NEOTECK SOLUTIONS INC.

(formerly Neodym Technologies Inc.)

FINANCIAL STATEMENTS
FOR YEARS ENDED FEBRUARY 28, 2013 AND FEBRUARY 29, 2012
(Expressed in Canadian Dollars)

MNP LLP

INDEPENDENT AUDITORS' REPORT

To the Shareholders of **Neoteck Solutions Inc.:**

We have audited the accompanying financial statements of Neoteck Solutions Inc. which comprise the statement of financial position as at February 28, 2013 and the statements of comprehensive loss, changes in equity, and cash flows for the year then ended and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements present fairly, in all material respects, the financial position of Neoteck Solutions Inc. as at February 28, 2013, and the results of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 of these financial statements, which states that Neoteck Solutions Inc. incurred significant losses from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters described in Note 1, indicates the existence of a material uncertainty which may cast doubt about the ability of Neoteck Solutions Inc. to continue as a going concern.

Other Matter

The financial statements of Neoteck Solutions Inc. for the year ended February 29, 2012, were audited by another auditor who expressed an unmodified opinion on those statements on June 27, 2012.

June 27, 2013
Vancouver, British Columbia

Chartered Accountants

NEOTECK SOLUTIONS INC.
(formerly Neodym Technologies Inc.)
STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	Note	February 28, 2013 $	February 29, 2012 $
ASSETS			
Current assets			
Cash		263,001	11,792
Accounts receivable	**7**	15,783	18,342
		278,784	30,134
Equipment	**8**	-	990
Intangible assets	**9**	-	8,204
		278,784	39,328
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		15,271	56,233
Loans payable	**10**	-	21,000
Due to related parties	**11**	-	987,259
		15,271	1,064,492
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	**12**	2,403,006	1,092,985
Contributed surplus		189,514	24,589
Deficit		(2,329,007)	(2,142,738)
		263,513	(1,025,164)
		278,784	39,328

Nature of operations and going concern (Note 1)

Approved and authorized on behalf of the Board of Directors on June 27, 2013

“**Gunther Roehlig**” Director “**Stephen Pearce**” Director

The accompanying notes are an integral part of these financial statements

NEOTECK SOLUTIONS INC.
(formerly Neodym Technologies Inc.)
STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
For years ended February 28, 2013 and February 29, 2012
(Expressed in Canadian Dollars)

	Note	2013 $	2012 $
REVENUE			
Sales		69,758	177,048
Cost of sales	**11**	(26,382)	(63,696)
Gross profit		43,376	113,352
ADMINISTRATIVE EXPENSES			
Accounting and audit	**11**	36,927	16,750
Amortization and depreciation	**8, 9**	3,029	9,032
Bank charges and interest		2,620	5,303
Consulting fees		18,037	-
Customer support		9,200	20,537
Foreign exchange loss		182	1,329
Legal	**11**	60,552	-
Management	**11**	64,463	70,391
Marketing	**11**	8,175	24,027
Office and miscellaneous		8,122	7,233
Regulatory and stock transfer		21,945	11,959
Rent	**11**	8,491	3,000
Research and development	**11**	1,442	11,340
		(243,185)	(180,901)
OTHER INCOME (EXPENSE)			
Gain on sale of subsidiary	**6**	13,540	-
Inventory write-down		-	(14,675)
Recovery of sales prepayment		-	64,048
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		(186,269)	(18,176)
NET LOSS PER SHARE – BASIC AND DILUTED		(0.01)	(0.00)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		20,157,015	5,075,966

The accompanying notes are an integral part of these financial statements

NEOTECK SOLUTIONS INC.
(formerly Neodym Technologies Inc.)
STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
(Expressed in Canadian Dollars, except for share figures)

	Number of Shares	Share Capital $	Contributed Surplus $	Deficit $	Total $
Balance, February 28, 2011	6,075,966	1,092,985	24,589	(2,124,562)	(1,006,988)
Net loss for the year	-	-	-	(18,176)	(18,176)
Balance, February 29, 2012	6,075,966	1,092,985	24,589	(2,142,738)	(1,025,164)
Shares repurchased for cash	(1,000,000)	(20,000)	-	-	(20,000)
For cash pursuant to private placement	30,000,000	1,350,000	150,000	-	1,500,000
Share issuance costs – cash	-	(5,054)	-	-	(5,054)
Share issuance costs – finders units	2,985,000	(14,925)	14,925	-	-
Net loss for the year	-	-	-	(186,269)	(186,269)
Balance, February 28, 2013	38,060,966	2,403,006	189,514	(2,329,007)	263,513

The accompanying notes are an integral part of these financial statements

NEOTECK SOLUTIONS INC.
(formerly Neodym Technologies Inc.)
STATEMENTS OF CASH FLOWS
For the years ended February 28, 2013 and February 29, 2012
(Expressed in Canadian Dollars)

	2013 $	2012 $
Operating activities:		
Net loss for the year	(186,269)	(18,176)
Items not affecting cash:		
Amortization and depreciation	3,029	9,032
Gain on sale of subsidiary	(13,540)	-
Inventory write-down	-	14,675
Recovery of sales prepayment	-	(64,048)
	(196,780)	(58,517)
Changes in non-cash working capital related to operations:		
Accounts receivable	(9,321)	5,204
Inventory	(5,711)	698
Accounts payable and accrued liabilities	(34,283)	1,604
Net cash used in operating activities	(246,095)	(51,011)
Investing activities:		
Intangible assets – product development	(7,107)	(5,320)
Transfer of cash on sale of subsidiary	(9,276)	-
Net cash used in investing activities	(16,383)	(5,320)
Financing activities:		
Proceeds from issuance of common shares	1,500,000	-
Share issuance costs	(5,054)	-
Repurchase of common shares	(20,000)	-
Repayment of loans payable	(21,000)	(3,000)
Due to related parties	(940,259)	56,293
Net cash provided by financing activities	513,687	53,293
Increase (decrease) in cash during the year	251,209	(3,038)
Cash – beginning of the year	11,792	14,830
Cash – end of the year	263,001	11,792
Supplemental disclosure of cash flow information:		
Interest paid	504	3,000
Non-cash financing and investing activities:		
Fair value of units issued as finder fees	149,250	-
Forgiveness of debt owed to related party in exchange for shares of subsidiary	47,000	-

The accompanying notes are an integral part of these financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

Neoteck Solutions Inc. (formerly Neodym Technologies Inc.) ("the Company") was incorporated under the Company Act of British Columbia and changed its name to Neoteck Solutions Inc. on September 10, 2012. Prior to the September 10, 2012 divestiture of its gas detection equipment and operations (Note 6), its principal business activity was the development and sales of gas safety and loss control systems. The Company is currently determining the direction of its future operations. The Company is listed for trading on the TSX Venture Exchange ("TSX-V") under the symbol "NEO". The Company's registered and records office is located at 2600 - 1066 West Hastings Street, Vancouver Canada V6B 1N2.

These financial statements have been prepared on the going concern basis, under the historical cost convention, which contemplates 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 business. If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expenses and the statement of financial position classifications used.

As at February 28, 2013, the Company had working capital of $263,513, had not yet achieved profitable operations, had an accumulated deficit of $2,329,007 since inception and expects to incur further losses in the future. These factors may cast substantial doubt on the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to attain profitable operations and generate funds therefrom. Management intends to finance operating costs over the next year with current working capital. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern. Such adjustments could be material.

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and related IFRS Interpretations Committee ("IFRIC's") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared on a historical cost basis, except for financial instruments classified at fair value through profit and loss, which are stated at their fair value, as explained in the accounting policies set out in Note 3. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The policies set out were consistently applied to all the periods presented unless otherwise noted below. The preparation of financial statements in accordance with IAS 1, *Presentation of Financial Statements*, requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

These financial statements were approved by the board of directors for issue on June 27, 2013.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are as follows:

a) Basis of consolidation

The results of operations of the Company's former wholly-owned subsidiary, Neodym Systems Inc. ("Neodym") were consolidated in the financial statements of the Company from March 1, 2011 until the Company's control over the subsidiary ceased on September 10, 2012. As at February 28, 2013, the Company consisted of one entity, Neoteck Solutions Inc.

b) Foreign currencies

These financial statements are prepared using Canadian dollars which is the functional and presentation currency of the Company.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. All gains and losses on translation of these foreign currency transactions are charged to profit or loss.

c) Equipment

Equipment is carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure directly attributable with bringing the asset to its operating location and condition. Depreciation is computed using the declining-balance method at the following rates:

Communication equipment	20%
Computers	30%
Machinery and equipment	20%

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

d) Patents

Patents are reported at cost less accumulated amortization and accumulated impairment losses. Patent costs represent amounts paid to third parties for the registration of patents. Amortization is charged on a straight line basis over a twenty year period. The estimated useful life and amortization method are reviewed each year end, with the effect of any changes in estimate being accounted for on a prospective basis.

e) Research and development

Deferred product development costs are recognized only if all of the following conditions are met: an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; the development cost of the asset can be measured reliably; and the product from which the asset arises meets the IFRS criteria for technical and commercial feasibility. Costs meeting the capitalization criteria are recorded as Deferred Product Development Costs and include the costs of material, direct labour, direct overhead and outsourcing costs. Amortization is provided on a straight-line basis over the estimated three year commercial lives of the products. Where no internally generated intangible asset can be recognized, development expenditure is recognized as an expense in the period in which it is incurred.

f) Impairment

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

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

g) Financial instruments

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss.

Financial assets classified as loans and receivables and held-to-maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary or a significant or prolonged decline in the fair value of that investment below its cost.

Transaction costs associated with FVTPL financial assets are expensed as incurred while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives are also classified as FVTPL unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income (loss).

De-recognition of financial assets and liabilities

Financial assets are de-recognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are de-recognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability de-recognized and the consideration paid and payable is recognized in profit or loss.

h) Share capital

Common shares and warrants are classified as equity instruments. Transaction costs directly attributable to the issuance of common shares and warrants are recognized as a deduction from equity.

Warrants included in units offered to subscribers as part of corporate financings are bifurcated at fair value in contributed surplus in shareholders' equity with an offsetting reduction in the value ascribed to the shares issued in the units.

Warrants issued to agents or brokers on a non-cash basis in connection with corporate financings are recorded at fair value using the Black-Scholes option pricing model and charged against share capital as issue costs with an offsetting increase to contributed surplus.

i) Loss per share

Basic loss per share represents the loss for the period, divided by the weighted average number of common shares outstanding during the period. Diluted loss per share represents the loss for the period, divided by the weighted average number of common shares outstanding during the period plus the weighted average number of dilutive shares resulting from the exercise of stock options, warrants and other similar instruments where the inclusion of these would not be anti-dilutive.

j) Share-based payments

The fair value at grant date of each separate award of stock options, based on the number of awards expected to vest, is recorded as a charge to operations and a credit to contributed surplus over the vesting period of the options. Any consideration received on the exercise of stock options together with the related portion of contributed surplus is credited to share capital. The fair value of stock options is estimated using the Black-Scholes option pricing model.

k) Revenue recognition

Revenue from the sale of products is recognized upon shipment, which is when ownership is transferred, the fee is fixed and determinable, and the collection of resulting receivables is probable.

Revenue from the provision of engineering services is recognized upon service completion.

l) Income tax

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Company does not provide for temporary differences relating to differences relating to investments in subsidiaries, associates, and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position reporting date applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Unless otherwise noted, the following revised standards and amendments are effective for the Company for annual periods beginning on or after January 1, 2013 with earlier application permitted.

(i) IFRS 9, *Financial Instruments,* was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value

through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement,* except that fair value changes due to credit risk for liabilities designated at fair value through profit or loss are generally recorded in other comprehensive income. This standard is effective for annual periods beginning on or after January 1, 2015 with earlier application permitted. The Company has not assessed the impact of this standard.

(ii) 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. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation - Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

(iii) IFRS 11, *Joint Arrangements*, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

(iv) 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 disclosures that address the nature of, and risks associated with, an entity's interests in other entities. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

(v) 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. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and

does not always reflect a clear measurement basis or consistent disclosures. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

(vi) IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled 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. The amendment is effective for annual periods beginning on or after July 1, 2012. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustments to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

Going concern

These 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 for the foreseeable future.

The assessment of the Company's ability to source future operations and continue as a going concern involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expenses and the statement of financial position classifications used (Note 1).

Provisions

Management's judgment is required to determine amounts to be recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions. Provisions are the best estimate of the expenditure required to settle the obligation at the reporting date.

Warrants

Management's judgment is required to determine amounts to be recognized for warrants included in units offered to subscribers and non-cash based amounts for warrants issued to agents or brokers in connection with corporate financings. Warrants included in units offered to subscribers in connection with financings are bifurcated at fair value. Management has determined that the fair value for the current year is equal to the value ascribed in the subscription agreement. The non-cash based warrants issued to agents or brokers are recorded at fair value using the Black Scholes option pricing model.

Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

6. SALE OF SUBSIDIARY

On September 10, 2012, the Company completed the sale of all of its shares in its wholly owned subsidiary, Neodym, to its former President and CEO in exchange for $47,000 payable by forgiveness of debt owed to the purchaser. The sale price was considered to be fair value as determined by an independent valuator. Accordingly the financial results of Neodym were consolidated in the financial statements of the Company up to September 10, 2012. The proceeds on sale of the subsidiary were allocated as follows:

	$
Fair value of shares sold in subsidiary	47,000
Net identifiable assets disposed of:	
Cash	9,276
Accounts receivable and prepaids	11,880
Inventory	5,711
Equipment	845
Intangible assets	12,427
Accounts payable	(6,679)
	33,460
Unrecognized goodwill recognized as gain on sale of subsidiary	13,540
	47,000

7. ACCOUNTS RECEIVABLE

	February 28, 2013 $	February 29, 2012 $
HST recoverable	15,783	4,074
Deposit	-	250
Trade receivables	-	14,018
	15,783	18,342

8. EQUIPMENT

	Communication Equipment $	Computers $	Machinery and Equipment $	Total $
Cost				
Balance, February 29, 2012	557	14,844	553	14,984
Disposals on sale of subsidiary	(557)	(14,844)	(553)	(14,984)
Balance, February 28, 2013	-	-	-	-
Accumulated Depreciation				
Balance, February 29, 2012	523	13,906	554	14,983
Depreciation	3	140	2	145
Disposals on sale of subsidiary	(526)	(14,046)	(556)	(15,128)
Balance, February 28, 2013	-	-	-	-
Net Book Value				
Balance, February 29, 2012	34	938	18	990
Balance, February 28, 2013	-	-	-	-

9. INTANGIBLE ASSETS

	Deferred Product Development Costs $	Patent $	Total $
Cost			
Balance, February 29, 2012	916,171	7,883	924,054
Additions	7,107	-	7,107
Disposals on sale of subsidiary	(923,278)	(7,883)	(931,161)
Balance, February 28, 2013	-	-	-
Accumulated Depreciation			
Balance, February 29, 2012	909,180	6,670	915,850
Depreciation	2,782	102	2,884
Disposals on sale of subsidiary	(911,962)	(6,772)	(918,734)
Balance, February 28, 2013	-	-	-
Net Book Value			
Balance, February 29, 2012	6,991	1,213	8,204
Balance, February 28, 2013	-	-	-

10. LOANS PAYABLE

	February 28, 2013 $	February 29, 2012 $
Repayable on demand, bearing interest at 5% per annum	-	10,000
Repayable on demand, bearing interest at 5% per annum	-	10,000
Accrued interest	-	1,000
	-	21,000

11. RELATED PARTY TRANSACTIONS

The Company incurred charges to directors and officers and former directors and officers, or to companies associated with these individuals during the years ended February 28, 2013 and February 29, 2012 as follows:

	2013 $	2012 $
Accounting and administrative support	13,627	30,000
Cost of sales	6,046	13,836
Legal fees	20,000	-
Management fees	36,963	63,445
Marketing, research and development	9,000	36,000
Rent	1,500	3,000
	87,136	146,281

The amount due to related parties at February 29, 2012 included $987,259 due to former directors and officers or companies associated with these individuals. These amounts were repaid during the year ended February 28, 2013. Related party transactions are conducted in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

Key management of the Company includes the President, CFO and the Directors. During the year ended February 28, 2013, compensation in respect of services provided by key management consists of management fees of $12,500 (2012 – $nil) paid to the President and $24,463 (2012 – $63,445) paid to the former President, legal fees of $20,000 (2012 – $nil) paid to a director, marketing, research and development fees of $9,000 (2012 – $36,000) paid to a former director, and accounting fees of $13,627 (2012 – $nil) paid to a company controlled by a director and in which the CFO is an associate. During the year ended February 29, 2012, the Company was charged $30,000 for office, accounting and administrative support by a company controlled by a former director. Other than as reflected above, there were no other transactions with key management, or compensation paid or payable for their services.

12. SHARE CAPITAL

a) Authorized – Unlimited common shares without par value.

b) Issued – 38,060,966 common shares

On August 20, 2012, by a special resolution approved at the Company's annual general and special meeting of the shareholders, the Company consolidated its issued and outstanding common shares into one new share for each two pre-consolidated common shares. All share amounts have been retroactively restated for all periods presented.

On September 20, 2012, the Company closed a non-brokered private placement of 30,000,000 units at $0.05 per unit for gross proceeds of $1,500,000. Each unit consisted of one post-consolidation share of the Company and one warrant to buy one additional post-consolidation share of the Company for $0.10 on or before September 20, 2013. As provided by the terms of the subscription agreement a value of $150,000 has been attributed to the warrants and $1,350,000 has been attributed to the shares. In connection with the private placement, the Company incurred cash issue costs of $5,054 and an additional 2,985,000 units with identical terms to those of the private placement issue were issued as finder's fees with a value of $14,925 attributed to the warrants and $134,325 attributed to shares.

On October 26, 2012, the Company repurchased and cancelled 1,000,000 post-consolidation shares owned by a former director and officer. These shares had been held in escrow as performance shares, and were cancelled for an amount equal to their initial issued cost basis of $20,000. Performance shares were excluded from the calculation of weighted average number of shares outstanding in determining basic and diluted loss per share.

c) Warrants:

A summary of the status of the share purchase warrants is presented below:

	Number of warrants	Weighted average exercise price $
Balance outstanding – February 29, 2012	-	-
Issued – expire September 20, 2013	32,985,000	0.10
Balance outstanding – February 28, 2013	32,985,000	0.10

The weighted average remaining contractual life of the outstanding warrants is 0.56 years.

13. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. In the management of capital, the Company includes the components of shareholders' equity as well as cash.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash. The Company is dependent on the capital markets as its primary source of operating capital and the Company's capital resources are largely determined by its ability to compete for investor support of its projects. The Company is not subject to any capital requirements imposed by a regulator, other than continued listing requirements of the TSX-V.

There were no changes in the Company's approach to capital management during the year ended February 28, 2013. The Company is not subject to any capital requirements imposed by a regulator, other than continued listing requirements of the TSX-V.

14. FINANCIAL INSTRUMENTS

a) Fair value of financial instruments

The Company's financial instruments consist of cash and accounts payable and accrued liabilities. Cash is designated as FVTPL, which is measured at fair value. Accounts payable and accrued liabilities are designated as other financial liabilities, which are measured at amortized cost.

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 fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value, by reference to the reliability of the inputs used to estimate the fair values.

- Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities. The Company's cash is carried at fair value using Level 1 inputs.

- Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

- Level 3 – Applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

As at February 28, 2013, the Company believes that the carrying values of cash and accounts payable and accrued liabilities approximate their fair values because of their nature and relatively short maturity dates or durations.

b) Management of risks arising from financial instruments

Discussions of risks associated with financial assets and liabilities are detailed below:

Credit risk

Credit risk arises from cash held with banks and financial institutions. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Company's cash is held with a large Canadian bank. The credit risk related to cash is considered minimal.

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize such a loss is limited because of the short-term nature of the Company's interest bearing financial instruments.

Liquidity risk

The Company manages liquidity risk by maintaining sufficient cash to enable settlement of transactions as they come due. Management monitors the Company's contractual obligations and other expenses to ensure adequate liquidity is maintained.

15. INCOME TAXES

A reconciliation from the Company's income tax provision computed at statutory rates to the reported income tax provision for the years ended February 28, 2013 and February 29, 2012 is as follows:

	2013	**2012**
Statutory tax rate	25.0%	27.25%
	$	**$**
Loss for the year before income taxes	(186,269)	(18,176)
Expected tax recovery	(46,567)	(2,500)
Non-deductible amounts	2,614	2,500
Share issue costs	(38,576)	-
Disposition of the subsidiary	19,713	-
Change in estimates	64,014	(26,000)
Others	(2,852)	-
Change in deferred tax not recognized	1,654	26,000
Provision for income taxes	-	-

The significant components of the Company's unrecognized deferred tax assets as at February 28, 2013 and February 29, 2012 are as follows:

	2013	**2012**
	$	**$**
Deferred tax assets:		
Non-capital losses carried forward	455,284	339,000
Equipment	-	129,000
Resource	732,509	733,000
Share issuance costs	30,861	-
Scientific research and development	-	16,000
Total unrecognized deferred tax assets	1,218,654	1,217,000

The Company has non-capital losses carried forward available to reduce future taxable income of approximately $1,821,138 (2012 – $1,354,000). These losses expire as follows:

	$
2015	257,547
2026	237,201
2027	114,648
2028	141,171
2029	114,262
2030	96,333
2031	138,784
2033	721,192
	1,821,138