financing activities		
Proceeds of share issuances	**7,500**	-
Repayment of long-term debt	**(108,432)**	(93,105)
	(100,432)	(93,105)
(Decrease) increase in cash and cash equivalents	**(32,251)**	70,441
Cash and cash equivalents, beginning of period	**120,614**	181,815
Cash and cash equivalents, end of period	**$ 88,363**	$ 252,256

Supplemental Disclosure of Cash Flow Information

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

	2013	2012
Interest	**$ 6,296**	$ 20,802
Income taxes	**$ -**	$ -

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

(Stated in Canadian Dollars)

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 unaudited condensed interim financial statements in accordance with IAS 34, *Interim Financial Reporting*, employing all of the same accounting policies and methods of computation, except as noted under changes in accounting policies, as disclosed in the annual financial statements as at June 30, 2013.

The notes to these unaudited condensed interim consolidated financial statements are intended to provide a description of events and transactions that are significant to an understanding to the changes in the Company's financial position and performance since June 30, 2013. Certain disclosures that appear in the annual financial statements have not been reproduced in these unaudited condensed interim consolidated financial statements and, in this regard only, these unaudited condensed interim financial statements do not conform in all respects to the requirements of IFRS for annual consolidated financial statements. Accordingly, these unaudited condensed interim consolidated financial statements should only be read in conjunction with the annual financial statements as at June 30, 2013.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on November 27, 2013.

Basis of presentation and going concern considerations

These unaudited condensed interim consolidated financial statements have been compiled by management 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. If the going concern assumption were not appropriate for these condensed interim 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 condensed interim 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	- 100% owned
Northern Cross Minerals Inc.	- 66.7%owned (inactive)

Changes in accounting policies

Each of the following was adopted July 1, 2013 without impact upon the amounts or disclosures presented in these unaudited condensed interim consolidated financial statements.

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.

(Stated in Canadian Dollars)

2. Significant Accounting Policies - continued

Significant accounting judgments and estimates
The preparation of these unaudited condensed interim 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 expenses during the reporting period. Actual outcomes could differ from these estimates. These unaudited condensed interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the unaudited condensed interim 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.

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.

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.

3. Inventories

The carrying value of inventory is comprised of:

	Sept 30 2013	June 30 2013
Raw materials and supplies	**$ 557,622**	$ 592,668
Work in process	**18,478**	12,877
Finished goods	**2,737**	26,914
	$ 578,837	$ 632,459

(Stated in Canadian Dollars)

3. Inventories - continued

Inventory utilization during the period was as follows:

	Sept 30 2013	Sept 30 2012
Raw materials and supplies used	**$ 453,505**	$ 467,068
Labour costs	**179,846**	175,910
Depreciation	**30,553**	37,497
Other costs	**30,228**	25,707
Net change in finished goods and work in process	**18,576**	(16,655)
Cost of product sales	**$ 712,708**	$ 689,527

4. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Cost:					
Balance, June 30, 2012	$ 168,136	$ 71,277	$ 2,356,046	$ 61,003	$ 2,656,462
Additions	-	-	1,690	-	1,690
Balance, Sept 30, 2012	168,136	71,277	2,357,736	61,003	2,658,152
Additions	1,016	-	11,317	-	12,333
Balance, June 30, 2013	169,152	$ 71,277	$ 2,369,053	$ 61,003	$ 2,670,485
Additions	-	-	-	-	-
Balance, Sept 30, 2013	**$ 169,152**	**$ 71,277**	**$ 2,369,053**	**$ 61,003**	**$ 2,670,485**
Accumulated Depreciation:					
Balance, June 30, 2012	$ (161,343)	$ (65,733)	$ (1,604,138)	$ (61,003)	$ (1,892,217)
Depreciation	(530)	(277)	(37,638)	-	(38,445)
Balance, Sept 30, 2012	(161,873)	(66,010)	(1,641,776)	(61,003)	(1,930,662)
Depreciation	(1,660)	(832)	(113,958)	-	(116,450)
Balance, June 30, 2013	(163,533)	(66,842)	(1,755,734)	(61,003)	(2,047,112)
Depreciation	(422)	(221)	(30,666)	-	(31,309)
Balance, Sept 30, 2013	**$ (163,955)**	**$ (67,063)**	**$ (1,786,400)**	**$ (61,003)**	**$ (2,078,421)**
Carrying Amounts:					
June 30, 2012	$ 6,793	$ 5,544	$ 751,908	$ -	$ 764,245
September 30, 2012	$ 6,263	$ 5,267	$ 715,960	$ -	$ 727,490
June 30, 2013	$ 5,619	$ 4,435	$ 613,319	$ -	$ 623,373
September 30, 2013	**$ 5,197**	**$ 4,214**	**$ 582,653**	**$ -**	**$ 592,064**

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:

September 30, 2013	$ 334,867
June 30, 2013	$ 352,492
September 30, 2012	$ 418,584
June 30, 2012	$ 440,614

(Stated in Canadian Dollars)

5. Long-Term Debt

		Sept 30 2013		June 30 2013
Non interest bearing debenture has matured. [1]	**$**	**39,600**	**$**	39,600
Debenture, bearing interest at 10.5%, secured by specific equipment *(note 4)* on a pro-rata basis with another debenture and matured September 2013. The holder of this debenture was issued 233,333 common shares of the Company.		**-**		99,580
Debenture, bearing interest at 4.5%, secured by specific equipment *(note 4)* on a pro-rata basis with another debenture, and matures December 2013. The debenture has a face value of $236,067. Two blended monthly principal and interest payments of $17,056 are required with the balance due at maturity.		**232,468**		228,962
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 $77,142. 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. [2]		**75,210**		83,697
Total long-term debt		**347,278**		451,839
Less: Current portion		**314,780**		406,051
	$	**32,498**	$	45,788

The minimum annual future principal repayments are as follows:

2014	$	314,780
2015		32,498
	$	347,278

[1] The debenture has matured but no means of settlement has been reached. It is classified as current.
[2] Payable to a company 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 September 30, 2013 or June 30, 2013. 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 October 21, 2013 at which time the principal was reinvested at 1.25% until January 19, 2014.

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 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.

(Stated in Canadian Dollars)

6. Commitments - continued

Operating leases - continued
The minimum annual payments due under these lease agreements are approximately as follows:

2014	$ 89,182
2015	91,672
2016	97,783
2017	101,631
2018	104,347
Remaining	268,678
	$ 753,293

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

	Sept 30 2013	June 30 2013
Common shares	**$ 22,343,053**	$ 22,330,215

Common shares	**Number of Shares**	**Amount**
Balance June 30, 2012	7,062,488	$ 21,965,037
Common shares issued in exchange for Class A shares (1)	91,208	8,951
Balance September 30, 2012	7,153,696	21,973,988
Private placement	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
Stock options exercised	75,000	12,838
Balance September 30, 2013	10,648,696	**$ 22,343,053**

(1) During the period ended September 30, 2012 the shareholders approved the issuance of 99,454 common shares in exchange for the 1,193,442 Class A Special Shares then outstanding. 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.

(Stated in Canadian Dollars)

7. Share Capital - continued

(b) Issued - continued
Preferred Shares:

	Sept 30 2013	June 30 2013
Balance September 30, 2013 and June 30, 2013	**$ 473,855**	$ 473,855

(c) Details of warrants outstanding are as follows:

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

	Number of Warrants	Exercise Price	Expiry Date
Issued Mar. 24, 2011	900,000	$ 0.10	Mar. 24, 2016
Issued Feb. 4, 2013	1,100,000	$ 0.10	Feb. 4, 2016

	Number of Warrants	Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning and end of period	2,000,000	$ 0.10	Feb. 26, 2016

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

	Sept 30 2013	June 30 2013
Dividend yield	**None issued**	Nil
Risk free interest rate (%)	**None issued**	1.17
Expected stock volatility (%)	**None issued**	107.56
Expected life (years)	**None issued**	3

(d) Details of options outstanding are as follows:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted Nov. 30, 2010	275,000 [(1)]	275,000	$ 0.10	Nov. 30, 2015
Granted Sept. 14, 2012	130,000 [(1)]	130,000	$ 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 per Option	Weighted Average Expiry Date
Beginning of period	680,000	$ 0.12	Jan. 20, 2017
Exercised during period	(75,000)	0.10	Feb. 8, 2017
End of period	605,000	$ 0.12	Jan. 18, 2017

[(1)] Directors and/or Officers of the Company hold these options.

(Stated in Canadian Dollars)

7. Share Capital - continued

(d) Details of options outstanding are as follows - continued:

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

	Sept 30 2013	June 30 2013
Dividend yield	**None issued**	Nil
Risk free interest rate (%)	**None issued**	1.34 – 1.40
Expected stock volatility (%)	**None issued**	106.53 – 107.26
Expected life (years)	**None issued**	5

(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:

	Sept 30 2013	June 30 2013
Contributed surplus, beginning of period	**$ 569,452**	$ 485,451
Dividends of PEC derecognized	**-**	4,864
Conversion of Class A shares to common shares	**-**	91,049
Compensation expense related to stock options granted	**-**	42,118
Stock options exercised	**(5,338)**	(54,030)
Contributed surplus, end of period	**$ 564,114**	$ 569,452

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 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	Sept 30 2013	Sept 30 2012
Employee and consultant compensation [1]	**$ 83,474**	$ 81,300
Professional fees [1]	**4,122**	9,426
Interest expense – long-term	**2,588**	3,328
Share issuance costs [1]	**-**	-
	$ 87,824	$ 94,054
Stock-based compensation [1]	**$ -**	$ 20,578

[1] Transactions with key management personnel. As at September 30, 2013 there was a balance of $29,444 (June 30, 2013 - $28,694) payable to key management personnel and included in accounts payable and accrued liabilities.

9. Income Taxes

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:

	Sept 30 2013	June 30 2013
Share issuance costs	$ **38,690**	$ 38,690
Intangible assets	**43,280**	43,280
Property, plant and equipment	**268,949**	237,640
Resource related expenditures	**349,050**	349,050
Scientific research and experimental development	**1,050,618**	1,050,618
Net capital loss carry forwards	**2,280,030**	2,280,030
Non-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.

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 period, one of the Company's customers accounted for more than 20% (36%) of total revenue (2012 –43%). Amounts due from this customer accounted for 26% of the Company's accounts receivable at September 30, 2013 (June 30, 2013 - 24%). The loss of this customer or significant curtailment of purchases by such customer could have a material adverse effect 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.

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 $106,687 (June 30, 2013 - $196,064). This includes financial liabilities (a specific long-term debt instrument plus preferred shares and dividends payable) with an aggregate carrying amount of $776,792 (June 30, 2013 - $776,792) 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 $3,337 (2012 – $7,905).

10. Financial risk factors - continued

Sensitivity to market risks

At June 30, 2013 the Company had US$225,564 (June 30, 2013 –US$131,220) 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 $11,673 in future cash inflow.

At June 30, 2013 the Company had US$150,464 (June 30, 2013 – US$186,818) 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 $7,786 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 primarily by continuously monitoring its actual and projected cash flows and making adjustments to capital as necessary. Except for meeting the repayment terms, as may exist from time to time, associated with the long-term debt instruments, there are no externally imposed capital requirements.

Management includes the following items in its definition of capital:

	Sept 30 2013	June 30 2013
Long-term debt [1]	**$ 114,810**	$ 123,297
Share Capital	**22,343,053**	22,330,215
Warrants	**76,677**	76,677
Contributed surplus	**564,114**	569,452
Deficit	**(22,495,965)**	(22,559,823)
Net capital under management	**$ 602,689**	$ 539,818

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

12. Selling, general and administrative expenses

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

	Sept 30 2013	Sept 30 2012
Employee and consultant compensation *(note 8)*	**$ 245,352**	$ 201,796
Occupancy costs	**68,213**	68,239
Professional fees *(note 8)*	**12,402**	17,656
Shareholder services	**1,505**	15,291
Insurance	**8,160**	5,296
Other	**8,944**	7,715
	$ 344,576	$ 315,993