**EMPOWER TECHNOLOGIES CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**

**DECEMBER 31, 2013 and 2012**

MANNING ELLIOTT
ACCOUNTANTS & BUSINESS ADVISORS

11th floor, 1050 West Pender Street, Vancouver, BC, Canada V6E 3S7
Tel: 604. 714. 3600 Fax: 604. 714. 3669 Web: manningelliott.com

## 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, 2013 and 2012, and the consolidated statements of comprehensive loss, changes in equity (deficiency) and cash flows for the years then ended, 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Empower Technologies Corporation as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended 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 in the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Empower Technologies Corporation to continue as a going concern.

Manning Elliott LLP

CHARTERED ACCOUNTANTS
Vancouver, British Columbia
May 1, 2014

**EMPOWER TECHNOLOGIES CORPORATION**
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013 AND 2012
(Expressed in Canadian Dollars)

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash | $ 364,080 | $ 3,052 |
| Amounts receivable | 94,643 | 15,758 |
| Inventory (Note 3) | 12,761 | - |
| Prepaid expenses | 13,376 | 10,629 |
| **Total current assets** | 484,860 | 29,439 |
| **Property and equipment (Note 5)** | 209,275 | 35,449 |
| **Intangible assets (Notes 2 and 6)** | 438,863 | - |
| **Total assets** | $ 1,132,998 | $ 64,888 |
| **LIABILITIES AND EQUITY (DEFICIENCY)** | | |
| **Current** | | |
| Accounts payable and accrued liabilities (Note 11) | $ 1,477,773 | $ 1,091,755 |
| Current portion of obligations under finance lease (Note 10) | 23,504 | 3,595 |
| Convertible debentures and interest (Note 7) | 444,826 | 416,034 |
| Loans payable (Note 11) | 2,095,175 | 1,278,912 |
| Customer deposits | 199,626 | - |
| Deferred revenues | 188,200 | - |
| **Total current liabilities** | 4,429,104 | 2,790,296 |
| **Long-Term** | | |
| Convertible debentures (Notes 7 and 11) | 2,120,114 | - |
| Loan payable (Note 11) | - | 2,724,457 |
| Obligations under finance lease (Note 10) | 21,529 | 2,697 |
| Provisions (Note 2) | 10,000 | - |
| **Total liabilities** | 6,580,747 | 5,517,450 |
| **Equity (Deficiency)** | | |
| Capital stock (Note 8) | | |
| Authorized: Unlimited common shares without par value Issued and outstanding 64,075,279 shares (2012 - 56,745,279) | 22,878,123 | 22,385,170 |
| Contributed surplus | 2,621,979 | 2,621,979 |
| Equity portion of convertible debenture issued | 1,019,439 | 61,412 |
| Subscriptions received | 54,000 | - |
| Shares issuable (Note 8) | 84,000 | - |
| Deficit | (32,105,290) | (30,521,123) |
| **Total deficiency** | (5,447,749) | (5,452,562) |
| **Total liabilities and deficiency** | $ 1,132,998 | $ 64,888 |

**Going concern** (Note 2)
**Commitments** (Note 17)
**Subsequent event** (Note 19)

Approved and authorized for issuance by the Board of Directors on May 1, 2014:

Paul Leung, Director     Edward Bagg, Director

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

**EMPOWER TECHNOLOGIES CORPORATION**
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
YEARS ENDED DECEMBER 31, 2013 AND 2012
(Expressed in Canadian Dollars)

| | 2013 | 2012 |
|---|---|---|
| **REVENUES** | | |
| Telecommunication services | $ 759,096 | $ - |
| Telecommunication products | 44,746 | - |
| Other Products | - | 46,532 |
| | 803,842 | 46,532 |
| **COST OF SALES** | | |
| Cost of telecommunication services | 328,571 | - |
| Cost of telecommunication products | 39,532 | - |
| Cost of other products | - | 10,152 |
| | 368,103 | 10,152 |
| **GROSS PROFIT** | 435,739 | 36,380 |
| **EXPENSES** | | |
| Accounting and audit | 27,025 | 26,500 |
| Advertising and promotion | 25,827 | 19,655 |
| Bad debts | 829 | 65,000 |
| Bank charges and interest | 71,592 | 33,882 |
| Consulting fees (Note 11) | 325,948 | 202,500 |
| Depreciation of property and equipment (Note 5) | 17,869 | 7,849 |
| Depreciation of assets under finance lease (Note 5) | 12,642 | 2,071 |
| Amortization of intangible assets (Note 6) | 39,896 | - |
| Directors' fee (Note 11) | 72,000 | - |
| Foreign exchange loss | 10,106 | 954 |
| Insurance | 27,541 | 25,349 |
| Interest and accretion on convertible debentures (Note 11) | 547,545 | 182,289 |
| Interest on loan payable (Note 11) | 349,566 | 268,712 |
| Legal fees | 26,536 | 43,981 |
| Office expenses | 26,897 | 8,353 |
| Rent | 59,439 | 19,539 |
| Research and development | 38,029 | 108,383 |
| Stock-based compensation (Note 9) | - | 27,312 |
| Telephone and utilities | 13,004 | 14,277 |
| Transfer agent and filing fees | 22,811 | 27,807 |
| Travel | 19,484 | 41,038 |
| Wages and benefits (Note 11) | 310,145 | 117,869 |
| | (2,044,731) | (1,243,320) |
| **Loss before other items** | (1,608,992) | (1,206,940) |
| **OTHER ITEMS** | | |
| Interest and other income (expense) | (529) | 67,452 |
| Loss on settlement of debt (Notes 8 & 14) | - | (134,400) |
| Impairment of loan receivable | - | (179,885) |
| | (529) | (246,833) |
| **Loss and comprehensive loss from continuing operations** | (1,609,521) | (1,453,773) |
| **DISCONTINUED OPERATIONS** | | |
| Income from discontinued operations (Note 18) | 25,354 | - |
| **Loss and comprehensive loss for the year** | (1,584,167) | (1,453,773) |
| **Basic and diluted loss per common share from continuing operations** | $ (0.03) | $ (0.03) |
| **Basic and diluted loss per common share** | $ (0.03) | $ (0.03) |
| **Weighted average number of common shares outstanding** | 61,229,553 | 55,144,315 |

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

**EMPOWER TECHNOLOGIES CORPORATION**
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
YEARS ENDED DECEMBER 31, 2013 AND 2012
(Expressed in Canadian Dollars)

| | Number of Shares | Capital Stock | Contributed Surplus | Equity Portion of Convertible Debenture | Subscriptions Received | Shares Issuable | Deficit | Total Equity (Deficiency) |
|---|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2011** | 52,507,279 | $ 21,970,497 | $ 2,589,491 | $ 18,182 | $ - | $ - | $ (29,067,350) | $ (4,489,180) |
| Share proceeds received in advance | 1,550,000 | 155,000 | - | - | - | - | - | 155,000 |
| Issuance of convertible debenture | - | - | - | 43,230 | - | - | - | 43,230 |
| Settlement of directors' debt for shares | 2,688,000 | 268,800 | - | - | - | - | - | 268,800 |
| Share-based payments | - | - | 27,312 | - | - | - | - | 27,132 |
| 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) |
| Non-brokered private placements | 4,330,000 | 216,500 | - | - | 54,000 | - | - | 270,500 |
| Share issuance on acquisition of AIC (Note 2) | 3,000,000 | 285,000 | - | - | - | - | - | 285,000 |
| Share issuance costs | - | (8,547) | - | - | - | - | - | (8,547) |
| Issuance of convertible debt | - | - | - | 958,027 | | | | 958,027 |
| Shares issuable | - | - | - | - | - | 84,000 | - | 80,000 |
| Loss for the year | - | - | - | - | - | - | (1,584,167) | (1,584,167) |
| **Balance, December 31, 2013** | 64,075,279 | $ 22,878,123 | $ 2,621,979 | $ 1,019,439 | $ 54,000 | $ 84,000 | $ (32,105,290) | $ (5,447,749) |

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

**EMPOWER TECHNOLOGIES CORPORATION**
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012
(Expressed in Canadian Dollars)

| | 2013 | 2012 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net loss from continuing operations | $ (1,609,521) | $ (1,453,773) |
| Items not affecting cash: | | |
| Depreciation of property and equipment | 30,511 | 9,920 |
| Amortization of intangible assets | 39,895 | - |
| Accretion and accrued interest on convertible debenture | 422,041 | 35,976 |
| Accrued interest on loans payable | - | 268,712 |
| Interest on lease | 2,343 | - |
| Bad debt | 829 | 65,000 |
| Share-based payments | - | 27,312 |
| Loss on settlement of debt | - | 134,400 |
| Impairment of loan receivable | - | 179,885 |
| Changes in non-cash working capital items: | | |
| Accounts receivables | (7,430) | (62,564) |
| Inventory | (8,150) | - |
| Prepaid expenses | 12,085 | 6,547 |
| Accounts payable and accrued liabilities | 235,005 | 220,876 |
| Customer deposits | (10,331) | - |
| Deferred revenue | (696) | - |
| Net cash used in operating activities | (893,419) | (567,709) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Loans receivable | - | (118,840) |
| Cash acquired on business combination | 165,161 | - |
| Purchase of property and equipment | (43,833) | - |
| Net cash used in investing activities | 121,328 | (118,840) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Repayment of capital lease obligations | (15,248) | (3,596) |
| Repayment of convertible debentures | (30,008) | - |
| Proceeds of loans payable | 908,652 | 257,125 |
| Share proceeds received in advance | 54,000 | - |
| Transaction costs | (26,494) | - |
| Repayment of loans payable | - | (2,000) |
| Proceeds from debenture payable | - | 270,000 |
| Proceeds from issuance of common shares | 216,500 | 145,873 |
| Net cash provided by financing activities | 1,107,402 | 667,402 |
| **Change in cash during the year from continuing operations** | 335,311 | (19,147) |
| **Change in cash during the year from discontinued operations** | 25,717 | - |
| **Cash, beginning of year** | 3,052 | 22,199 |
| **Cash, end of year** | $364,080 | $3,052 |

**Supplemental disclosure with respect to cash flows** (Note 14)

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 409 Granville Street, Vancouver, BC, V6C 1T2. The Company is a provider of telecommunication and IT services for the residential and commercial market. The Company also has linux-based embedded system technologies and solutions for the consumer electronics industry, defence systems, security and surveillance, and the intelligent appliance market.

## 2. NATURE OF OPERATIONS AND GOING CONCERN

**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.

**Acquisition of AIC Global Communications Inc.**

The Company acquired a 100% interest in AIC Global Communications Inc. ("AIC") on July 31, 2013 from Y2K Investments Inc. (the "Vendor") for consideration of 3,000,000 common shares of the Company and a potential earn-out bonus of up to $400,000 dependant on thresholds being met for positive earnings before interest, taxes, depreciation and amortization (see below). The acquisition is considered a business combination under the provisions of the IFRS 3 *Business Combinations.*

AIC is a telecommunications company located in Canada. It has obtained the necessary licenses to operate and provide long distance and telecommunications services to over 20,000 customers. It is regulated under the regulations of the Canadian Radio-television and Telecommunications Commission ("CRTC").

The Company's main reasons for completing this acquisition are to acquire a stronghold in the telecommunications industry and to utilize already developed technologies to enhance the products and services provided. Accordingly the Company has recognized customer relationships in this acquisition.

The allocation of the fair value of the consideration paid to the identifiable assets acquired and liabilities assumed was as follows:

| | $ |
|---|---|
| Assets acquired: | |
| Cash | 165,161 |
| Trade and other receivables | 72,276 |
| Inventory | 4,611 |
| Prepaid expenses and deposits | 11,106 |
| Property and equipment | 154,250 |
| Customer relationships | 478,759 |
| | 886,163 |
| Less liabilities assumed: | |
| Accounts payable | 111,931 |
| Other payables | 38,711 |
| Customer deposits | 209,957 |
| Deferred revenue | 188,896 |
| Obligations under finance lease | 41,668 |
| | 591,163 |
| Net assets acquired | 295,000 |
| Shares issued | 285,000 |
| Contingent consideration provision | 10,000 |
| Fair value of consideration | 295,000 |

## 2. NATURE OF OPERATIONS AND GOING CONCERN

As contingent consideration, 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 acquisition subject to:

i) AIC 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 AIC 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 Company has recorded a provision of $10,000 to record the fair value of the earnout bonus as determinable at December 31, 2013.

During the five month period ended December 31, 2013, AIC generated $803,842 in revenue from providing telecommunication services and products. During the five month period ended December 31, 2013, AIC incurred a net loss of $87,478 which has been included in the consolidated statement of comprehensive loss.

The trade and other receivables acquired include various amounts due from customers and other parties. The amount presented in the list of acquired assets represents the estimated fair value which is also the contractual amount and estimated cash flows that are expected to be collected as at the acquisition date.

The purchase price allocation, specifically in respect of property and equipment, customer relationships and contingent consideration provision, has not been finalized as of the date of issuance of these consolidated financial statements. As is customary in a business acquisition transaction, until the time of acquisition of control, the Company did not have full access to the accounting records of AIC. Upon having sufficient time to review the accounting records of AIC, the Company expects to finalize the purchase price allocation.

**Discontinued operations**

The Company decided to discontinue the operations of Empower Defense Systems Inc., which represented a major line of business for the Company. The Company has presented the operations of Empower Defense Systems Inc. as discontinued operations (Note 18). The Company incorporated Empower Defense Systems Inc. during the year ended December 31, 2013, and therefore no retroactive adjustments were considered necessary.

## 2. NATURE OF OPERATIONS AND GOING CONCERN (cont'd…)

### 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 $32,105,290 since inception and further losses are anticipated in the development of its business plan. As at December 31, 2013, the Company has a working capital deficiency of $3,944,244. These circumstances cast 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.

### 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.

### 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), Empower Technologies (Shanghai) Inc. (incorporated in the People's Republic of China), Empower Defence Systems Inc. (incorporated in Canada) and AIC Global Communications Inc. (incorporated in Canada). Empower Technologies (Canada) Inc. (incorporated in Canada) is a wholly-owned subsidiary of Empower Technologies, Inc. All intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. The consolidated financial statements include the results of operations for all subsidiaries listed above for the 12 months ending December 31, 2013, with the exception of AIC, for which the results of operations and cash flows are presented for a five month period beginning on the date of acquisition (July 31, 2013) and ending December 31, 2013.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### 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 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 property and equipment, the useful lives of customer relationships, interest rate used in calculating the debt portion of convertible debenture, valuation of deferred income tax assets and liabilities, allowance for doubtful accounts receivable and fair values of financial instruments, provisions including amounts for inventories and contingent consideration and the determination of the assumptions used in calculating fair value of share-based payment calculations. Actual results could differ from these estimates. Significant areas requiring the use of management judgement include the going concern assumption.

### Inventories

Inventories are carried at the lower of cost, using the specific identification method, and net realizable value. Inventories include subscriber equipment such as modems and gateways, which are held, pending rental or sale at lower of cost or net realizable value. When subscriber equipment is sold, the equipment revenue and equipment costs are recognized in the period of sale as these items are non-refundable. When the subscriber equipment is rented, it is transferred to property, plant and equipment and depreciated over its useful life.

### 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 the replaced part is 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 following methods and rates:

| | |
|---|---|
| Computer equipment | Declining Balance 30% |
| Equipment under rental | Straight-line 4 years |
| Equipment under finance lease | Straight-line 5 years |
| Furniture and equipment | Declining Balance 20% |
| Leasehold improvements | Declining Balance 25% |
| Tools | Declining balance 20% |
| TV Equipment | Declining Balance 30% |

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:*

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

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is 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 includes 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, 2013 and 2012, no development expenditures were capitalized.

*Customer relationships*

Customer relationships represent the value of customer contracts and relationships acquired during a business combination that occurred during the year (Note 2). The amount is amortized on a straight-line basis over the estimated useful life of 5 years.

**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 and amounts 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 position 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).

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

*ii) Non-Financial assets:*

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

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. An asset's carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### 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. A valuation allowance is recorded against any deferred income tax asset to the extent that it is not probable the asset will be realized.

### 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

The Company generates a significant portion of revenues through its subsidiary in the sale of telecommunication services. The Company has multiple deliverable arrangements comprised of upfront fees (one-time setup fees) and related subscription revenue. The Company also generates revenues through the sale of modems and gateways.

Upfront fees are non-refundable and are required for the customer to obtain access to the services provided by the Company. These fees are recognized in revenue in the period they occur as the Company has provided the services.

Revenue from telecommunications services include subscriber revenue earned as services are provided. Telecommunications service revenue is recognized in the period in which the services are rendered to customers.

Revenue from the sale of modems and gateways 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.

### Deferred revenues

Deferred revenues primarily include: (i) prepayments received from customers under subscription agreements amortized into income over the term of the agreement as the services are provided, and (ii) unearned revenue for internet subscription agreements already paid for by customers.

### Customer deposits

Customer deposits consist of security deposits obtained from customers as collateral for post-paid services.

### 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 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 comprehensive loss 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 comprehensive loss items translated at actual and average rates, are recognized in the accumulated other comprehensive income/ loss.

## 4. NEW ACCOUNTING STANDARDS ADOPTED AND FUTURE PRONOUNCEMENTS

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, 2013, 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 adopted effective January 1, 2013:

IFRS 7, Financial Instruments: Disclosures - requires entities to provide additional information about offsetting of financial assets and financial liabilities that will enable users of financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognized financial assets and recognized financial liabilities, on the entity's financial position. The adoption of this IFRS did not impact the Company's consolidated financial statements.

IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 replaced SIC-12, Consolidation-Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements. The adoption of this IFRS did not impact the Company's consolidated financial statements.

IFRS 12, Disclosure of Interests in Other Entities, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities. The adoption of this IFRS did not impact the Company's consolidated financial statements.

IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure 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. The adoption of this IFRS did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled to net income in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately including prior year comparatives. The adoption of this IFRS did not impact the Company's consolidated financial statements.

ii) New Accounting Standards Issued But Not Yet Effective.

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB that are mandatory for future accounting periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below. The Company intends to adopt these standards when they become effective.

The following standard will be effective for annual periods beginning on or after January 1, 2014:

IFRS 10 Consolidated Financial Statements – In June 2012, the IASB issued an amendment to provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries fair value through profit or loss, rather than consolidate them. This amendment also set out disclosure requirements for investment entities. This amendment also impacts IFRS 12 – Disclosure of Interests in other entities and IAS 27 – Separate Financial Statements.

## 4. NEW ACCOUNTING STANDARDS ADOPTED AND FUTURE PRONOUNCEMENTS (cont'd…)

IAS 32 Financial Instruments: Presentation - In December 2011, the IASB issued an amendment to clarify the meaning of the offsetting criterion and the principle behind net settlement, including identifying when some gross settlement systems may be considered equivalent to net settlement. Earlier application is permitted when applied with corresponding amendment to IFRS 7.

IAS 36 Impairment of Assets – In May 2013, the IASB issued an amendment to address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

IAS 39 Financial Instruments: Recognition and Measurement – In June 2013, the IASB issued a narrow scope amendment to IAS 39. Under the amendment, there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided that certain criteria are met.

IFRIC 21 Levies – IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain.

The following standard will be effective for annual periods not earlier than January 1, 2018:

IFRS 9 Financial Instruments - In November 2009, as part of the IASB project to replace IAS 39 Financial Instruments: Recognition and Measurement, the IASB issued the first phase of IFRS 9 Financial Instruments, that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities.

The extent of the impact of adoption of these standards and interpretations on the consolidated financial statements of the Company has not been determined.

## 5. PROPERTY AND EQUIPMENT

| Cost | Computer equipment $ | Computer software $ | Equipment under rental $ | Equipment under finance lease $ | Furniture and equipment $ | Leasehold improvement $ | Tools $ | TV Equipment | Total $ |
|---|---|---|---|---|---|---|---|---|---|
| As at December 31, 2011 and 2012 | 144,343 | - | - | - | 109,889 | 28,724 | 38,501 | - | 321,457 |
| Additions arising from business acquisition | 20,210 | 2,366 | 49,765 | 49,777 | 29,027 | 3,105 | - | - | 154,250 |
| Additions | 1,690 | 174 | 29,109 | 10,137 | 150 | - | - | 12,710 | 53,970 |
| Dispositions | - | - | (3,883) | - | - | - | - | - | (3,883) |
| As at December 31, 2013 | 166,243 | 2,540 | 74,991 | 59,914 | 139,066 | 31,829 | 38,501 | 12,710 | 525,794 |
| **Accumulated Depreciation** | | | | | | | | | |
| As at December 31, 2011 | 135,879 | - | - | - | 81,717 | 28,724 | 29,768 | - | 276,088 |
| Depreciation | 2,359 | - | - | - | 5,634 | - | 1,747 | - | 9,920 |
| As at December 31, 2012 | 138,418 | - | - | - | 87,351 | 28,724 | 31,515 | - | 286,008 |
| Depreciation | 4,858 | 2,540 | 6,987 | 5,654 | 7,137 | 464 | 1,397 | 1,474 | 30,511 |
| As at December 31, 2013 | 143,276 | 2,540 | 6,987 | 5,654 | 88,488 | 29,188 | 32,912 | 1,474 | 310,519 |
| **Carrying Amounts** | | | | | | | | | |
| As at December 31, 2012 | 5,925 | - | - | - | 22,538 | - | 6,986 | - | 35,449 |
| As at December 31, 2013 | 22,967 | - | 68,004 | 54,260 | 50,578 | 2,641 | 5,589 | 11,236 | 209,275 |

## 6. INTANGIBLE ASSETS

As at December 31, 2013, intangible assets of $438,863 (December 31, 2012 - $nil) consist entirely of customer relationships acquired through the business combination described in Note 2. The customer relationships are amortized over their estimated useful lives of five years.

Customer relationships are summarized as follows:

| | $ |
|---|---|
| As at December 31, 2012 | - |
| Additions arising from business acquisitions | 478,759 |
| As at December 31, 2013 | 478,759 |
| **Accumulated Amortization** | |
| As at December 31, 2012 | - |
| Depreciation | 39,896 |
| As at December 31, 2013 | 39,896 |
| **Carrying Amounts** | |
| As at December 31, 2012 | - |
| As at December 31, 2013 | 438,863 |

Estimated amortization expense for the customer relationships for each of the next five years is as follows:

| Year Ended December 31, | $ |
|---|---|
| 2014 | 95,752 |
| 2015 | 95,752 |
| 2016 | 95,752 |
| 2017 | 95,752 |
| 2018 | 55,855 |

## 7. CONVERTIBLE DEBENTURES

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| 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 were convertible into common shares of the Company at $0.50 per share until December 31, 2011. 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. The remaining balance of $55,000 was extended until December 31, 2013 and further until December 31, 2014. Due to the modification, $1,524 was allocated to equity. The debentures are unsecured. | $ 53,476 | $ 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 December 31, 2014. Due to the modification, $3,231 was allocated to equity. The debenture is unsecured and bears interest at 10% per annum. | 46,769 | 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 December 31, 2014. During the current year, the Company paid down a principal portion of $5,000. Due to the modification, $657 was allocated to equity. The debentures are unsecured and bear interest at 10%. | 14,343 | 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 8, 2013 and further extended to December 8, 2014. Due to the modification, $30,656 was allocated to equity and there was $3,545 expensed for accretion. The debentures are unsecured. | 242,888 | 228,124 |
| Interest accrued | 87,350 | 60,821 |
| Short-term convertible debts | 444,826 | 416,034 |
| During the current year, the Company converted a loan payable with a principal amount of $2,724,457 into a convertible debenture expiring November 27, 2017, bearing interest at 10% per annum, compounded annually with an option at the discretion of the Lender to renew any remaining balance of the debt at the end of the five-year term for another three years or five years under the same terms and conditions. Transaction costs of $14,372 were allocated accordingly. $912,577 was allocated to equity and $317,792 was expensed for accretion. The convertible debenture has a general security agreement. | 2,120,114 | - |
| | $ 2,564,940 | $ 416,034 |

## 8. CAPITAL STOCK

During the year ended December 31, 2013:

a) The Company issued 3,000,000 common shares for the acquisition of AIC Global Communications Inc. (see Note 2). The fair value of the shares issued was $285,000.

b) The Company completed a non-brokered private placement of 4,330,000 units at a price of $0.05 per unit for gross proceeds of $216,500. 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 $0.10.

c) The Company has entered into a commitment to issue 2,400,000 bonus shares to the CEO and the CFO of the Company as consideration for a loan of $600,000 advanced to the Company (see Note 11) during the year. As at December 31, 2013, the shares have not been issued. The Company determined that the fair value of the shares to be issued was $84,000. The shares were issued subsequent to year-end.

d) The Company incurred total share issuance costs of $8,547 in relation to the private placement units and convertible debentures issued during the year.

During the year ended December 31, 2012:

a) 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.

b) The Company closed a non-brokered private placement of 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.

## 9. STOCK OPTIONS AND WARRANTS

### a) 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.

Under the stock option plan, options granted to officers and directors are to vest over a period of three years, whereas options granted to consultants are to vest over a period of four years. The maximum number of shares that may be reserved for issuance is 12,200,000 common shares.

As at December 31, 2013, the following incentive stock options are outstanding and exercisable:

| Number of Shares | Exercise Price | Expiry Date |
|---|---|---|
| 1,440,000 | $ 0.10 | August 23, 2015 |

The weighted average contractual life of stock options outstanding as at December 31, 2013 is 1.64 years.

## 9. STOCK OPTIONS AND WARRANTS (cont'd…)

Stock option transactions are summarized as follows:

| | Year Ended December 31, 2013 | | Year Ended December 31, 2012 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding, beginning of period | 1,540,000 | $ 0.10 | 2,486,662 | $ 0.12 |
| Options granted | - | - | - | - |
| Options forfeited | (70,000) | 0.10 | (615,000) | 0.10 |
| Options expired or cancelled | (30,000) | - | (331,662) | 0.27 |
| Outstanding, end of year | 1,440,000 | $ 0.10 | 1,540,000 | $ 0.10 |
| Number of options exercisable, end of year | 1,440,000 | $ 0.10 | 1,060,000 | $ 0.10 |

**Share-based payments**

During the year ended December 31, 2013 the Company recorded $Nil (2012 - $27,312) for share-based compensation.

**b) Warrants**

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

| | Year Ended December 31, 2013 | | Year Ended December 31, 2012 | |
|---|---|---|---|---|
| | Number of Warrants | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price |
| Outstanding, beginning of year | 2,551,000 | $0.21 | 2,833,150 | $0.25 |
| Warrants granted | 2,165,000 | $0.10 | 901,000 | $0.15 |
| Warrants expired | (2,551,000) | $0.21 | (1,183,150) | $0.25 |
| Outstanding, end of year | 2,165,000 | $0.10 | 2,551,000 | $0.21 |
| Number of warrants currently exercisable | 2,165,000 | $0.10 | 2,551,000 | $0.21 |

As at December 31, 2013, the following warrants are outstanding:

| Number of Warrants | Exercise Price | Expiry Date |
|---|---|---|
| 2,165,000 | $0.10 | April 2, 2014 |

During the year ended December 31, 2013, the Company granted 2,165,000 share purchase warrants in connection with the non-brokered private placement described at Note 8 b).

The weighted average contractual life of warrants outstanding at December 31, 2013 is 1.35 years.

## 10. OBLIGATIONS UNDER FINANCE LEASES

| | 2013 | 2012 |
|---|---|---|
| Finance lease obligations due over lease terms expiring through 2016 | $ 45,033 | $ 6,291 |
| Less: current portion | (23,504) | (3,595) |
| | $ 21,529 | $ 2,696 |

| Estimated remaining lease payments are as follows: | |
|---|---|
| 2014 | 33,570 |
| 2015 | 17,050 |
| 2016 | 2,388 |

## 11. RELATED PARTY TRANSACTIONS AND BALANCES

Key management includes directors, and officers of the Company. The Company entered into the following transactions with related parties:

| | 2013 | 2012 |
|---|---|---|
| Consulting fees (i) | $ 192,000 | $ 188,000 |
| Salaries (ii) | 60,000 | - |
| Directors' fees | 72,000 | |
| Short-term benefits | 324,000 | 188,000 |
| Share-based payments | - | 26,540 |
| Key management compensation | $ 324,000 | $ 214,540 |

(i) Consulting fees are paid or accrued to a Company controlled by certain officers and directors of the Company.

(ii) Salaries are paid to the President of AIC and his spouse.

The Company has incurred $535,958 (2012: $424,357) in interest on short-term and long-term loans and convertible debentures made by certain officers and directors of the Company during the year ended December 31, 2013.

## 11. RELATED PARTY TRANSACTIONS AND BALANCES (cont'd…)

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.

Balances due to related parties consist of the following:

| | 2013 | 2012 |
|---|---|---|
| Accounts payable (i) | $ 1,169,015 | $ 946,642 |
| Short-term loan (ii) | 2,095,175 | 1,278,912 |
| Long-term loans (iii) | - | 2,724,457 |
| Convertible debentures (iv) | 2,120,114 | - |

(i) Unsecured, non-interest bearing and due on demand
(ii) Secured by a general security agreement bearing interest from 12-14% per annum and due on demand.
(iii) Unsecured, bearing interest at 10%
(iv) See Note 7.

## 12. INCOME TAXES

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

| | Year Ended December 31, 2013 | Year Ended December 31, 2012 |
|---|---|---|
| Loss before income taxes | $ (1,584,167) | $ (1,453,773) |
| Income tax rate | 25.75% | 25% |
| Expected income tax recovery | $ (408,376) | $ (363,443) |
| Non-deductible expenses | 134,699 | 31,137 |
| Effect of difference between functional and tax reporting currency | (519) | (499) |
| Difference in tax rates | (266,762) | - |
| SR&ED credits added/recognized | 68,172 | (84,259) |
| Other | 32,059 | - |
| Change in unrecognized tax benefit of deferred tax assets | 440,727 | 417,064 |
| Total income tax recovery | $ - | $ - |

## 12. INCOME TAXES (cont'd…)

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

| | Year Ended December 31, 2013 | Year Ended December 31, 2012 |
|---|---|---|
| Gross deferred income tax assets: | | |
| Non-capital losses available for future years | $ 5,802,000 | $ 5,122,000 |
| Property and equipment | 1,029,000 | 52,000 |
| Share issuance costs and other | (13,000) | 17,000 |
| SR&ED income tax credits | 1,227,000 | 1,313,000 |
| SR&ED expenses available for future years | 1,352,000 | 1,302,000 |
| Capital losses available for future years | 11,000 | 10,000 |
| | 9,408,000 | 7,816,000 |
| Unrecognized deferred tax assets | (9,408,000) | (7,816,000) |
| Net deferred income tax assets | $ - | $ - |

The Company has available for deduction against future taxable income non-capital losses in Canada of approximately $20,285,589. The Company has available for deduction against future taxable income operating losses in the U.S. of approximately $1,419,848 (in US dollars). These losses, if not utilized, will expire through to 2033. 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.

## 13. SEGMENTED INFORMATION

The Company operates in one reportable operating segment. In 2013, all revenues were earned from customers in Canada. In 2012, the Company earned all of its revenues from customers in Asia. All of the Company's long-lived assets are located in Canada.

## 14. SUPPLEMENTAL CASH FLOWS DISCLOSURE

| | 2013 | 2012 |
|---|---|---|
| Cash paid during the year for interest | $ 25,008 | $ 134,637 |
| Cash paid during the year for income taxes | $ - | $ - |

**Non-Cash Investing and Financing Transactions**

During the year ended December 31, 2013 the Company:

a) Issued 3,000,000 common shares with a fair value of $285,000 for the acquisition of AIC (Note 2).

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

b) Issued 2,688,000 common shares with a fair value of $268,800 for $134,400 of debt to directors of the Company (Note 8).

c) Issued 126,000 agent warrants as finders' fees for completing the debenture financing of gross proceeds of $270,000 as described in Note 7. The fair value of the warrants is $5,176, which was allocated to the equity and liability component proportionately.

## 15. FINANCIAL INSTRUMENTS AND RISK

The carrying value of amounts receivable, accounts payable, obligations under finance lease, convertible debentures, provision and loans payable approximated their fair value due to their nature or current market interest rates of similar instruments.

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

| Assets | Level 1 | Level 2 | Level 3 | December 31, 2013 Total |
|---|---|---|---|---|
| Cash | $ 364,080 | $ - | $ - | $ 364,080 |

The Company is exposed to the following risks from its use of financial instruments: credit risk, market risk and liquidity risk. Management monitors 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 and trade 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 trade receivables are recorded in the consolidated statement of comprehensive loss. Amounts receivable at December 31, 2013 are comprised of trade accounts receivable. The Company has recorded allowance of doubtful accounts of $31,500 as at December 31, 2013 (2012 - $31,500).

The Company's maximum exposure to credit risk at December 31, 2013 and 2012 under its financial instruments is the carrying value of cash and amounts receivable. Amounts receivable are summarized as follows:

| | **December 31, 2013** | **December 31, 2012** |
|---|---|---|
| Amounts receivable - | | |
| Currently due | $ 86,466 | $ - |
| Past due by 90 days or less, not impaired | 8,177 | 15,758 |
| Past due by greater than 90 days, not impaired | - | - |
| | $ 94,643 | $ 15,758 |

(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. 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. As at and during the year ended December 31, 2013, the Company held only minor amounts of cash held in foreign currencies.

## 15. FINANCIAL INSTRUMENTS AND RISK (cont'd…)

(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, 2013. 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, 2013, the Company had cash of $364,080. However, the company has a working capital deficiency of $$3,944,244. The continuation of the Company depends upon the support of its lenders and equity investors, which cannot be assured. The Company's financial liabilities are comprised of its accounts payable and accrued liabilities, the contractual maturities of which at December 31, 2013 and 2012, are summarized as follows:

| | Less than 1 Year $ | Years 2 and 3 $ | Years 4 and 5 $ | More than 5 Years $ | Total $ |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | 1,477,773 | - | - | - | 1,477,773 |
| Finance lease obligations | 23,504 | 21,529 | - | - | 45,033 |
| Convertible debentures | 444,826 | - | 2,120,114 | - | 2,564,940 |
| Loans payable | 2,095,175 | - | - | - | 2,095,175 |

## 16. 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 all components of shareholders' deficiency, 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

## 17. COMMITMENTS

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 | $ | 106,695 |
| Later than one year and no later than five years | $ | 230,354 |
| | $ | 337,049 |

## 18. DISCONTINUED OPERATIONS

Revenues and expenses related to the discontinued operations are as follows:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Income from discontinued operations | | | | |
| Revenue | $ | 121,637 | $ | - |
| Cost of sales | | (92,079) | | - |
| Other expense | | (4,204) | | - |
| | | 25,354 | | - |
| Cash flows from discontinued operations | | | | |
| Operating activities | $ | 25,717 | $ | - |

## 19. SUBSEQUENT EVENT

a) During the year ended December 31, 2013, the Company committed to issue 2,400,000 shares to officers of the Company in relation to a loan of $600,000 that was advanced to the Company (Note 8c). These shares were classified as shares issuable. Subsequent to year-end, the Company issued 2,400,000 shares with a value of $84,000 on the date the loan was advanced.