ZTEST Electronics Inc.

Consolidated Financial Statements

June 30, 2014 and 2013

(Stated in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ZTEST Electronics Inc.

We have audited the accompanying consolidated financial statements of ZTEST Electronics Inc., which comprise the consolidated statement of financial position as at June 30, 2014 and 2013, and the consolidated statements of changes in equity, comprehensive (loss) income and cash flows for the years then ended and 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 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 financial statements. The procedures selected depend on the auditorsô 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 entityôs 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 entityôs 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 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 ZTEST Electronics Inc. as of June 30, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

MNP LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS

Toronto, Ontario
October 28, 2014

Consolidated Statements of Financial Position
(Stated in Canadian Dollars)
June 30, 2014 and 2013

		2014		2013
Assets				
Current assets				
Cash and cash equivalents	**$**	**53,723**	$	120,614
Restricted cash equivalents *(note 5)*		**250,000**		250,000
Accounts receivable		**413,485**		506,799
Inventories *(note 3)*		**662,941**		632,459
Prepaid expenses		**8,254**		7,944
		1,388,403		1,517,816
Lease deposit *(note 7)*		**35,000**		35,000
Equipment *(note 4)*		**674,697**		623,373
	$	**2,098,100**	$	2,176,189
Liabilities				
Current liabilities				
Bank operating loan *(note 5)*	**$**	**25,000**	$	-
Customer deposits and deferred revenue		**-**		5,113
Accounts payable and accrued liabilities *(note 9)*		**594,609**		565,524
Dividends payable		**263,337**		263,337
Current portion of long-term debt *(note 6)*		**123,689**		406,051
Preferred shares *(note 8)*		**473,855**		473,855
		1,480,490		1,713,880
Long-term debt *(note 6)*		**158,244**		45,788
		1,638,734		1,759,668
Shareholders' Equity				
Share capital *(note 8)*		**22,343,053**		22,330,215
Warrants *(note 8)*		**80,896**		76,677
Contributed surplus *(note 8)*		**613,819**		569,452
Deficit		**(22,578,402)**		(22,559,823)
		459,366		416,521
	$	**2,098,100**	$	2,176,189

Commitments (note 7)

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

Approved by the Board:

Signed: "Wojciech Drzazga" — Director

Signed: "John Perreault" — Director

Consolidated Statement of Changes in Equity
(Stated in Canadian Dollars)
June 30, 2014

	Share Capital	Warrants	Contributed, Surplus	Deficit	Total
Balance, June 30, 2012	$ 22,065,037	$ 81,564	$ 485,451	$ (22,708,142)	$ (76,090)
Private placement, net of costs	157,810	-	-	-	157,810
Allocated to warrants	(37,859)	37,859	-	-	-
Exchange of Class A shares for common shares	(91,049)	-	91,049	-	-
Stock options exercised	126,030	-	(54,030)		72,000
Warrants exercised	110,246	(42,746)	-	-	67,500
Share based payments	-	-	42,118	-	42,118
Derecognition of dividends	-	-	4,864	-	4,864
Net income for the year	-	-	-	148,319	148,319
Balance, June 30, 2013	22,330,215	76,677	569,452	(22,559,823)	416,521
Stock options exercised	12,838	-	(5,338)		7,500
Warrants granted	-	4,219	-	-	4,219
Share based payments	-	-	49,705	-	49,705
Net loss for the year	-	-	-	(18,579)	(18,579)
Balance, June 30, 2014	**$ 22,343,053**	**$ 80,896**	**$ 613,819**	**$ (22,578,402)**	**$ 459,366**

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

Consolidated Statements of Comprehensive Income (Loss)
(Stated in Canadian Dollars)
For the years ended June 30, 2014 and 2013

	2014	2013
Product sales	$ 4,014,268	$ 4,601,698
Cost of product sales (*notes 3 and 9*)	2,643,284	3,041,347
	1,370,984	1,560,351
Expenses		
Selling, general and administrative *(note 13)*	1,307,047	1,259,041
Stock-based compensation *(note 9)*	49,705	42,118
Interest expense - long-term debt *(note 9)*	30,785	86,152
Interest expense - other	4,614	596
Financing fees	-	8,800
Depreciation of equipment	3,735	3,862
Foreign exchange (gain) loss	(3,581)	18,775
	1,392,305	1,419,344
(Loss) income before miscellaneous income and income taxes	(21,321)	141,007
Miscellaneous income	2,742	7,312
(Loss) income before provision for income taxes	(18,579)	148,319
Provision for income taxes *(note 10)*	-	-
Net (loss) income and comprehensive (loss) income for the year	$ (18,579)	$ 148,319
Net (loss) income per share		
Basic	$ (0.00)	$ 0.02
Fully diluted	$ (0.00)	$ 0.02
Weighted average shares outstanding		
Basic	10,644,175	8,245,701
Fully diluted	11,847,917	8,841,043

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

ZTEST Electronics Inc.

Consolidated Statements of Cash Flows
(Stated in Canadian Dollars)
For the years ended June 30, 2014 and 2013

		2014		2013
Cash flow from operating activities				
Net (loss) income for the year	$	**(18,579)**	$	148,319
Items not involving cash				
Debt forgiveness		**-**		(5,380)
Interest accretion		**9,149**		20,593
Depreciation of equipment		**145,090**		154,895
Stock-based compensation		**49,705**		42,118
Changes in non-cash working capital items				
Accounts receivable		**93,314**		291,004
Inventories		**(30,482)**		(74,303)
Prepaid expenses		**(310)**		(4,110)
Customer deposits and deferred revenue		**(5,113)**		5,113
Accounts payable and accrued liabilities		**29,085**		(120,411)
		271,859		457,838
Cash flow from investing activities				
Purchase of equipment		**(196,414)**		(14,023)
Cash flow from financing activities				
Proceeds from operating loan		**25,000**		-
Restricted cash equivalents		**-**		(250,000)
Proceeds from share issuances		**7,500**		315,500
Costs of share issuance		**-**		(18,190)
Repayment of notes payable		**(144,735)**		-
Proceeds from long-term debt		**200,000**		-
Repayment of long-term debt		**(230,101)**		(552,326)
		(142,336)		(505,016)
Decrease in cash		**(66,891)**		(61,201)
Cash and cash equivalents, beginning of year		**120,614**		181,815
Cash and cash equivalents, end of year	**$**	**53,723**	$	120,614

Supplemental Disclosure of Cash Flow Information:
During the year the Company had cash flows arising from interest and income taxes paid as follows:

Interest	**$**	**24,921**	$	67,968
Income taxes	**$**	**-**	$	-

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

(Stated in Canadian Dollars)

1. Business of the Company

ZTEST Electronics Inc. (ñthe Companyò) amalgamated under the laws of Ontario and carries on business at 523 McNicoll Avenue, Toronto, Ontario designing, developing, and assembling printed circuit boards and other electronic equipment. The Company's shares trade on the Canadian Venture Exchange under the symbol "ZTE".

2. Significant Accounting Policies

Statement of compliance
The Company has prepared these consolidated financial statements in accordance with International Financial Reporting Standards (ñIFRSò) as issued by the International Accounting Standards Board (ñIASBò) and interpretations of the IFRS Interpretations Committee. These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on October 28, 2014.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Basis of presentation and going concern considerations
These consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting, except for cash flow information, and in accordance with IFRS applicable to a ñgoing concernò. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. If the going concern assumption were not appropriate for these consolidated financial statements then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

Basis of consolidation
These consolidated financial statements include the accounts of the Company as well as the following subsidiaries' assets and liabilities and revenues and expenses, arising subsequent to the date of acquisition:

Permatech Electronics Corporation (ñPECò)	- 100%	owned (1)
Northern Cross Minerals Inc.	- 66.7%	owned (inactive)

(1) The Company has granted a creditor the right to acquire a 24% interest in PEC *(note 6).*

Changes in accounting policies
Each of the following was adopted July 1, 2013 without impact upon the amounts or disclosures presented in these consolidated financial statements:

IFRS 10, *Consolidated Financial Statements,* replaced the consolidation guidance in IAS 27, *Consolidated and Separate Financial Statements,* and SIC-12, *Consolidation — Special Purpose Entities,* by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee.

IFRS 13, *Fair Value Measurement,* replaced the guidance on fair value measurement in existing IFRS accounting literature with a single standard. It defines and provides guidance on determining fair value and requires disclosures about fair value measurements, but does not change the requirements regarding which items are measured or disclosed at fair value.

IAS 28, *Investments in Associates and Joint Ventures*, amended in 2011, prescribes the accounting for investments in associates and establishes the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

Significant accounting judgments and estimates
The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and also in future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

2. Significant Accounting Policies - continued

Significant accounting judgments and estimates

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and also in future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant estimates and judgments include, but are not limited to, the recoverability of inventory, the carrying value of liabilities which are past due and for which the timing of future cash flows are undetermined, and the recognition and valuation of deferred tax amounts.

Financial instruments

The Companyồs financial instruments are comprised of the following:

Financial assets:	*Classification*
Cash and cash equivalents	Fair value through profit and loss
Restricted cash equivalents	Fair value through profit and loss
Accounts receivable	Loans and receivables

Financial liabilities:	*Classification*
Bank operating loan	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Dividends payable	Other financial liabilities
Preferred shares	Other financial liabilities
Long-term debt	Other financial liabilities

Fair value through profit and loss:

Financial assets are designated as fair value through profit and loss if they were acquired principally for the purpose of selling in the short term. Fair value through profit and loss assets are recognized and carried at their fair value.

Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Other financial liabilities:

Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument to the net carrying amount on initial recognition. Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

Impairment of financial assets:

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the assets have been negatively impacted.

2. Significant Accounting Policies - continued

Financial instruments - continued
Impairment of financial assets - continued:

Evidence of impairment could include:
- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in income for the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through income for the period to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial instruments recorded at fair value:
Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:
- Level 1 valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of June 30, 2014 and 2013 cash and cash equivalents and restricted cash equivalents are measured at fair value and are classified within Level 1 of the fair value hierarchy.

Financial instruments recorded at amortized cost:
Financial instruments recorded at amortized cost on the consolidated statement of financial position are amortized using the market rates of interest prevailing at the inception of the financial instrument applied to expected future cash flows. The amortized cost is recomputed in the event that the underlying terms, and therefore the expected future cash flows, of the financial instrument are altered with any change in the amortized cost being charged to income of the period. Dividends payable and preferred shares are each carried at historical cost as the future cash flows cannot be reasonably estimated.

Impairment of non-financial assets
At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets or cash generating unit (CGU) have suffered an impairment loss. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or groups of assets. Where such an indication exists, the recoverable amount of the asset or CGU is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an assetôs or CGUôs fair value less cost to sell or its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset or CGU in an armôs 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 or CGU. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and the impairment loss is recognized in the income for the period.

2. Significant Accounting Policies - continued

Impairment of non-financial assets - continued

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in income for the period.
The Company has assessed the assets of all its operating entities and has determined that there is no impairment of its non-financial assets.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with maturity at the date of purchase of three months or less.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the amount, net of the estimated costs to complete assemblies and sell them, which the Company expects to realize from the sale of inventory in the ordinary course of business. An assessment of net realizable value is completed at the end of each reporting period and any resulting write-downs, or recovery of previous write-downs, are reflected in income for the period. Current assessments have determined that net realizable values equal or exceed the corresponding costs and accordingly all inventories are currently carried at cost.

Equipment

Equipment is stated at cost. Depreciation is provided over the related assets' estimated useful lives using the following methods and annual rates:

Computer equipment	-	30%	declining balance
Office equipment	-	20%	declining balance
Manufacturing equipment	-	20%	declining balance
Leasehold improvements	-	10 yrs	straight-line

The Company reviews the estimated useful lives, residual values and depreciation method at the end of each reporting period, accounting for the effect of any changes in estimate on a prospective basis.

Revenue recognition

Revenue is recorded when the risks and rewards of ownership pass to the purchaser which is when the product is delivered and/or the service is completed and collection is reasonably assured.

Share based payment transactions

The fair value of share options granted to employees is recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At the end of each financial reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in profit and loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

(Stated in Canadian Dollars)

2. Significant Accounting Policies - continued

Income taxes - continued

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Income per share

The Company presents basic and diluted income per share data for its common shares, calculated by dividing the income attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted income per share is determined by adjusting the income attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

Stock options and warrants outstanding are excluded in the computation of diluted earnings per share if their inclusion would increase the income per share, or decrease the loss per share, or if their exercise price exceeds the average market price for the period of the Companyộs shares.

Foreign exchange

As at the transaction date all asset, liability, revenue, and expense amounts denominated in foreign currencies are translated into Canadian dollars using the exchange rate in effect as at that date. At the end of each financial reporting period all monetary assets and liabilities are translated into Canadian dollars using the exchange rate in effect as at that date. The resulting foreign exchange gains and losses are included in income for the period.

Segment disclosure

The Company has a single location and operating segment accordingly, all revenues are generated in Canada and all assets are located in Canada.

Accounting standards effective for future periods

IFRS 9, *Financial Instruments:* effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of the financial statements for their assessment of the amounts, timing and uncertainty of future cash flows. Management anticipates that this standard will be adopted in the Company's financial statements for the year beginning July 1, 2018 and has not yet considered the potential impact of its adoption.

IFRS 15, *Revenue from Contracts with Customers:* effective for annual periods beginning on or after January 1, 2017, with early adoption permitted, replaces existing revenue standards and interpretations with a single standard and provides additional guidance on revenue recognition for contracts with customers. Management anticipates that this standard will be adopted in the Company's financial statements for the year beginning July 1, 2017 and has not yet considered the potential impact of its adoption.

3. Inventories

The carrying value of inventories is comprised of:

		2014		2013
Raw materials and supplies [(1)]	**$**	**636,612**	$	592,668
Work in process		**12,393**		12,877
Finished goods		**13,936**		26,914
	$	**662,941**	$	632,459

[(1)] The raw materials and supplies is presented net of provisions for obsolete and/or slow moving items in the amount of $56,045 (2013 - $33,615).

(Stated in Canadian Dollars)

3. Inventories - continued

Inventory utilization during the year was as follows:

	2014	2013
Raw materials and supplies used	**$ 1,588,919**	$ 2,044,591
Labour costs	**761,263**	753,901
Depreciation	**141,355**	151,033
Repairs and maintenance	**33,451**	18,848
Stencils and tooling	**41,279**	42,407
Shipping costs	**56,643**	57,612
Other costs	**6,912**	6,833
Net change in finished goods and work in process	**13,462**	(33,878)
Cost of product sales	**$ 2,643,284**	$ 3,041,347

4. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Cost:					
Balance, June 30, 2012	$ 168,136	$ 71,277	$ 2,356,046	$ 61,003	$ 2,656,462
Additions	1,016	-	13,007	-	14,023
Balance, June 30, 2013	169,152	$ 71,277	$ 2,369,053	$ 61,003	$ 2,670,485
Additions	4,259	-	192,155	-	196,414
Balance, June 30, 2014	**$ 173,411**	**$ 71,277**	**$ 2,561,208**	**$ 61,003**	**$ 2,866,899**
Accumulated Depreciation:					
Balance, June 30, 2012	$ (161,343)	$ (65,733)	$ (1,604,138)	$ (61,003)	$ (1,892,217)
Depreciation	(2,190)	(1,109)	(151,596)	-	(154,895)
Balance, June 30, 2013	(163,533)	(66,842)	(1,755,734)	(61,003)	(2,047,112)
Depreciation	(2,325)	(886)	(141,879)	-	(145,090)
Balance, June 30, 2014	**$ (165,858)**	**$ (67,728)**	**$ (1,897,613)**	**$ (61,003)**	**$ (2,192,202)**
Carrying Amounts:					
June 30, 2013	$ 5,619	$ 4,435	$ 613,319	$ -	$ 623,373
June 30, 2014	**$ 7,553**	**$ 3,549**	**$ 663,595**	**$ -**	**$ 674,697**

5. Bank operating loan

	2014	2013
The line of credit [(1)], which can be drawn to a maximum of $250,000, bears interest at the TD Bank prime lending rate plus 0.5%, is due upon demand, and is secured by a $250,000 term deposit [(2)] and a general security agreement covering the assets of PEC.	**$ 25,000**	$ -

(1) On June 27, 2014 the Companyǿs financial institution approved the restructuring of this line of credit to remove the requirement for term deposit security and to increase the interest rate to the prime lending rate plus 2.5%. These changes took effect July 7, 2014 at which time the restricted funds became available for general use.

(2) The term deposit bears interest at 1.25% and matures October 20, 2014.

(Stated in Canadian Dollars)

6. Long-Term Debt

		2014		2013
Non-interest bearing debenture has matured. (1)	**$**	**39,600**	$	39,600
Debenture, bearing interest at 10.5%, secured by specific equipment, was settled in full September 2013. At the time the funds were advanced the holder of this debenture was issued 233,333 common shares of the Company.		**-**		99,580
Debenture, bearing interest at 4.5%, secured by specific equipment, and matured December 2013. (2)		**-**		228,962
Term loan, having a face value of $46,806, bearing interest at 11.00%, secured by a general security agreement covering the assets of PEC, matures April 2015. Blended monthly principal and interest payments of $4,920 are required. At the time the funds were advanced the creditor was granted an option to acquire a 24% interest in PEC for $200,000 on or before May 1, 2015. (3)		**45,789**		83,697
Term loan, having a face value of $150,000, bearing interest at 9% matures October 2017. Monthly interest payments were required until October 2014 after which blended monthly principal and interest payments of $4,770 were required. This loan was repaid in full subsequent to the financial reporting date. At the time the funds were advanced the creditor was granted 300,000 warrants, with an exercise price of $0.10, and an expiry date of October 31, 2017. (3) (5) (6)		**147,408**		-
Term loan having a face value of $50,000, bearing interest at 9% matures October 2017. Monthly interest payments are required until October 2014 after which blended monthly principal and interest payments of $1,590 were required. This loan was repaid in full subsequent to the financial reporting date. At the time the funds were advanced the creditor was granted 100,000 warrants, with an exercise price of $0.10, and an expiry date of October 31, 2017. (4) (5) (6)		**49,136**		-
Total long-term debt		**281,933**		451,839
Less: Current portion		**123,689**		406,051
	$	**158,244**	$	45,788

(1) The debenture has matured but no means of settlement has been reached. It is classified as current.

(2) In December 2013 this debenture was settled through a cash payment of |$58,930 and the issuance of a 7% note payable in the amount of $144,735. The note required blended monthly principal and interest payments of $15,438 to September 2014 and a final payment of $10,286 in October 2014. The Company made the regular monthly payments until June 2014 at which time the remaining balance of the note was repaid in its entirety.

(3) Payable to a corporate shareholder that is controlled by the spouse of a Director of the Company *(note 9)*.

(4) Payable to the Companyꞌs Chief Financial Officer *(note 9)*.

(5) Fair values were determined using the discounted cash flow approach with the discount rate of 10% representing the rate that would have applied had there been no warrants issued. The difference between the face value and the fair value was added to equity representing the value of the warrants *(note 8)*.

(6) In July 2014 the Companyꞌs financial institution funded a new term loan in the amount of $197,463 which is unsecured, bears interest at the prime lending rate (currently 3.0%) plus 1.75%, matures July 2019, and is repayable in monthly principal payments of $3,291 plus applicable interest. The proceeds of this loan were used to retire the 9% term loans per (3) and (4) above.

(Stated in Canadian Dollars)

6. Long-Term Debt - continued

The minimum annual future principal repayments are as follows:

	As Above	Refinanced [5]
2015	$ 123,689	$ 121,590
2016	63,347	39,493
2017	69,979	39,493
2018	24,918	39,493
2019	-	39,493
After 2019	-	3,290
	$ 281,933	$ 282,852

7. Commitments

The Company leases its operating facility under a lease that is due to expire March 31, 2021. A lease deposit in the amount of $35,000 was paid and will be applied at the end of the lease. Minimum monthly rental payments ranging from $7,470 to $8,979 are required over the remaining term of the lease as follows:

2015	$ 90,993
2016	95,972
2017	100,952
2018	103,668
2019	106,385
Remaining	188,550
	$ 686,520

8. Share Capital

(a) Authorized

Unlimited Common shares

Unlimited Non-voting, non-participating Class A special shares. All previously outstanding Class A special shares were exchanged for common shares.

Unlimited Preferred shares in one or more series. The following four series have been authorized to date:
Series A redeemable, voting shares were to be repurchased May 2004. [1]
Series B shares may no longer be issued and none remain outstanding.
Series C redeemable, voting shares were to be repurchased May 2007. [1]
Series D shares may no longer be issued and none remain outstanding.

[1] The right to vote at the meeting of common shareholders arises because the associated dividends are more than 12 months in arrears. Settlement of the repurchase price and the associated dividends payable has yet to be negotiated.

(b) Issued:

	2014	2013
Common shares	**$ 22,343,053**	$ 22,330,215

(Stated in Canadian Dollars)

8. Share Capital - continued

(b) Issued - continued:

Common shares:	Number of Shares	Amount
Balance June 30, 2012	7,062,488	$ 21,965,037
Common shares issued in exchange for Class A shares [1]	91,208	8,951
Private placement [2]	2,200,000	119,951
Stock options exercised	720,000	126,030
Warrants exercised	500,000	110,246
Balance June 30, 2013	10,573,696	$ 22,330,215
Stock options exercised	75,000	12,838
Balance June 30, 2014	10,648,696	**$ 22,343,053**

[1] In the 2013 fiscal year the Companyĝs shareholders approved the issuance of 99,454 common shares in exchange for 100% of the Class A Special Shares outstanding. 91,208 common shares have been issued, representing the entitlement of the identifiable Class A shareholders. 8,246 common shares have been reserved to be issued if and when the remaining Class A shareholders identify themselves to the Company.

[2] Reported net of costs of $18,190 associated with this offering and $37,859 allocated to the warrants issued.

	2014	2013
Preferred shares	**$ 473,855**	$ 473,855

(c) Details of warrants outstanding:

	Number of Warrants	**Amount**
Balance June 30, 2012	1,400,000	$ 81,564
Issued during the year	1,100,000	37,859
Exercised during the year	(500,000)	(42,746)
Balance June 30, 2013	2,000,000	76,677
Issued during the year	400,000	4,219
Balance June 30, 2014	2,400,000	**$ 80,896**

	Number of Warrants	Exercise Price	Expiry Date
Issued Mar. 24, 2011	900,000	$ 0.10	Mar. 24, 2016
Issued Feb. 4, 2013	1,100,000	$ 0.10	Feb. 4, 2016
Issued Jan 10, 2014	400,000	$ 0.10	Oct. 31, 2017

	Number of Warrants	Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning of year	2,000,000	$ 0.10	Feb. 26, 2016
Issued	400,000	$ 0.10	Oct. 31, 2017
End of year	2,400,000	$ 0.10	June 7, 2016

(Stated in Canadian Dollars)

8. Share Capital - continued

(c) Details of warrants outstanding - continued:

The following weighted average assumptions applied to the warrants at the time of issue. These assumptions were used to calculate the fair value of the warrants issued during the year ended June 30, 2013 while the warrants issued during the current year were valued at the difference between the face value and fair value of the debts for which the warrants were issued as partial compensation *(note 6)*:

	2014	2013
Dividend yield	**Nil**	Nil
Risk free interest rate (%)	**N/A**	1.17
Expected stock volatility (%)	**N/A**	107.56
Expected life (years)	**N/A**	3

(d) Details of options outstanding:

	Common Shares Under Option	Number of Options Vested		Exercise Price	Expiry Date
Granted Nov. 30, 2010	275,000 (1)	275,000	$	0.10	Nov. 30, 2015
Granted Sept. 14, 2012	130,000 (1)	130,000	$	0.10	Sept. 14, 2017
Granted March 11, 2013	200,000 (2)	200,000	$	0.15	April 27, 2015
Granted December 31, 2013	100,000 (2)	100,000	$	0.10	April 27, 2015
Granted December 31, 2013	500,000 (1)	500,000	$	0.10	Dec. 31, 2018

	Common Shares Under Option		Weighted Average Price/Option	Weighted Average Expiry Date
Beginning of year	680,000	$	0.115	Jan. 20, 2017
Issued during year	600,000	$	0.100	Dec. 31, 2018
Exercised during year	(75,000)	$	0.100	Feb. 8, 2017
Amended during year (2)	(300,000)	$	0.132	June 17, 2018
Amended during year (2)	300,000	$	0.132	April 27, 2015
End of year	1,205,000	$	0.108	Mar. 28, 2017

(1) Directors and/or Officers of the Company hold these options.
(2) Options are held by the estate of a former Director. The expiry dates were amended to be one year following the date of death.

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

	2014	2013
Dividend yield	**Nil**	Nil
Risk free interest rate (%)	**1.93**	1.34 ï 1.40
Expected stock volatility (%)	**119.90**	106.53 ï 107.26
Expected life (years)	**5**	5

(e) Share based payment transactions and contributed surplus

The Company has a stock option plan. The aggregate number of common shares reserved for issuance under this plan cannot exceed 20% of the aggregate number of common shares of the Company that are issued and outstanding. The Company has granted options for the purchase of common shares to employees, directors, officers and other service providers. The fair values of stock options granted have been determined using the Black-Scholes model and are added to contributed surplus as follows:

(Stated in Canadian Dollars)

8. Share Capital - continued

(e) Share based payment transactions and contributed surplus - continued

		2014		2013
Contributed surplus, beginning of year	$	**569,452**	$	485,451
Compensation expense related to stock options granted		**49,705**		42,118
Stock options exercised		**(5,338)**		(54,030)
Dividends of PEC derecognized [1]		**-**		4,864
Conversion of Class A shares to common shares		**-**		91,049
Contributed surplus, end of year	$	**613,819**	$	569,452

[1] PEC declared dividends in the year 2000 of which a portion remained unpaid. The unpaid portion has been written off due to its age.

9. Related Party Transactions and Balances

In addition to key management personnel, the Company had transactions during the year and outstanding balances *(note 6)* at the end of the year with 1114377 Ontario Inc. (ñ1114377ò), a company controlled by the spouse of a Director of the Company.

All expenses and year end balances with related parties are at exchange amounts established and agreed to by the related parties. All transactions with related parties are in the normal course of operations and have been carried out on the same terms as those accorded to unrelated parties.

Description		2014		2013
Employee and consultant compensation [1]	$	**329,715**	$	319,913
Production wages [1]		**3,569**		500
Professional fees [1]		**38,053**		26,034
Interest expense ï long-term debt		**18,150**		12,309
Share issuance costs [1]		**-**		6,000
	$	**389,487**	$	364,756
Stock-based compensation [1]	$	**49,705**	$	42,118

[1] Transactions with key management personnel. As at June 30, 2014 $51,722 (2013 - $27,612) was payable to key management personnel and included in accounts payable and accrued liabilities.

10. Income Taxes

Current Income Taxes

A reconciliation of combined federal and provincial corporate income taxes at the Companyôs effective tax rate of 26.50% (2013 ï 26.50%) is as follows:

		2014		2013
Net (loss) income before income taxes	$	**(18,579)**	$	148,319
Income taxes at statutory rates	$	**(4,920)**	$	39,300
Expenses not deductible for income tax purposes		**11,460**		16,620
Share issue expense deferred for income tax purposes		**-**		(4,820)
Change in tax benefits not recognized		**(6,540)**		(51,100)
Income tax expense (recovery)	$	**-**	$	-

(Stated in Canadian Dollars)

10. Income Taxes - continued

Unrecognized Deferred Tax Assets

Deferred income taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	2014	2013
Share issuance costs	$ **19,460**	$ 38,690
Intangible assets	**40,250**	43,280
Property, plant and equipment	**97,200**	237,640
Resource related expenditures	**349,050**	349,050
Scientific research and experimental development	**1,050,618**	1,050,618
Non-capital loss carry forwards	**1,273,700**	2,280,030
Net capital loss carry forwards	**15,592,989**	15,592,989

Share issue costs expire from 2014 to 2017. The non-capital loss carry forwards expire from 2027 to 2034. The net capital loss carry forwards may be carried forward indefinitely, but can only be used to reduce capital gains. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

Tax Loss Carry-Forwards

The potential income tax benefits resulting from the application of income tax losses have not been recognized in these consolidated financial statements. The following losses include 100% of the respective losses of the subsidiary companies and will expire at the end of the taxation years as follows:

Year	
2027	$ 209,770
2030	226,150
2031	577,960
2032	14,860
2033	76,560
2034	168,430
	$ 1,273,700

The realization of these losses is potentially subject to verification by Canada Revenue Agency (ñCRAò). CRA requested support for certain non-capital losses arising in 2010. The Company considers these losses to be under examination however they are excluded from the non-capital losses listed above, pending examination results.

11. Financial risk factors

The Company is exposed in varying degrees to a variety of financial instrument related risks:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Companyôs primary exposure to credit risk is in its accounts receivable. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. Bad debt experience has not been significant and it has been determined that no allowance is required as all amounts outstanding are considered collectible.

Concentration of credit risk

Concentration of credit risk arises when a significant portion of the financial assets subject to credit risk arise from a single or limited number of sources. During the current year, one of the Company's customers accounted for more than 20% (25%) of total revenue (2013 ï 36%). Amounts due from this customer accounted for 9% of the Companyôs accounts receivable at June 30, 2014 (2013 - 24%). The loss of this customer or significant curtailment of purchases by such customer could have a material adverse effect on the Company's results of operations and financial condition. The Company monitors the relationship with this customer closely and ensures that every customer is subject to the same risk management criteria.

11. Financial risk factors - continued

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company has reported a working capital deficiency of $92,087 (2013 - $196,064). This includes financial liabilities (a specific long-term debt instrument plus preferred shares and dividends payable) with an aggregate carrying amount of $776,792 (2013 - $776,792) which are past due and for which the timing of future cash flows are undetermined. The Company manages its liquidity risk through the management of its capital *(note 12)* which incorporates the continuous monitoring of actual and projected cash flows to ensure that it has sufficient liquidity to meet its operating commitments without incurring unacceptable losses or risking damage to the Companyôs reputation.

Market risks

The Company is exposed to currency risk related to accounts receivable and accounts payable denominated in US dollars and the potential for future cash flows to fluctuate because of changes in foreign exchange rates. Currency risk is closely monitored but not actively managed. The Company has reported a foreign exchange gain of $3,581 (2013 ï loss of $18,775).

Sensitivity to market risks

At June 30, 2014 the Company had US$99,330 (2013 ï US$131,220) included in accounts receivable. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $5,325 in future cash inflow.

At June 30, 2014 the Company had US$233,439 (2013 ï US$186,818) included in accounts payable. A 5% decrease in the value of the Canadian dollar relative to the US dollar would result in an increase of $12,516 in future cash outflow.

The existence of both accounts receivable and accounts payable denominated in US$ does not serve as a hedge with respect to currency risk.

Based upon observations of recent market trends management believes that each of these outcomes is possible but most likely exceed the Companyôs immediate market risk exposures.

12. Capital disclosures

The Companyôs objective when managing capital is to ensure its ability to meet operating commitments as they become due and to provide return for shareholders. This is achieved by continuously monitoring actual and projected cash flows and making adjustments to capital as necessary. Except for the repayment terms associated with long-term debt instruments, there are no externally imposed capital requirements.

	2014	2013
Long-term debt [1]	**$ 281,933**	$ 123,297
Share capital	**22,343,053**	22,330,215
Warrants	**80,896**	76,677
Contributed surplus	**613,819**	569,452
Deficit	**(22,578,402)**	(22,559,823)
Net capital under management	**$ 741,299**	$ 539,818

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

(Stated in Canadian Dollars)

13. Selling, general and administrative expenses

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

		2014		2013
Employee and consultant compensation *(note 9)*	**$**	**856,871**	$	832,729
Insurance		**33,694**		25,021
Occupancy costs		**264,970**		258,703
Professional fees *(note 9)*		**75,703**		66,024
Regulatory fees		**25,390**		30,677
Other		**50,419**		45,887
	$	**1,307,047**	$	1,259,041