Consolidated Financial Statements of

CANHAUL INTERNATIONAL CORP.

Year ended June 30, 2013

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Canhaul International Corp.

We have audited the accompanying consolidated financial statements of Canhaul International Corp. which comprise the consolidated balance sheet as at June 30, 2013 and the consolidated statements of operations, deficit and cash flows for the year then ended, and 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 Canadian accounting standards for private enterprises, 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, 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 audit 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 consolidated financial position of Canhaul International Corp. as at June 30, 2013, and its consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

KPMG

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which indicates that there may be significant doubt about the Company's ability to continue to generate sufficient cash flow from operations to fund its debt obligations as they become due. This condition indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Comparative Information

Without modifying our opinion, we draw attention to note 15 to the consolidated financial statements which indicates that the comparative information presented as at and for the year ended June 30, 2012, has been adjusted.

The consolidated financial statements of Canhaul International Corp. as at and for the year ended June 30, 2012, excluding the adjustment described in note 15 to the consolidated financial statements, were audited by another auditor who expressed an unmodified opinion on those financial statements on February 22, 2013.

As part of our audit of the consolidated financial statements as at and for the year ended June 30, 2013, we audited the adjustment described in note 15 to the consolidated financial statements that was applied to adjust the comparative information presented as at and for the year ended June 30, 2012. In our opinion, the adjustment is appropriate and has been properly applied.

We were not engaged to audit, review, or apply any procedures to the the June 30, 2012, consolidated financial statements other than with respect to the adjustment described in note 15 to the consolidated financial statements. Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.

KPMG LLP

Chartered Accountants

October 31, 2013
Calgary, Canada

CANHAUL INTERNATIONAL CORP.

Consolidated Balance Sheet

June 30, 2013, with comparative figures for 2012

	2013	2012
		(Restated – note 15)
Assets		
Current assets:		
Cash	$ 81,701	$ 87,538
Accounts receivable	834,137	883,959
Inventory (note 3)	220,328	313,170
Government sales tax receivable	58,707	58,648
Prepaid expenses	91,054	61,576
	1,285,927	1,404,891
Property and equipment (note 4)	42,289	48,533
Intangible assets (note 5)	3,172,137	2,921,435
	$ 4,500,353	$ 4,374,859
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term debt (note 6)	$ 647,685	$ 650,311
Accounts payable and accrued liabilities	670,567	918,425
Deferred revenue	11,985	27,404
Current portion of due to shareholders (note 7)	289,695	321,139
	1,619,932	1,917,279
Due to shareholders (note 7)	223,476	–
Long-term debt (note 8)	–	553,005
Equity to be issued (note 9)	25,374	39,761
Shareholders' equity:		
Share capital (note 10)	8,684,992	6,678,092
Deficit	(6,053,421)	(4,813,278)
	2,631,571	1,864,814
Future operations (note 1)		
Subsequent events (notes 6, 10 and 16)		
Commitments (note 12)		
	$ 4,500,353	$ 4,374,859

See accompanying notes to consolidated financial statements.

Approved by the Board:

Brent Moore (signed) Director

Gil Sonnenberg (signed) Director

CANHAUL INTERNATIONAL CORP.

Consolidated Statement of Operations

Year ended June 30, 2013, with comparative figures for 2012

	2013	2012 (Restated – note 15)
Revenue:		
Hardware sales	$ 1,664,564	$ 1,490,597
Airtime sales	1,908,091	734,623
Software development	43,012	16,212
Consulting and other revenue	56,117	34,363
	3,671,784	2,275,795
Cost of sales:		
Hardware purchases	1,119,391	876,695
Airtime purchases	746,663	328,860
Freight in and duty	44,565	69,146
	1,910,619	1,274,701
	1,761,165	1,001,094
Expenses:		
General and administrative	999,904	812,090
Wages and benefits	916,184	948,007
Sub-contracts	157,363	297,710
Stock-based compensation expense	47,182	168,370
	2,120,633	2,226,177
Loss before undernoted items	(359,468)	(1,225,083)
Amortization:		
Amortization of intangible assets	574,330	423,951
Amortization on property and equipment	8,493	17,755
	582,823	441,706
Interest expense:		
Interest on short-term debt	147,201	–
Interest on shareholders loans and long-term debt	146,949	–
Interest and bank charges	3,702	14,567
	297,852	14,567
Net loss	$ (1,240,143)	$ (1,681,356)

See accompanying notes to consolidated financial statements.

CANHAUL INTERNATIONAL CORP.
Consolidated Statement of Deficit

Year ended June 30, 2013, with comparative figures for 2012

	2013	2012 (Restated – note 15)
Deficit, beginning of year	$ (4,813,278)	$ (3,131,922)
Net loss	(1,240,143)	(1,681,356)
Deficit, end of year	$ (6,053,421)	$ (4,813,278)

See accompanying notes to consolidated financial statements.

CANHAUL INTERNATIONAL CORP.

Consolidated Statement of Cash Flows

Year ended June 30, 2013, with comparative figures for 2012

	2013	2012
		(Restated – note 15)
Cash provided by (used in):		
Operations:		
Net loss	$ (1,240,143)	$ (1,681,356)
Items not involving cash:		
Amortization	582,823	441,706
Stock-based compensation expense	47,182	168,370
Shares issued for wages	30,401	–
	(579,737)	(1,071,280)
Change in non-cash operating working capital:		
Accounts receivable	49,822	(462,883)
Inventory	92,842	(255,121)
Government sale taxes receivable	(59)	(41,345)
Prepaid expenses	(29,478)	31,757
Accounts payable and accrued liabilities	(247,858)	664,819
Deferred revenue	(15,419)	26,775
Long-term receivable	–	4,662
	(729,887)	(1,102,616)
Financing:		
Proceeds from shareholders loans	749,654	305,000
Repayments on shareholders loans	(341,944)	(662,455)
Common shares issued for cash	995,634	1,410,405
Proceeds from long-term debt	350,000	618,672
Repayments on long-term debt	(200,000)	–
Short-term debt	(2,626)	650,311
Equity to be issued	613	29,959
	1,551,331	2,351,892
Investing:		
Intangible asset development costs	(1,337,275)	(1,379,416)
Scientific Research and Experimental Development refunds	512,243	312,565
Purchase of property and equipment	(2,249)	(13,342)
Proceeds on disposal of property and equipment	–	4,375
Proceeds from redemption of short-term investment	–	5,007
	(827,281)	(1,070,811)
Decrease (increase) in cash	(5,837)	178,465
Cash (bank indebtedness), beginning of year	87,538	(90,927)
Cash, end of year	$ 81,701	$ 87,538

See accompanying notes to consolidated financial statements.

Canhaul International Corp. (the “Company”) is a technology company that specializes in developing, marketing and delivering an advanced location based solution called Trakopolis. This asset tracking platform is delivered as a service and provides companies with crucial visibility to their mobile and remote assets worldwide through GPS devices and the internet. The Company was incorporated under the Alberta Business Corporations Act in December 2002.

1. Future operations:

These consolidated financial statements have been prepared on the basis of the accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. As of June 30, 2013, the Company had a deficit of $6,053,421. During the year the Company incurred a loss of $1,240,143. There may be significant doubt as to the ability of the Company to meet its obligations as they come due and continue as a going concern. In order to continue as a going concern, the Company must generate sufficient income and cash flow to repay its obligations, finance working capital and fund capital investments. The future of the Company is dependent on its ability to attain profitable operations and generate sufficient funds from those operations, to receive continued support from its shareholders and to obtain new financing. There is no certainty that the Company will raise these necessary funds from financings or operations.

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

2. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary CAN Telematics Inc. Inter-company accounts and transactions have been eliminated on consolidation.

(b) Inventory:

Inventory consists of tracking unit hardware and is valued at the lower of cost and net realizable value with the cost being determined on a weighted average basis.

(c) Property and equipment:

Property and equipment are stated at cost less accumulated amortization. Property and equipment are amortized over their estimated useful lives at the following rates and methods.

Assets	Methods	Rate
Computer equipment	Declining balance method	30%
Furniture and equipment	Declining balance method	20%
Leasehold improvements	Straight-line method	2 years
Vehicles	Declining balance method	30%

(d) Impairment of long-lived assets:

Long-lived assets, including property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and exceeds its fair value. Recoverability is measured by a comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

2. Significant accounting policies (continued):

(e) Intangible assets:

Intangible assets acquired individually or as part of a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their fair values. Expenditures incurred to acquire, develop, maintain and enhance intangible resources are recognized as assets only when they are separable or arise from contractual or other legal rights regardless of whether these rights are transferable or separable and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company and the cost can be reliably measured. The assessment of the probability of the future economic benefits using reasonable and supportable assumptions represents management’s best estimate of the set of economic conditions that will exist over the useful life of the asset. Subsequent expenditures to maintain such expected economic benefits are only capitalized to the carrying amount of the existing intangible asset if these expenditures separately meet the prescribed criteria for recognition as an intangible and that these costs could be directly attributable to a specific intangible rather than to the business as a whole.

The cost of internally-developed intangible assets comprises developmental costs that are directly attributable to creation, production and preparation of the asset to be capable of operating in the manner intended by management. Such developmental costs are only deferred if they meet the prescribed criteria for deferral.

Costs incurred for research activities are expensed as incurred in the statement of operations. Any costs incurred on intangible resources that have been previously recognized as an expense are not reversed at a later date.

Intangible assets are amortized over the estimated useful life of the assets, being seven years for the software.

(f) Warrants:

The Company accounts for equity instruments such as warrants, which are detachable from the financial liability, issued with a non-convertible liability instrument by measuring the warrants at $nil.

2. Significant accounting policies (continued):

(g) Stock-based compensation and other stock-based payments:

Equity instruments awarded to employees and the cost of the services received as consideration are measured and recognized based on the fair value of the equity instruments. When the Company acquires goods or services in exchange for equity instruments with non-employees, the Company measures the transaction based on the fair value of the goods or services received or the fair value of the equity instruments, or liabilities incurred, whichever is more reliably measureable. The fair value of stock-based payments to non-employees is periodically remeasured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the grant date is measured and recognized at that date.

(h) Income taxes:

The Company uses the income taxes payable method of accounting for income taxes whereby the income tax expense of the period consists only of the cost of current income taxes for that period, determined in accordance with the rules established by Canadian taxation authorities.

(i) Revenue recognition:

Revenue arrangements with multiple deliverables are divided into separate units of accounting if each deliverable has a value to the customer on a stand-alone basis and any undelivered item has objective and reliable evidence of its fair value.

The Company recognizes revenues when services have been provided or products have been delivered, there is clear evidence that an arrangement exists, the amounts are fixed or can be determined, and the collection is reasonably assured. The Company recognizes revenue from hardware sales when the products are shipped. Revenue from airtime sales is recognized in the period that the service has been provided to the customer. Software development and consulting revenue are recognized as work is performed. Payments received in advance of the services provided under the Company’s revenue recognition policies are recorded as deferred revenue.

2. Significant accounting policies (continued):

(j) Government assistance:

Government assistance is recorded as either a reduction in the cost of the applicable assets or as a credit in the statement of operations as determined by the terms and conditions of the agreement under which the assistance is provided to the Company or the nature of the expenditures which give rise to the credit. Government assistance is recorded when the receipt is reasonably assured. During the year, the Company received Scientific Research and Experimental Development ("SRED") investment tax credits from prior years of $512,243 (2012 - $312,565) recorded as a reduction in intangible assets.

(k) Foreign currency translation:

Transactions denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at transaction dates. Carrying values of monetary assets and liabilities are subsequently adjusted to reflect the exchange rates in effect at the balance sheet date. Non-monetary items denominated in a foreign currency are translated into Canadian dollars at historical exchange rates. Foreign exchange gains and losses are included in the determination of net loss for the year.

(l) Use of estimates:

The preparation of financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year.

The significant estimates requiring the use of management estimates relate to the collectability of accounts receivable, the net realizable value of inventory, the estimated useful life of property and equipment for amortization purposes and the evaluation of their net recoverable amount and the net recoverable amount of intangible assets. Actual results could differ from those estimates.

(m) Financial instruments:

(i) Initial measurement:

Financial instruments are measured at fair value on origination or acquisition, adjusted by, in the case of financial instruments that will not be subsequently measured at fair value, financing fees and transaction costs. All other transaction costs are recognized in net income in the period incurred.

2. Significant accounting policies (continued):

(m) Financial instruments (continued):

(i) Initial measurement (continued):

When the Company issues a financial instrument that contains both a liability and an equity element, it allocates the entire proceeds to the liability component.

(ii) Subsequent to initial recognition:

Investments in equity instruments that are quoted in an active market and free standing derivatives that are not designated in a qualifying hedging relationship are measured at fair value without any adjustment for transaction costs that may be incurred on sale or other disposal. Changes in fair value are recognized in net income in the period incurred. Investments in equity instruments that are not quoted in an active market are measured at cost, less any reduction for impairment. Other financial instruments are measured at amortized cost.

(iii) Impairment:

At year-end, the Company assesses whether there are any indications that a financial asset measured at cost or amortized cost may be impaired. For purposes of impairment testing, each individually significant asset is assessed individually; the balance of the assets are grouped on the basis of similar credit risk characteristics. When there is an indication of impairment, the Company determines whether a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset. When there has been a significant adverse change, the carrying value of the asset is reduced to the highest of:

(i) The present value of expected cash flows

(ii) The amount that could be realized by selling the asset, and

(iii) The amount that could be realized by exercising its right to any collateral held as security

When the extent of impairment decreases and the decrease can be related to an event occurring after the impairment was recognized, the impairment is reversed.

(n) Comparative figures:

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

3. Inventory:

Inventory consists of tracking unit hardware and the amount of inventory charged to cost of goods sold for the year ended June 30, 2013 was $1,119,391 (2012 - $876,695). Write-down of inventory charged to cost of goods sold during 2013 was $nil (2012 - $nil).

4. Property and equipment:

			2013	2012
	Cost	Accumulated amortization	Net book value	Net book value
Computer equipment	$ 35,038	$ 22,213	$ 12,825	$ 18,321
Furniture and equipment	28,620	1,356	27,264	23,267
Leasehold improvements	7,083	4,883	2,200	4,400
Vehicles	825	825	–	2,545
	$ 71,566	$ 29,277	$ 42,289	$ 48,533

5. Intangible assets:

	2013	2012
Development software – cost	$ 4,432,828	$ 3,607,796
Accumulated amortization	(1,260,691)	(686,361)
	$ 3,172,137	$ 2,921,435

Capitalized interest included in software additions for 2013 are $73,233 of interest on short-term debt and $72,032 of interest on shareholder loans and long-term debt for a total of $145,265 (2012 - $135,165).

6. Short-term debt:

(a) The Company has a demand financing agreement that permits the Company to borrow up to the accounts receivable outstanding subject to adjustments under the agreement, upon approval by the financing provider. The financing arrangement bears a fee of 1.75% for the initial amount drawn. The outstanding amount drawn bears interest of 0.61% per day. As pledged accounts receivable balances are collected the full amount is repaid to the lender with 20% of the balance being available to the Company to increase the loan in the future as a reserve. Proceeds are received under the agreement as specific accounts receivable balances are pledged. As at June 30, 2013, the principal outstanding amount is $440,624 (2012 - $355,163). Security under the financing agreement includes a general security agreement on all assets of the Company and a portion of accounts receivable. The carrying amount of the accounts receivable as at June 30, 2013 that has been pledged is $557,947 (2012 - $469,779). Subsequent to year end, the Company repaid the loan balance outstanding in the amount of $440,624 and obtained the release of all security interests under the loan agreement.

(b) The Company has a demand loan agreement that permits the Company to borrow up to $200,000 (2012 - $750,000) provided the amount does not exceed 75% of the estimated SRED refund claimed on the Company's corporate tax returns. The loan agreement bears interest of 1.75% (2012 - 1.95%) per month compounded monthly. As at June 30, 2013, the amount outstanding, including interest, was $207,061 (2012 - $295,148). Security under the loan agreement is a security interest on all assets of the Company and a priority charge on the SRED refunds over the other short-term debt lenders security. The estimated SRED refund for fiscal year ended 2013 is $409,658 which has not been accrued for in the financial statements. The loan is due at the earlier of two business days after receipt of the 2013 SRED refund or on April 30, 2014. Subsequent to year end, the Company received SRED refunds of $320,000 and repaid the loan balance outstanding plus interest, totaling $220,000 and obtained the release of all security interests under the loan agreement.

7. Due to shareholders:

The amounts due to shareholders are non-interest bearing, unsecured and have no set repayment terms except as noted below.

	2013	2012
14% $100,000 promissory note, originally due on August 31, 2012 and refinanced at a principal of $85,367 on March 1, 2013 repayable in monthly installments of $7,665 of principal and interest. Issued with this note are 30,000 warrants, which are exercisable at the option of the holder into Class B common shares at a price of $1.50 per share expiring on June 30, 2014.	$ 58,221	$ 100,000
24% (2012 - 12%) $100,000 promissory note, due on June 30, 2013.	107,500	102,000
36% $100,000 promissory note, due on June 30, 2013. During the year $50,000 was repaid.	50,000	–
20% $75,000 promissory note, due on June 30, 2014.	75,000	–
20% $300,000 promissory note, due on May 1, 2015. During 2013 the promissory note holder became a shareholder and the balance of $234,322 was reclassified to shareholder loans (note 8). Issued with this note were 50,000 warrants, which are exercisable at the option of the holder into Class B common shares at a price of $1.50 per share expiring on June 30, 2014. Principal and interest is due when the promissory note matures. During 2013, the Company received proceeds on the promissory note of $39,154. Principal outstanding in the amounts of $75,000 on September 30, 2012 and $75,000 on May 31, 2013 were converted to Class B common shares at $1.50 per share.	123,476	–
14% $100,000 promissory note, due on January 18, 2015. During 2013 the promissory note holder became a shareholder and the balance of $100,000 was reclassified to shareholder loans (note 8). During 2013 the promissory note holder advances an additional $30,000 at 20%. Issued with this note are 30,000 warrants, which are exercisable at the option of the holder into Class B common shares at a price of $1.50 per share expiring on June 30, 2014. Principal and interest is due when the promissory note matures.	130,000	–
20% $300,000 promissory notes issued on October 1, 2012. The principal outstanding of $300,000 was converted to Class B common shares on June 30, 2013 at $1.50 per share.	–	–

7. Due to shareholders (continued):

	2013	2012
24% $50,000 promissory note, due on December 31, 2012. The principal outstanding of $50,000 was converted to Class B common shares on June 27, 2013 at $1.50 per share.	–	52,000
12% $25,000 promissory note, due on May 29, 2013. The principal outstanding of $25,000 was converted to Class B common shares on June 27, 2013 at $1.50 per share.	–	25,000
24% $30,000 promissory note, due on May 1, 2013. The principal outstanding of $25,000 was converted to Class B common shares on September 28, 2012 at $1.50 per share.	–	30,600
Other amounts due to (from) shareholders, net	(31,026)	11,539
	513,171	321,139
Less current portion	289,695	–
Long-term portion, due in fiscal 2015	$ 223,476	$ 321,139

Interest paid to shareholders during the year amounted to $128,936 included in interest expense on shareholder loans and long-term debt and $127,252 of interest on shareholder loans is included in interest capitalized to intangible asset costs for a total of $256,188 (2012 - $50,887 included in interest capitalized to intangible asset costs).

8. Long-term debt:

	2013	2012
14% $100,000 unsecured promissory note, due on February 2, 2015. Issued with this note were 50,000 warrants, which are exercisable at the option of the holder into shares at a price of $1.50 per Class B common share expiring on June 30, 2014. The principal and accrued interest outstanding of $118,683 was converted to Class B common shares on June 27, 2013 at $1.50 per share.	$ –	$ 104,670

8. Long-term debt (continued):

	2013	2012
14% $100,000 unsecured promissory note, due on February 17, 2015. Issued with this note were 30,000 warrants, which are exercisable at the option of the holder into shares at a price of $1.50 per Class B common share expiring on June 30, 2014. During 2013, the Company issued a further promissory note with a principal amount of $150,000, bearing interest at 20%. The total principal outstanding of $250,000 was converted to Class B common shares on June 30, 2013 at $1.50 per share.	–	101,164
12% $200,000 unsecured promissory note issued on September 1, 2012, due on November 1, 2012. Issued with this note were 100,000 warrants, which are exercisable at the option of the holder into shares at a price of $1.50 per Class A common share expiring on September 1, 2015. On November 1, 2012 the note was repaid.	–	–
14% unsecured promissory note, transferred to shareholder loans during 2013 (note 7).	–	241,333
14% unsecured promissory note, transferred to shareholder loans during 2013 (note 7).	–	105,838
	$ –	$ 553,005

9. Equity to be issued:

The Company received funds from its investors for the purchase of shares and as of June 30, 2013 certain of the shares were not issued. During 2013, the Company issued 10,000 (2012 – 360,000) Class B common shares for $15,000 (2012 – $540,000) of proceeds received in the prior year.

10. Share capital:

(a) Authorized:

Unlimited Classes A, B, C, D, E and F common shares
Unlimited Class G non-cumulative redeemable preferred shares
Unlimited Class H cumulative redeemable preferred shares
Unlimited Classes I and J non-cumulative redeemable preferred shares
Unlimited Class K voting preferred shares
Unlimited Class L non-voting preferred shares

(b) Issued:

	2013	2012
2,274,666 Class A common shares	$ 1,892,459	$ 1,844,360
2,275,000 Class B common shares	6,792,533	4,833,732
	$ 8,684,992	$ 6,678,092

	2013		2012	
	Shares	Amount	Shares	Amount
				(Restated – Note 15)
Class A:				
Shares outstanding at the beginning of the year	2,183,000	$ 1,844,360	2,050,000	$ 1,674,660
Issued for cash	91,666	917	133,000	1,330
Fair value of $0.01 shares issued	–	136,582	–	198,170
Share issue costs	–	(89,400)	–	(29,800)
Shares outstanding at the end of year	2,274,666	$ 1,892,459	2,183,000	$ 1,844,360

10. Share capital (continued):

(b) Issued (continued):

	2013		2012	
	Shares	Amount	Shares	Amount
				(Restated – Note 15)
Class B:				
Shares outstanding at the beginning of the year	4,046,105	$ 4,833,732	2,275,700	$ 2,844,000
Issued for cash	673,146	1,009,717	1,378,181	1,976,374
Issued on conversion of debt (notes 7 and 8)	612,454	918,683	–	–
Issued for wages	20,267	30,401	–	–
Issued for cash on exercise of warrants	–	–	125,474	156,843
Issued for finder fees	–	–	266,750	400,125
Share issue costs	–	–	–	(543,610)
Shares outstanding at the end of year	5,351,972	$ 6,792,533	4,046,105	$ 4,833,732

During 2013, 91,666 (2012 - 133,000) Class A shares were issued from treasury for cash at $0.01 per share. The fair value was determined to be $1.50 per share at the date of the issuance of the shares resulting in $47,182 (2012 - $168,370) recorded as stock-based compensation expense and $89,400 (2012 - $29,800) recorded as share issue costs.

(b) Issued (continued):

During 2012, the Company issued 266,750 Class B shares fair valued at $1.50 per share as bonus to a non-related party for raising capital by way of finder fees which has been recorded as share issue costs. During 2012, the Company paid cash commission in the amount $143,485 for the gross proceeds raised by the non-related party recorded as share issue costs.

Subsequent to year end, the Company has received proceeds of $125,000 on the future issuance of 83,333 Class B common shares.

10. Share capital (continued):

(c) Warrants:

As at June 30, 2013, the Company has 290,000 (2012 – 190,000) (notes 7 and 8) warrants outstanding to purchase Class A or Class B common shares at an exercise price of $1.50 per share expiring on dates between June 30, 2014 and September 1, 2015 with a weighted average remaining life of 1.3 years. These warrants were initially issued in connection with certain shareholder loans and long-term debt. In accordance with its accounting policy, the Company valued these warrants at $nil.

11. Income taxes:

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 25.00% (2012 – 25.75%) to net loss before income taxes. The reasons for the differences and related income tax effects are as follows:

	2013	2012
Expected income tax recovery	$ (310,036)	$ (432,949)
Non-deductible items and other	10,997	34,947
SRED claim	(65,905)	(140,230)
Tax effect of amortization charged for accounting purposes greater than capital cost allowance	135,353	110,415
Tax effect of tax losses carried forward	229,591	427,817
	$ –	$ –

As at June 30, 2013, the amount of unused non-capital income tax losses available for carry forward to reduce taxable income earned in the future is $3,567,971 (2012 - $2,649,608) and will commence expiry in 2027.

12. Commitments:

The Company has the following annual commitments under office and equipment operating lease agreements:

2014	$ 246,000
2015	230,000
2016	226,000
2017	221,000
2018	221,000
	$ 1,144,000

13. Financial instruments:

(a) Credit risk:

Credit risk reflects the risk the Company may be unable to recover accounts receivable. The Company employs established credit approval and monitoring practices to mitigate the risk.

(b) Currency risk:

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to foreign currency exchange risk on cash, accounts receivable, and accounts payable held in U.S. dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

(c) Interest rate risk:

The Company manages its exposure to interest rate risk through fixed and floating rate borrowings.

(d) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial instruments. The Company is exposed to this risk mainly in respect of its debt (note 1).

14. Related party transactions:

The former Chief Financial Officer of the Company is a controlling owner of a company that provided the Company with consulting fees, marketing and development costs totaling $nil (2012 - $76,757) during the year.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

15. Adjustments to share capital and stock-based compensation:

(a) During 2013, the Company determined that an adjustment to the fair value of Class A common shares issued in 2012 was required. The adjustment increases previously reported net loss and deficit as at and for the year ended June 30, 2012 by $168,370. The amounts at June 30, 2012 and for the year then ended have been restated (note 10(b)). The effect of the adjustment is as follows – increase (decrease):

	June 30, 2012
Share capital	$ 168,370
Stock-based compensation expense	168,370
Net loss	168,370

(b) During 2013, the Company determined that an adjustment to the fair value of Class A common shares issued in 2010 and 2009 was required. The adjustment increases previously reported deficit at June 30, 2011 by $1,654,160. The amounts recorded as at June 30, 2011 have been restated. The effect of the adjustment is as follows – increase (decrease):

	June 30, 2011
Share capital	$ 1,654,160
Deficit, opening	1,654,160

16. Subsequent events:

Subsequent to year end, the Company, in principle, entered into a loan facility with a company controlled by the CEO and CFO of the Company. A facility agreement has not yet been executed, however, it is expected that the maximum available under the facility will be $1,000,000 and draws on the facility will bear interest at 12% per annum with interest only payments due monthly. There are no set terms of repayment expected but amounts drawn will be subject to repayment on demand by the related company. It is further expected that the Company will provide a general security agreement to the lender covering all current and future acquired assets of the Company. To the date of the financial statements, $400,000 has been drawn by the Company under this facility. Actual terms and conditions of the facility will be finalized during fiscal 2014.