EMPOWER TECHNOLOGIES CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 and 2011

MANNING ELLIOTT
CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Empower Technologies Corporation

We have audited the accompanying consolidated financial statements of Empower Technologies Corporation which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011 and the consolidated statements of operations and comprehensive loss, changes in equity (deficiency) and cash flows for the years ended December 31, 2012 and December 31, 2011, and the related notes comprising 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 as issued by the International Accounting Standards Board, 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.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we consider 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 based on our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Empower Technologies Corporation as at December 31, 2012 and December 31, 2011, and its financial performance and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 2 to these consolidated financial statements which describes the existence of a material uncertainty that may cast significant doubt about the ability of Empower Technologies Corporation to continue as a going concern.

Manning Elliott LLP

CHARTERED ACCOUNTANTS

Vancouver, British Columbia

April 29, 2013

EMPOWER TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2012 AND 2011
(Expressed in Canadian Dollars)

	December 31, 2012	December 31, 2011
ASSETS		
Current		
Cash	$ 3,052	$ 22,199
Accounts receivable	15,758	18,194
Prepaid expenses	10,629	9,889
Loan receivable (Note 5)	–	61,045
	29,439	111,327
Deposit	-	7,287
Property and equipment (Note 6)	35,449	45,369
Total assets	$ 64,888	$ 163,983
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Accounts payable and accrued liabilities (Note 13)	$ 1,091,755	$ 736,568
Current portion of obligations under finance lease (Note 12)	3,595	3,595
Convertible debentures and interest (Note 7)	416,034	158,464
Loans payable (Notes 8 and 13)	1,278,912	1,023,787
	2,790,296	1,922,414
Long-Term		
Loans payable (Notes 8 and 13)	2,724,457	2,724,457
Obligations under finance lease (Note 12)	2,697	6,292
Total liabilities	5,517,450	4,653,163
Shareholders' deficiency		
Capital stock (Note 9)		
Authorized: 100,000,000 common shares without par value		
Issued and outstanding: 56,745,279 shares (2011 – 52,507,279)	22,385,170	21,970,497
Contributed surplus (Note 9)	2,621,979	2,589,491
Equity portion of convertible debenture issued	61,412	18,182
Deficit	(30,521,123)	(29,067,350)
Total shareholders' deficiency	(5,452,562)	(4,489,180)
Total liabilities and shareholders' deficiency	$ 64,888	$ 163,983

Going concern (Note 2)
Commitments (Note 19)
Subsequent events (Note 21)

Approved by the Board of Directors on April 29, 2013:

"Paul Leung" Director "Edward Bagg" Director

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

EMPOWER TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Expressed in Canadian Dollars)

	2012	2011
SALES		
Sales of products	$ 46,532	$ 157,772
COST OF SALES		
Cost of goods sold	10,152	51,127
Write-off of inventory	-	73,292
	10,152	124,419
	36,380	33,353
EXPENSES		
Accounting and audit	26,500	9,500
Advertising and promotion	19,655	24,103
Bad debts (recovery)	65,000	(276,988)
Bank charges and interest	33,882	51,567
Consulting fees	202,500	233,453
Depreciation of property and equipment	7,849	10,077
Depreciation of assets under finance lease	2,071	2,589
Directors' fees	-	158,400
Foreign exchange (gain)	954	(5,127)
Insurance	25,349	24,947
Interest and accretion on convertible debentures and other loans	182,289	204,513
Interest on long-term debt	268,712	211,078
Legal fees	43,981	90,451
Office expenses	8,353	11,438
Rent	19,539	19,715
Research and development	108,383	201,072
Share-based payments (Note 10)	27,312	124,543
Telephone and utilities	14,277	19,330
Transfer agent and filing fees	27,807	90,384
Travel	41,038	37,200
Wages and benefits	117,869	163,125
	(1,243,320)	(1,405,370)
Loss before other items	(1,206,940)	(1,372,017)
OTHER ITEMS		
Interest and other income	67,452	830
Loss on modification of convertible debenture (Note 7)	-	(310,482)
Gain on settlement of accounts payable	-	30,864
Loss on settlement of debt (Notes 9 and 13)	(134,400)	(144,000)
Impairment of loan receivable (Note 5)	(179,885)	-
	(246,833)	(422,788)
Net loss and comprehensive loss for the year	$ (1,453,773)	$ (1,794,805)
Basic and diluted loss per common share	$ (0.03)	$ (0.04)
Weighted average number of common shares outstanding	55,144,315	49,878,768

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

EMPOWER TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIENCY)
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Expressed in Canadian Dollars)

	Number of Shares	Amount of Shares	Contributed Surplus	Equity Portion of Convertible Debenture	Share Subscriptions	Deficit	Total
Balance, December 31, 2010	42,968,504	$ 19,710,858	$ 2,394,451	$ 147,897	$ 140,506	$ (27,272,545)	$ (4,878,833)
Non-brokered private placements	5,101,150	951,737	-	-	(140,506)	-	811,231
Conversion of debentures to shares	2,997,625	947,902	-	(59,219)	-	-	888,683
Modification of conversion feature of debenture	-	-	70,496	(70,496)	-	-	-
Settlement of director's debt for shares	1,440,000	360,000	-	-	-	-	360,000
Share-based payments	-	-	124,544	-	-	-	124,544
Loss for the year	-	-	-	-	-	(1,794,805)	(1,794,805)
Balance, December 31, 2011	52,507,279	21,970,497	2,589,491	18,182	-	(29,067,350)	(4,489,180)
Non-brokered private placements	1,550,000	155,000	-	-	-	-	155,000
Issuance of convertible debenture	-	-	-	43,230	-	-	43,230
Settlement of director's debt for shares	2,688,000	268,800	-	-	-	-	268,800
Share-based payments	-	-	27,312	-	-	-	27,312
Share issuance costs	-	(9,127)	5,176	-	-	-	(3,951)
Loss for the year	-	-	-	-	-	(1,453,773)	(1,453,773)
Balance, December 31, 2012	56,745,279	$ 22,385,170	$ 2,621,979	$ 61,412	$ -	$ (30,521,123)	$ (5,452,562)

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

EMPOWER TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Expressed in Canadian Dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (1,453,773)	$ (1,794,805)
Items not affecting cash:		
Depreciation of property and equipment	7,849	10,077
Depreciation of property and equipment under capital lease	2,071	2,589
Share-based payments	27,312	124,544
Accretion and accrued interest on convertible debenture	35,976	56,829
Accrued interest on loans payable	268,712	211,078
Bad debt	65,000	31,500
Loss on modification of the terms for convertible debenture	-	310,482
Loss on settlement of debt	134,400	144,000
Write-off of inventory	-	73,292
Impairment of loan receivable	179,885	-
Gain on account settlement	–	(30,684)
Changes in non-cash working capital items:		
Increase in accounts receivable	(62,564)	(32,971)
Decrease in inventory	-	50,681
Decrease in prepaid expenses and deposit	6,547	19,145
Increase in accounts payable and accrued liabilities	220,876	52,331
Decrease in customer deposit	-	(45,467)
Net cash used in operating activities	(567,709)	(817,379)
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans receivable	(118,840)	(61,045)
Purchase of tools	-	(1,501)
Net cash used in investing activities	(118,840)	(62,546)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of capital lease obligations	(3,596)	(3,595)
Proceeds of loans payable	255,125	124,787
Repayment of loans payable	-	(26,000)
Proceeds from debenture payable	270,000	-
Repayment of debenture payable	-	(36,500)
Proceeds from issuance of common shares, net of issuance costs	145,873	811,231
Net cash provided by financing activities	667,402	869,923
Change in cash during the year	(19,147)	(10,002)
Cash, beginning of year	22,199	32,201
Cash, end of year	$ 3,052	$ 22,199

Supplemental disclosure with respect to cash flows (Note 16)

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

1. REPORTING ENTITY

Empower Technologies Corporation (the "Company") is incorporated in Canada, is a public company listed on the TSX Venture Exchange ("TSX-V") and trades under the symbol EPT. The corporate headquarters and principal place of business is located at 3751 Shell Road, Richmond, BC, V6X 2W2. The Company is a provider of Linux-based embedded system technologies and solutions for the consumer electronic industry, defence systems, and the intelligent appliance market.

2. NATURE AND CONTINUANCE OF OPERATIONS

Statement of compliance

The consolidated financial statements have been prepared using accounting policies in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

Going concern

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquation. The Company has incurred losses of $30,521,123 since inception and further losses are anticipated in the development of its business plan. As at December 31, 2012, the Company has a working capital deficiency of $2,760,857. These circumstances lead to significant doubt as to the ability of the Company to meet its obligations as they come due, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

The Company's continuing operations as intended are dependent upon its ability to develop products and technologies that can be commercialized. In order to continue as a going concern and meet its corporate objectives, the Company will require additional financing through debt or equity issuances or other available means. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, then adjustments may be necessary to the carrying value of the assets and liabilities, and the balance sheet classifications used.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value as explained in the accounting policies set out in Note 3.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

Use of estimates and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses for the years reported. Significant areas requiring the use of management estimates include the determination of impairment of property and equipment, depreciation rates for equipment, effective interest rate used in calculating the debt portion of convertible debenture, deferred income tax assets and liabilities, allowance for doubtful accounts receivable, fair values of financial instruments, recoverability of the loan receivable, provisions including amounts for inventories and the determination of the assumptions used in calculating fair value of share-based payment calculations. Actual results could differ from these estimates.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, Empower Technologies, Inc. (incorporated in United States of America), and its wholly-owned subsidiaries, Empower Technologies (Canada) Inc. (incorporated in Canada), Empower Technologies (Shanghai) Inc. (incorporated in the People's Republic of China), and Empower Defence Systems Inc. (incorporated in Canada). All intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

Inventories

Inventories are carried at the lower of cost, using the weighted average method, and net realizable value. Inventories consist of raw material inventories, work in process, and finished goods.

Property and equipment

i) Recognition and measurement:

Items of property and equipment are recognized at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset and the costs of dismantling and removing the item and restoring the site on which it is located, if any.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized in net profit (loss).

ii) Subsequent costs:

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of replaced parts are derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit (loss) as incurred.

iii) Depreciation:

Depreciation is calculated using the declining balance method at the following annual rates:

Computer equipment	30%
Furniture and equipment	20%
Leasehold improvements	25%
Tools	20%

Estimates for depreciation methods, useful lives and residual values are reviewed at each reporting period-end and adjusted, if appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Intangible assets

Research and development:

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are expensed as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to, and has sufficient resources to complete development, and to use or sell the asset. These criteria are usually met when a regulatory filing has been made in a major market and approval is considered highly probable. The expenditures capitalized include the cost of materials, direct labour, and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are expensed as incurred. Capitalized development expenditures are measured at cost less accumulated depreciation and accumulated impairment losses.

As at December 31, 2012 and 2011, no development expenditures were capitalized.

Financial instruments

All financial assets are initially recorded at fair value and classified into one of four categories: held to maturity, available for sale, loans and receivable or at fair value through profit or loss ("FVTPL"). All financial liabilities are initially recorded at fair value and classified as either FVTPL or other financial liabilities.

The Company has classified its cash as fair value through profit or loss, accounts receivable and loan receivable as loans and receivables. Accounts payable, loans payable and convertible debentures are classified as other financial liabilities, which are measured at amortized cost.

Impairment

i) Financial assets:

A financial asset not carried at fair value through profit or loss is assessed at each consolidated financial statement reporting date to determine whether there is objective evidence that it is impaired or if objective evidence indicates that one or more loss events had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in net profit (loss) and reflected in an allowance account against the respective financial asset. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net profit (loss).

ii) Non-Financial assets:

The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount is estimated.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Impairment (cont'd…)

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows from other assets or group of assets. Impairment losses recognized in prior periods are determined at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are assessed by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount on provisions is recognized in finance costs.

Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method deferred income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities, and are measured using enacted or substantially enacted tax rates expected to apply when these differences reverse. Recognition of deferred tax assets and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period, the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future tax profit will allow the deferred tax asset to be recovered.

Share-based payments

The Company records all share-based payments at their fair value. The share-based payments costs are charged to operations over the stock option vesting period and agents' options and warrants issued in connection with common share placements are recorded at their fair value on the date of issue as share issuance costs. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options expected to vest. On the exercise of stock options and agents' options and warrants, share capital is credited for consideration received and for fair value amounts previously credited to contributed surplus. The Company uses the Black-Scholes option pricing model to estimate the fair value of share-based payments.

Loss per share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the net loss or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held, if applicable. Diluted loss per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, if applicable, for the effects of all dilutive potential common shares, which consist of the stock options, warrants, and convertible debentures.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Revenue recognition

i) Software

The Company recognizes revenue from packaged software and license fees when the software is delivered, title has passed and customer acceptance has occurred, the fee is fixed and determinable and collection is probable.

ii) Products

The Company generates revenue through the sale of electronic products. Revenue from the sale of goods are recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Foreign currency translation

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the consolidated statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Subsidiaries that have functional currencies other than Canadian dollars translate their statement of operations items to Canadian dollars at the average rate during the year. Assets and liabilities are translated at exchange rates prevailing at the end of each reporting period. Exchange variations resulting from the retranslation at closing rate of the net investment in such subsidiaries, together with differences between their statement of operations items translated at actual and average rates, are recognized in the accumulated other comprehensive income/ loss.

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2011, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

i) New accounting standards effective January 1, 2012

Amendments to IFRS 7 *Financial Instruments: Disclosures* - In October 2010, the IASB issued amendments to IFRS 7 that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with early adoption permitted. Adoption of this amendment has not had a significant impact on the Company's consolidated financial statements.

IAS 12 *Income Taxes* - In December 2010, the IASB issued an amendment to IAS 12 that provides a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after July 1, 2011, with early adoption permitted. Adoption of this amendment has not had a significant impact on the Company's consolidated financial statements.

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (cont'd…)

ii) New accounting standards effective January 1, 2013

IAS 1 *Presentation of Items of Other Comprehensive Income* - In June 2011, the IASB issued an amendment to IAS 1, which requires entities to separately present items in other comprehensive income based on whether they may be recycled to profit or loss in future periods.

IAS 19 *Employee Future Benefits* - In June 2011, the IASB issued an amendment to IAS 19, which changes the recognition, measurement and presentation of defined benefit pension expense and provides for additional disclosures for all employee benefits.

IFRS 10 *Consolidated Financial Statements* - IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation - Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*.

IFRS 11 *Joint Arrangements* - IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers*.

IFRS 12 *Disclosure of Interests in Other Entities* - IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 *Fair Value Measurement* - IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to other standards - In addition, there have been other amendments to existing standards, including IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13.

Each of the new standards, IFRS 10 to 13 and the amendments to other standards, is effective for the Company beginning on January 1, 2013 with early adoption permitted. The Company does not expect adoption of the new standards will have a significant impact on its consolidated financial statements.

iii) New accounting standards effective January 1, 2015

IFRS 9 *Financial Instruments* - IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (cont'd…)

iii) New accounting standards effective January 1, 2015 (cont'd…)

equity instruments and such instruments are either recognized at the fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, others gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39 *Financial Instruments – Recognition and Measurement,* except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 9 is effective for annual periods beginning on or after January 2015 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

5. LOAN RECEIVABLE

On November 9, 2011, the Company and Northstar Electronics, Inc. (Northstar) signed a Binding Letter of Intent and on February 14, 2012, the Company and Northstar signed a Share Purchase Agreement (Definitive Agreement) for Northstar to sell 100% ownership of its subsidiary, Northstar Network Ltd. (NNL) in St. John's, Newfoundland to the Company. As a condition in both the Binding Letter of Intent and the Definitive Agreement, the Company was to provide a certain amount of cash loans subject to respective Loan Agreements to Northstar and to NNL.

Under the Loan Agreement (NNL Loan Agreement) between Northstar, NNL and the Company and subject to certain conditions, the Company had agreed to provide bridge financing to NNL of up to $550,000 (the "Bridge Loan") during the period before closing. As security for the repayment of the Bridge Loan, NNL has signed a general security agreement securing all of NNL's assets and a share pledge agreement whereby Northstar will pledge 100% of the outstanding NNL shares as collateral once the Company has advanced the full $550,000.

On March 20, 2012, Northstar, NNL and the Company agreed to change the amount required to advance to trigger the NNL shares into collateral from $550,000 to $50,000. Also, Northstar and NNL agreed to let the Company receive payments on NNL receivables/invoices directly from NNL customers. The total NNL loan amount was not be greater than 80% of the total current receivables NNL has on hand. NNL also was to pay $10,000 per month for the operation of the Bridge Loan starting in March 20, 2012. At the end of each month, the Company was to deduct the total Northstar customer payments received in the month from the Bridge Loan outstanding. In respect of any cash balance left after deducting the Bridge Loan and fees, the Company and NNL were to split the proceeds in half as earning between each party.

During the year ended December 31, 2011, the Company had advanced $61,045 to Northstar under a separate Loan Agreement ("Northstar Electronics Loan Agreement") that is backed by a general security agreement on Northstar. During the year ended December 31, 2012, the Company extended an additional $118,840 under the Northstar Electronics Loan Agreement.

On November 23, 2012, the Company terminated the Definitive Agreement. The Company deemed the loan receivable uncollectible, and recorded an impairment on the loan receivable of $179,885, which is recorded in the consolidated statement of operations and comprehensive loss.

(Expressed in Canadian Dollars)

6. PROPERTY AND EQUIPMENT

Cost	Computer equipment	Furniture and equipment	Leasehold Improvement	Tools	Total
As at December 31, 2011	$144,343	$109,889	$ 28,724	$38,501	$321,457
Additions	-	-	-	-	-
As at December 31, 2012	$144,343	$109,889	$ 28,724	$38,501	$321,457
Accumulated Depreciation					
As at December 31, 2011	$ 135,879	$ 81,717	$ 28,724	$29,768	$276,088
Depreciation	2,539	5,634	-	1,747	9,920
As at December 31, 2012	$ 138,418	$ 87,351	$ 28,724	$31,515	$286,008
Carrying Amounts					
Balance, December 31, 2011	$8,464	$28,172	$ -	$8,733	$45,369
Balance, December 31, 2012	$5,925	$22,538	$ -	$6,986	$35,449

7. CONVERTIBLE DEBENTURES

	December 31, 2012	December 31, 2011
On October 14, 2010, the Company closed a private placement of convertible debentures in the aggregate amount of $318,528. The convertible debentures bear interest at the rate of 12% per annum and are convertible into common shares of the Company at $0.50 per share until December 31, 2011. An equity portion of $35,194 was calculated which reflects the convertible feature attached to the debentures. In January 2011, a convertible debenture of $263,528 was converted into common shares of the Company at a reduced conversion rate of $0.20 per share. It was further extended from January 1, 2012 to June 30, 2012. Of the balance, $30,000 was extended from June 30, 2012 to December 31, 2013. The debentures are unsecured.	57,089	57,089
In January 2011, the Company extended an existing debenture agreement with a principal amount of $50,000 maturing on January 31, 2011 to May 15, 2011. In May 2011, maturity was extended to August 31, 2011 and further to December 31, 2011. It was further extended to June 30, 2012. The debenture is unsecured.	50,000	50,000
In January 2011, the Company extended existing debenture agreements with an aggregate principal amount of $20,000 maturing on January 31, 2011 to December 31, 2011 and further extended to June 30, 2012. The debentures are unsecured.	20,000	20,000
On June 8, 2012, the company closed a private placement of convertible debentures in the aggregate amount of $270,000. The convertible debentures bear interest at the rate of 10% per annum payable quarterly and convertible into common shares of the Company at $0.15 per share until December 7, 2013. An equity portion of $43,230 was calculated which reflects the convertible feature attached to the debentures. Transaction costs of $21,985 were recognized towards the liability portion of the debentures, which includes $4,346 of the fair value warrants issued in connection with the transaction (Note 11) and $17,638 in cash-based expenditures. Other transaction costs of $4,191, including $830 in the fair value of warrants issued (Note 11), was allocated to the equity component and recognized as a share issuance cost. The debentures are unsecured.	228,124	-
Interest accrued	60,821	31,375
	$ 416,034	$ 158,464

8. LOANS PAYABLE

The loans payable are due to a director and officer of the Company, are unsecured, bear interest at the rate of 8.5% to 14% per annum, of which $2,724,457 is due on January 31, 2014 and $353,912 and $925,000 are due on demand.

The total interest accrued/paid on the loans for the year ended December 31, 2012 was $424,357 (2011 - $437,790).

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS

During the year ended December 31, 2012:

The Company issued 2,688,000 common shares with a fair value of $268,800 for the settlement of $134,400 debt to its directors, resulting in a loss of $134,400, which has been recorded in the consolidated statement of operations and comprehensive loss.

The Company closed a non-brokered private placement issuing 1,550,000 Units at a price of $0.10 per unit for gross proceeds of $155,000. Each unit is comprised of one common share and one-half of a common share purchase warrant. Each share purchase warrant is exercisable for a term of one year at a price equal to $0.15.

During the year ended December 31, 2011:

The Company closed a non-brokered private placement issuing 565,150 Units at a price of $0.25 per unit for gross proceeds of $141,288. Each unit is comprised of one common share and one common share purchase warrant. Each share purchase warrant is exercisable for a term of one year at a price equal to $0.30.

The Company issued 2,997,625 common shares for convertible debentures and accrued interest of $599,525.

The Company closed a non-brokered private placement issuing 3,300,000 Units at a price of $0.20 per unit for gross proceeds of $660,000. Each unit is comprised of one common share and one half common share purchase warrant. Each share purchase warrant is exercisable for a term of two years at a price equal to $0.25.

The Company issued 1,440,000 shares with a fair value of $360,000 for $216,000 directors' debt. The Company recognized a loss on settlement of debt in the amount of $144,000., which was recorded in the consolidated statement of operations and comprehensive loss.

The Company closed a non-brokered private placement issuing 1,236,000 Units at a price of $0.125 per unit for gross proceeds of $154,500. Each unit is comprised of one common share and one half share purchase warrant. Each whole warrant is exercisable for a term of one year at a price equal to $0.20.

10. STOCK OPTIONS

On September 19, 2003, the Company adopted a stock option plan under which it is authorized to grant options to directors and employees to acquire common shares, up to an amount equivalent to 20% of the outstanding common shares. Under the plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of grant, less applicable discounts. The options can be granted for a maximum term of five years.

On June 28, 2005, the Company amended the vesting period of the options to officers and directors to 1/3 one year after the date of grant, 1/3 two years after the date of grant and 1/3 three years after the date of grant. The Company also amended the vesting period of the options to employees and consultants to 1/4 one year after the date of grant, 1/4 two years after the date of grant, 1/4 three years after the date of grant and 1/4 four years after the date of grant. Under the current option plan, the maximum aggregate number of shares that may be reserved for issuance is 7,800,000 common shares.

(Expressed in Canadian Dollars)

10. STOCK OPTIONS (cont…)

As at December 31, 2012, the following incentive stock options are outstanding:

	Number of Shares	Exercise Price ($)	Expiry Date
Stock options	1,540,000	0.10	August 23, 2015

Stock option transactions are summarized as follows:

	Year Ended December 31, 2012		Year Ended December 31, 2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	2,486,662	$ 0.12	3,217,500	$ 0.51
Options granted	-	-	500,000	0.22
Options forfeited	(615,000)	0.10	(335,838)	0.24
Options expired	(331,662)	0.27	(895,000)	1.54
Outstanding, end of year	1,540,000	$ 0.10	2,486,662	$ 0.12
Number of options exercisable, end of year	1,060,000	$ 0.10	1,039,162	$ 0.15

The weighted average remaining contractual life of the stock options outstanding at December 31, 2012 is 2.48 years (2011 - 3.30 years). The weighted average remaining contractual life of the exercisable options is December 31, 2012 is 2.41 years (2011 – 2.82 years)

Share-based payments

During the year ended December 31, 2012 the Company recorded $27,312 (2011 - $124,543) for share-based compensation. The weighted average fair value of the options granted in 2011 is $0.22.

The following weighted average assumptions were used in the Black-Scholes Option Pricing Model in determining the fair value of share-based payments issued for services during the year:

	Year Ended December 31, 2012	Year Ended December 31, 2011
Risk-free interest rate	-	1.79%
Expected life	-	1.67 years
Annualized volatility	-	140%
Dividend rate	-	0.00%
Forfeiture	-	-

(Expressed in Canadian Dollars)

11. WARRANTS

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Year Ended December 31, 2012		Year Ended December 31, 2011	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	2,833,150	$ 0.25	3,642,787	$ 0.29
Warrants granted	901,000	0.15	2,833,150	0.25
Warrants expired	(1,183,150)	0.25	(3,642,787)	0.29
Outstanding, end of year	2,551,000	$ 0.21	2,833,150	$ 0.25
Number of warrants exercisable, end of year	2,551,000	$ 0.21	2,833,150	$ 0.25

As at December 31, 2012, the following warrants are outstanding:

	Number of Warrants	Exercise Price ($)	Expiry Date
Warrants			
	1,650,000	0.25	April 13, 2013
	126,000	0.15	June 8, 2013
	775,000	0.15	August 28, 2013
Total outstanding warrants	2,551,000		

During the year ended December 31, 2012, the Company granted 126,000 agent warrants in connection with the issuance of debentures described in Note 7. The Company recognized $5,176 (2011 - $nil) as the fair value of the agent warrants, which was allocated to share issuance costs and the liability component of the debenture as described in Note 7. The Company also granted 775,000 share purchase warrants, as described in Note 9.

The following weighted average assumptions were used in the Black-Scholes Option Pricing Model in determining the fair value of share-based payments issued for services during the year:

	Year Ended December 31, 2012	Year Ended December 31, 2011
Risk-free interest rate	0.99%	-
Expected life	1.00 year	-
Annualized volatility	180%	-
Forfeiture	-	-

(Expressed in Canadian Dollars)

12. OBLIGATIONS UNDER FINANCE LEASE

	December 31, 2012		December 31, 2011	
Payments of $300 per month, non-interest bearing, due over lease terms expiring through September 2014	$	6,292	$	9,887
Less: current portion		(3,595)		(3,595)
	$	2,697	$	6,292
Estimated remaining lease payments are as follows:				
2012	$	-	$	3,595
2013		3,595		3,595
2014		2,697		2,697
Balance of obligation	$	6,292	$	9,887

13. RELATED PARTY TRANSACTIONS AND BALANCES

Key management includes directors and officers of the Company. The Company entered into the following transactions with key management personnel:

	Year Ended December 31, 2012		Year Ended December 31, 2011	
Short-term benefits	$	258,000	$	419,400
Share-based payments		26,540		79,375
Total	$	284,540	$	498,775

The Company also entered into the following transactions with related parties:

During the year ended December 31, 2012, the Company settled debt of $134,400 with directors and officers for shares with a fair value of $268,800, resulting in a loss of $134,400.

Included in accounts payable and accrued liabilities as at December 31, 2012 is $946,642 (2011 - $661,301) due to directors and officers of the Company. The amounts are non-interest bearing, unsecured and due on demand.

At December 31, 2012, $1,278,912 (2011 - $1,023,787) of short term loans payable (see Note 8) is due to a director and officer of the Company. The short term loans bear interest between 8.5% to 14% and are unsecured. The Company also has $2,724,457 (2011 - $2,724,457) of loans payable (Note 8) to the same director and officer. The long term loans bear interest at 8.5%, and are unsecured. The total interest paid or accrued to the director was $424,357 (2011 - $437,790) for the year ended December 31, 2012.

The amounts charged to the Company for the services provided have been determined by negotiation among the parties and, in certain cases, are covered by signed agreements. These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

14. INCOME TAXES

A reconciliation of income taxes with the reported taxes is as follows:

	Year Ended December 31, 2012	Year Ended December 31, 2011
Loss before income taxes	$ (1,453,773)	$ (1,794,805)
Expected income tax recovery	$ (363,443)	$ (475,623)
Non-deductible expenses	31,137	162,316
Effect of difference between functional and tax reporting currency	(499)	(10,564)
Difference in current / future tax rates	-	15,228
SR&ED credits recognized	(84,259)	(31,388)
Change in unrecognized tax benefit of deferred tax assets	417,064	340,031
Total income tax recovery	$ -	$ -

The significant components of the Company's deferred tax assets are as follows:

	Year Ended December 31, 2012	Year Ended December 31, 2011
Gross deferred income tax assets:		
Non-capital losses available for future years	$ 5,122,000	$ 4,789,000
Property and equipment	52,000	49,000
Share issuance costs and other	17,000	30,000
SR&ED income tax credits	1,313,000	1,228,000
SR&ED expenses available for future years	1,302,000	1,285,000
Capital losses available for future years	10,000	18,000
	7,816,000	7,399,000
Unrecognized deferred tax assets	(7,816,000)	(7,399,000)
Net deferred income tax assets	$ -	$ -

The Company has available for deduction against future taxable income non-capital losses in Canada of approximately $18,523,000. The Company has available for deduction against future taxable income operating losses in the U.S. of approximately $1,414,230 (in US dollars). These losses, if not utilized, will expire through to 2032. Deferred tax benefits which may arise as a result of these non-capital losses have not been recognized in these consolidated financial statements due to the uncertainty of their realization.

(Expressed in Canadian Dollars)

15. SEGMENTED INFORMATION

The Company currently conducts substantially all of its operations in one business segment, being the development of Linux-based embedded systems technologies, in the following geographical areas:

	December 31, 2012	December 31, 2011
Property and equipment:		
Canada	$ 35,449	$ 45,369

	Year Ended December 31, 2012	Year Ended December 31, 2011
Revenue:		
Canada	$ -	$ 30,000
United States of America	-	104,673
Asia	46,532	23,099
	$ 46,532	$ 157,772

Revenues are attributed to geographic areas based upon the location of the customers.

16. SUPPLEMENTAL CASH FLOWS DISCLOSURE

	2012	2011
Cash paid during the period for interest	$ 134,637	$ 126,868
Cash paid during the period for income taxes	$ -	$ -

Non-Cash Investing and Financing Transactions

During the year ended December 31, 2012, the Company:

a) issued 2,688,000 of common stock, with a fair value of $268,800 for $134,400 of debt to directors of the Company.

During the year ended December 31, 2011, the Company:

a) Converted $575,907 of its convertible debentures and accrued interest into 2,997,625 of common stock.
b) Issued 1,440,000 common stock to settle director's debt of $216,000.

17. FINANCIAL INSTRUMENTS AND RISK

The Company's financial instruments are categorized in a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices includes in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(Expressed in Canadian Dollars)

17. FINANCIAL INSTRUMENTS AND RISK (cont…)

The carrying value of accounts receivable, accounts payable, obligation under finance lease, convertible debenture and loans payable approximated their fair value due to their nature of market interest rates of similar instruments.

Financial instruments measured at fair value on a recurring basis on the consolidated statement of financial position are summarized within the levels of the fair value hierarchy as follows:

Assets	Level 1	Level 2	Level 3	December 31, 2012 Total
Cash	$ 3,052	$ -	$ -	$ 3,052

The Company is exposed to the following risks from its use of financial instruments: credit risk, market risk and liquidity risk. Management, the Board of Directors and the Audit Committee monitor risk management activities and review the adequacy of such activities.

(i) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to fulfil its contractual obligations. Such risk arises principally from certain financial assets held by the Company consisting of cash, accounts receivables, and loan receivables. The maximum exposure to credit risk of the Company at period end is the carrying value of these financial assets.

The Company's cash is held with high-credit quality financial institutions. Provisions for doubtful accounts are made on a customer by customer basis. All write downs against receivables are recorded in the consolidated statement of operations and comprehensive loss. The Company is exposed to credit related losses on sales to customers outside of North America due to higher risks of enforceability and collectability. Accounts receivable at December 31, 2012 are comprised of trade accounts receivable. The Company had an allowance of doubtful accounts of $31,500 as at December 31, 2012 (2011 - $31,500).

The Company's maximum exposure to credit risk at the consolidated statement of financial position date under its financial instruments is summarized as follows:

	December 31, 2012	December 31, 2011
Accounts and other receivables -		
Currently due	$ -	$ -
Past due by 90 days or less, not impaired	15,758	18,194
Past due by greater than 90 days, not impaired	-	-
	$ 15,758	$ 18,194

The Company's customer accounts comprise 100% (2011 – 100%) of accounts receivable from one (2011 – one) customer.

(ii) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holding of financial instruments.

(a) Foreign Exchange Risk – The Company operates internationally and is exposed to foreign exchange risk from various currencies, primarily the U.S. Dollar and the Chinese Renminbi. Foreign exchange risk arises from sales and purchase transactions as well as recognized financial assets and liabilities that are denominated in currencies other than the Canadian dollar, which is the functional currency of the Company and its subsidiaries. During the year ended December 31, 2012 and at December 31, 2011, the Company held only minor amounts of cash deposits in foreign currencies. A 10% increase or decrease in the U.S. Dollar would result in an insignificant impact.

(Expressed in Canadian Dollars)

17. FINANCIAL INSTRUMENTS AND RISK (cont…**)**

(ii) Market Risk (cont…)

(b) Interest Rate Risk – Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company does not have any debt instruments outstanding with variable interest rates at December 31, 2012. Financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. No hedging relationships have been established for the related monthly interest or for the principal payments. The Company manages its interest rate risk by minimizing financing costs on its borrowings and maximizing income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day to day basis.

(iii) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. At December 31, 2012, the Company had cash of $3,052. The continuation of the Company depends upon the support of its lender and equity investors, which cannot be assured. Refer to subsequent events (Note 21). The Company's consolidated financial liabilities are comprised of its accounts payable and accrued liabilities, the contractual maturities of which at December 31, 2012, are summarized as follows:

		December 31, 2012		**December 31, 2011**
Accounts payable and accrued liabilities with contractual maturities –				
Within 90 days or less	$	1,091,755	$	736,568
In later than 90 days, not later than one year		-		-

18. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard its assets while at the same time maintaining investor and market confidence and to sustain future development of the business. In the management of capital, the Company includes shareholders' equity, convertible debentures and loans payable in the definition of capital. To maintain or adjust the capital structure, the Company may issue new shares, issue new debt with different characteristics or acquire and dispose of assets. There were no changes in the Company's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements

19. COMMITMENTS

a) The Company has entered into an operating lease agreement for its premises. The annual basic lease commitments under this lease are as follows:

Not later than one year	$	26,663
Later than one year and no later than five years		-
	$	26,663

b) During the year 2011, the Company entered into a Corporate Finance Consulting Agreement with Performance Capital Advisors Inc ("PCA"). PCA is engaged to raise financing of up to $2,000,000. The Company is committed to pay PCA up to $105,000 in cash and 105,000 in share purchase warrants priced the same as the shares issued under any financing until April 2013.

20. MAJOR CUSTOMERS

During the year ended December 31, 2012, 100% (2011 – 88%) of the Company's sales are made to one (2011 – two) customer. The loss of a material amount of sales to these customers could have a material adverse affect on operations.

21. SUBSEQUENT EVENTS

Subsequent to year ended December 31, 2012:

a) On March 26, 2013, the Company received the final approval from the TSX-V on the conversion of the existing $2,724,457 loan payable due related parties to a convertible debenture, convertible into 27,244,570 common shares at a conversion price of $0.10 per share. The convertible debenture bears an interest rate of 10% per annum, maturing on November 27, 2017.

b) On April 3, 2013, the Company closed a non-brokered private placement of 4,330,000 units of the Company ("Units") for aggregate gross proceeds of $216,500. Each Unit consists of a common share of the Company and one-half of a common share purchase warrant. Each whole share purchase warrant entitles the holder to acquire an additional common share of the Company for a period of 12 months from the date of issue at a price of $0.10 per share.

c) On April 9, 2013, the Company signed a definitive share purchase agreement ("Definitive Agreement") with a privately held corporation (the "Vendor"), to purchase 100% of its wholly owned subsidiary (the "Acquiree") in consideration for the Company's shares. The Company will acquire all rights to the shares of the Acquiree and all liabilities, including $4,985,460 owing to the Vendor.

The aggregate purchase price for the shares of the Acquiree will be $750,000, which will be paid by the issuance of 3,000,000 shares of the Company, at a deemed value of $0.25 per share. In addition, the Company will pay a performance based earnout bonus payment up to a maximum of $400,000 ("Maximum Earnout") within the first three years from the date of Closing subject to:

i) the Acquiree generating positive earnings before interest, depreciation, taxes and amortization ("EBITDA") equal to or greater than $200,000 ("Annual Earnout") within any of those first three years from the date of closing of the share purchase transaction, then the Company will pay the Vendor 25% of the positive EBITDA in cash, provided that the Vendor has not received the Maximum Earnout from the cumulative Annual Earnout: or

ii) if the Acquiree generates positive EBITDA equal to or greater than $25,000 but less than $200,000 within any of those first 3 years from the date of closing of the share purchase transaction, then the Company will pay the Vendor 10% of the positive EBITDA in cash, provided that the Vendor has not received the Maximum Earnout from the cumulative Annual Earnout.

The Vendor may elect by written notice to the Company to receive any portion of the Annual Earnout payable to the Vendor in the form of the Company's shares in lieu of cash; and the number of the Company's shares to be issued pursuant to such election shall be determined based on a conversion price that shall be the greater of the following:

i. a conversion price of $0.25 per the Company's share; or,
ii. the Market Price of the Company's shares at the time of notice, as defined by the policies of the TSX-V, and shall be subject to resale restrictions, with 25% of such the Company's shares being released from the restrictions every six months.

The closing of the share purchase transaction is subject to regulatory approval, diligence and other conditions, no later than June 30, 2013.