ZTEST Electronics Inc.

Consolidated Financial Statements

June 30, 2014 and 2013

(Stated in Canadian Dollars)

MNP LLP

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 entityçs 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 entityçs 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

ZTEST Electronics Inc.

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

ZTEST Electronics Inc.

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:

		2014		2013
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 Companyôs 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 Companyĝs 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 Companyộs 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 Companyǒs 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 Companyǒs 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 Companyôs 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 Companyǿs 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 Companyǿs immediate market risk exposures.

12. Capital disclosures

The Companyǿs 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

General

The following managementøs discussion and analysis (ñMD&Aò) of the financial condition and results of operations of ZTEST Electronics Inc. (ñZTESTò or the ñCompanyò) constitutes managementøs review of the factors that affected the Companyøs consolidated financial and operating performance for the year ended June 30, 2014. The MD&A was prepared as of October 28, 2014 and was approved by the Board of Directors on October 28, 2014. It should be read in conjunction with the consolidated financial statements of the Company for the year ended June 30, 2014, including the notes thereto. Unless otherwise stated, all amounts discussed herein are denominated in Canadian dollars.

Additional information about the Company can be found at www.sedar.com.

The Company

The Company operates a single business segment involving the design, development, and assembly of printed circuit boards. The management of the Company is comprised of the following individuals:

Name	Position(s)
Wojciech Drzazga	Director and CEO
John Perreault (1)	Director and President
K. Michael Guerreiro (1) (2)	Director
Mike Hiscott (1) (2)	Director
Michael D. Kindy	VP Finance & CFO
William R. Johnstone	Secretary

(1) Denotes member of audit committee
(2) Denotes member of compensation committee

Mr. Arn Schoch was a Director of the Company until his death on April 27, 2014. The Board opted to not fill the vacancy that was created.

Corporate Performance

The 2014 fiscal year provided some positive results, as liquidity, total equity, total liabilities and net capital under management all improved. Not everything was positive however as profitability and cash flows from operations each declined.

In recent years the Company has placed a heavy emphasis on cash management and on the strategic utilization of available cash resources to reduce business risks. This has been accomplished through maximizing collections from customers, maintaining good credit relationships with suppliers, pledging cash security in support of bank financing, and the reduction and elimination of debt.

Everything begins with strong cash flows from operations and even though the 2014 cash flows from operations were not as strong as they were in 2013 they were still quite significant at $271,859. The Companyøs exceptional collection record continued throughout 2014 with the realization of only $3,169 in bad debts for the year and ending the year with no accounts receivable more than 60 days old and the expectation of 100% collection. The Company also continued its excellent working relationship with suppliers by fully utilizing but not exceeding their credit terms. Accounts payable did increase by $29,085 during 2014 however this is primarily due to an increase of $24,110 in amounts due to related parties, the majority of which was accrued and not yet invoiced to the Company at June 30, 2014.

Another aspect of cash management is determining the timing and extent to which a Company will invest cash resources into its future and determining the best source for that cash. The marketplace in which the Company operates is not only becoming more price sensitive but is also demanding more complex assemblies which include more, and often smaller, componentry. To efficiently satisfy and stay ahead of this market demand additional equipment was required, which in turn meant new financing was required. Initial efforts to obtain commercial financing were unsuccessful but related party financing in the amount of $200,000 was negotiated and funded equipment purchases for the year in the amount of $196,414.

The other aspect of cash management is managing the cash requirements associated with debt repayment in both the near and longer terms. Just prior to the end of the 2013 fiscal year the Company pledged a $250,000 term deposit as additional security for its bank operating loan which allowed the cessation of an $800 per month guarantee fee and a reduction in the effective interest rate on amounts borrowed from 10% to 3.5%. In July 2014 the term deposit was released from the pledge making $250,000 available for cash management purposes. Although the recent release of this security did cause the interest rate on amounts borrowed to increase from 3.5% to 5.5% it also optimized the structure for appropriate working capital financing while simultaneously maximizing the amount of cash available for use.

Although the Company did not have access to the $250,000 pledged term deposit throughout 2014 it was still able to repay $374,836 in long term debt, including the retirement of two debentures. This repayment will not only avoid future interest charges but also served to reduce monthly debt payments from $20,748 as required July 2013 to only $6,420 required for July 2014, including the monthly interest payments that were required on the related party debt of $200,000. Simultaneous with the release of the pledged term deposit the Company was also successful in finalizing the terms of new commercial financing to replace the $200,000 in related party debt. This commercial debt provides an interest rate that is 4.25% lower than the related party debt and is repayable over 5 years while the related party debt was to be repaid over 3 years.

With the July 2014 improvements to working capital and long-term financing the Company now believes that it has achieved an appropriate financing structure that has significantly diminished the borrowing costs as well as the pressure on monthly cash flows. Efforts will continue to be made to maximize profitability and the resulting cash flows from operations and to utilize available cash resources strategically to minimize business risks and to maximize the value derived for its stakeholders.

The following data, prepared in accordance with International Financial Reporting Standards, may provide some additional insights relative to the Company's operating performance and financial position:

	For the fiscal years ended:		
	June 14	June 13	June 12
Total Revenues	4,014,268	4,601,698	4,572,417
Net income (loss) income from operations	(21,321)	141,007	390,936
Per share - basic	(0.002)	0.017	0.055
Net income (loss) for the year	(18,579)	148,319	392,778
Per share - basic	(0.002)	0.018	0.056
Total assets	2,098,100	2,176,189	2,340,853
Total long-term financial liabilities	158,244	45,788	698,648
Total liabilities	1,638,734	1,759,668	2,416,943

	For the three month periods ended:				
	June 14	Mar. 14	Dec. 13	Sept. 13	June 13
Total Revenues	1,000,676	933,391	945,951	1,134,250	1,288,374
Net income (loss) from operations	(21,790)	(3,300)	(59,301)	63,070	81,609
Per share - basic	(0.002)	(0.000)	(0.006)	0.006	0.008
Net income (loss) for the period	(20,988)	(2,521)	(58,928)	63,858	83,815
Per share - basic	(0.002)	(0.000)	(0.006)	0.006	0.008
Total assets	2,098,100	2,190,139	1,859,824	2,102,184	2,176,189
Total long-term financial liabilities	158,244	177,893	18,830	32,498	45,788
Total liabilities	1,638,734	1,709,785	1,381,168	1,614,305	1,759,668

There were no cash dividends paid or accrued during any of the periods noted above.

Corporate Performance - continued

	For the three month periods ended:				
	Mar. 13	Dec. 12	Sept. 12	June 12	Mar. 12
Total Revenues	1,127,445	1,113,223	1,072,656	1,289,855	1,483,588
Net income (loss) from operations	21,311	31,955	6,132	42,073	279,280
Per share - basic	0.003	0.004	0.004	0.006	0.040
Net income (loss) for the period	22,379	33,336	8,789	44,015	279,280
Per share - basic	0.003	0.005	0.004	0.006	0.040
Total assets	2,228,452	2,133,002	2,252,523	2,340,853	2,652,994
Total long-term financial liabilities	57,496	66,478	602,565	698,648	785,338
Total liabilities	2,036,126	2,141,525	2,299,246	2,416,943	2,773,099

There were no cash dividends paid or accrued during any of the periods noted above.

Results of Operations

After having essentially broken even for the first nine months, the Company has reported a net loss from operations of $21,321 and a net loss of $18,579 for the 2014 fiscal year. Losses were reported in each of the last three fiscal quarters and these are the first quarterly and annual losses reported since the periods ended June 30, 2011. There are many factors that contribute to the Companyõs operating results and the highlights are discussed below.

Product sales for the final quarter of 2014 were $1,000,676 raising the annual total to $4,014,268. Although these sales figures are each lower than 2013 levels management contends that assembly volumes rose marginally while the majority of the declines are attributed to reduced materials sales associated with turnkey work. The other factor contributing to 2014 sales figures is a slight increase in market sensitivity to product pricing. Materials sales are not only dependent upon the volume of materials being sold but also on the underlying value of the individual materials being sold. While the Company may make suggestions with respect to materials specifications the product design, including the individual components to be used in product assembly, are entirely at the customersô discretion.

Gross margins rose from 33.91% of revenues in 2013 to 34.15% of revenues in 2014 however this higher percentage, applied to lower revenues, still translated into a decline of almost $190,000 for the year. The 2014 gross margin percentage was not enhanced in the final quarter when the margins were 30.12% of sales. The gross margin percentages, when considered over short periods of time, can be favourably or adversely affected by temporary cost avoidance or increases. This was certainly the case in the final quarter of 2014 as the receipt and installation of new equipment contributed to higher depreciation and maintenance costs for the period, each of which is an element of the cost of product sales.

The different elements of cost of product sales, and the changes realized, are as follows:

Years ended	June 14	June 13	Change
Raw materials and supplies consumed	$ 1,588,919	$ 2,044,591	$ (455,672)
Labour costs incurred	761,263	753,901	7,362
Depreciation	141,355	151,033	(9,678)
Other costs	138,285	125,700	12,585
Net change in finished goods and work in process	13,462	(33,878)	47,340
Total cost of product sales	$ 2,643,284	$ 3,041,347	$ (398,063)

Results of Operations - continued

Three month periods ended	June 14	June 13	Change
Raw materials and supplies consumed	$ 402,125	$ 579,970	$ (177,845)
Labour costs incurred	203,776	201,323	2,453
Depreciation	49,695	37,977	11,718
Other costs	47,776	39,037	8,739
Net change in finished goods and work in process	(4,089)	(14,992)	10,903
Total cost of product sales	$ 699,283	$ 843,315	$ (144,032)

As previously alluded to, the cost of raw materials and supplies consumed is down fairly substantially in 2014. The annual figure is down 22.3% and the final quarter is 34.6% lower than 2013 levels. The current year result is in contrast to 2013 and 2012 when the Company reported annual increases of 16% and 47% respectively. The Company experienced a significant surge in demand for turnkey services in the third quarter of its 2012 fiscal year. Prior to that time the cost of materials was consistently less than 50% of total cost of product sales, often significantly less. Even with the costs being lower in each of the six most recent quarters than they were in comparable period one year earlier they are still consistently more than 50% of costs of goods sold. The 2014 annual total represents 56.8% of the total cost of products sold and is still almost 46% higher than 2011 or pre-surge levels. The Company actively promotes turnkey assembly, which incorporates the procurement of components and supplies, as a cost-effective option for its customers and anticipates that material costs will continue to be a significant element of its cost of product sales going forward.

Labour costs, or the amounts expended upon labour, have remained very comparable throughout 2014 with the fourth quarter reflecting an increase of 1.2% in comparison to 2013 levels while the annual increase was marginally less than 1%. These results are consistent with expectations as the Company operated in each period with very comparable number of personnel.

The net change in finished goods and work in process is essentially a measurement of the change in labour costs that are included as an element of inventory. The amount of labour costs attributable to the products sold therefore is determined by adding this inventory change to the labour costs for the period. This indicates that aggregate labour charges were higher for the year and period ended June 30, 2014 than they were during the comparable periods in 2013. These higher costs are reflective of increased demand for labour during the 2014 fiscal year.

Depreciation costs are calculated as a percentage of the carrying value of equipment. Annual depreciation costs for 2014 are lower than they were in 2013 which is reflective of the fact that there had been no major equipment additions in recent years, at least until the fourth quarter. Throughout the 2014 fiscal year the Company had been investigating and negotiating the acquisition of equipment at a cost of approximately $195,000. This equipment arrived during the third quarter of 2014, installation and set-up was completed, and the equipment was made operational during the final quarter. Depreciation expense is recorded only once machinery is operational and accordingly the expense rose during the fourth quarter of 2014. There are no major equipment additions currently being investigated or considered although management remains diligent in monitoring the equipment market for opportunities that could help to further increase productivity or profitability.

Other costs include repairs and maintenance, stencils and tooling, packaging, and freight costs net of amounts recovered. The quarterly and annual increase in 2014 are almost entirely attributable to increased repairs and maintenance costs as the Company took advantage of the opportunity presented when the new machinery became operational in the final quarter to complete servicing of other equipment. Each aspect of other costs is incurred on an as-needed basis without any specific correlation with revenues which can lead to fluctuations from one period to the next. Each of these costs is constantly monitored and is within management expectations so they will not be further elaborated upon.

Results of Operations - continued

Selling, general and administrative expenses for the periods ended June 30 were as follows:

Years ended	June 14	June 13	Change
Employee and consultant compensation	$ 856,871	$ 832,729	$ 24,142
Occupancy costs	264,970	258,703	6,267
Professional fees	75,703	66,024	9,679
Regulatory fees	25,390	30,677	(5,287)
Bad debts	3,169	-	3,169
Other costs	80,944	70,908	10,036
Total selling, general and administrative	$ 1,307,047	$ 1,259,041	$ 48,006

Three month periods ended	June 14	June 13	Change
Employee and consultant compensation	$ 214,920	$ 250,731	$ (35,811)
Occupancy costs	64,278	64,327	(49)
Professional fees	14,595	11,425	3,170
Regulatory fees	2,393	993	1,400
Bad debts	3,169	-	3,169
Other costs	18,907	15,770	3,137
Total selling, general and administrative	$ 318,262	$ 343,246	$ (24,984)

Compensation costs rose by 2.9% for the year even though they declined by 14.3% in the final quarter in comparison to 2013 levels. During the fourth quarter of 2013 the Company retained two consultants, at an aggregate cost of $32,000 for the quarter, to investigate potential new business opportunities. Although each of these consultants did continue their services into the 2014 year, at an aggregate cost of $44,000, none of this cost arose in the fourth quarter. Also contributing to the annual cost increase was an $8,000 increase in fees for services rendered by the Companyôs CFO and a $5,000 increase in Directorsô fees, each of which was incurred prior to the fourth quarter.

Occupancy costs consist primarily of rent and utility charges for the Companyôs operating facility plus the costs of security, cleaning and waste removal. The Company has leased its business premises until March 2021 so the base rent, which increased approximately $2,250 year over year, will be remain reasonably consistent on an annual basis. None of the other occupancy costs are subject to long-term agreements so will fluctuate in accordance with market prices and the Companyôs requirements.

Professional fees are comprised of the cost of legal services as well as the cost of the annual financial statement audit. Audit expenses have remained comparable between the 2013 and 2014 periods. Incremental legal costs include dealing with some governance and inter-corporate matters during the final quarter as well as the related party financing and prospective business matters which were dealt with earlier in the fiscal year.

Regulatory fees include all public disclosure, stock exchange and transfer agent fees incurred. During 2013 the Company completed a private placement and exchanged common shares for Class A shares thereby contributing to the higher costs in that year. The charges in the fourth quarter of 2014 include final regulatory costs associated with the related party financing that was completed in the preceding quarter.

The remaining elements of SG&A are individually insignificant and, in aggregate, represent less than 5% of total SG&A for the periods presented. These expenses are continuously monitored by management and do not warrant detailed investigation or elaboration.

Results of Operations - continued

Even though the Company put new financing in place to fund the acquisition of equipment the debt load, and the associated costs of financing, continues to decline. They are comprised of interest on long-term debt, other interest expense, and loan guarantee fees as follows:

Years ended	June 14	June 13	Change
Interest expense ï long term (cash based)	$ 21,636	$ 65,559	$ (43,923)
Interest expense ï long term (accretion)	9,149	20,593	(11,444)
Interest expense ï other	4,614	596	4,018
Loan guarantee fees	-	8,800	(8,800)
Total financing expenses	$ 35,399	$ 95,548	$ (60,149)

Three month periods ended	June 13	June 13	Change
Interest expense ï long term (cash based)	$ 6,042	$ 10,917	$ (4,875)
Interest expense ï long term (accretion)	712	4,037	(3,325)
Interest expense ï other	1,497	149	1,348
Loan guarantee fees	-	1,600	(1,600)
Total financing expenses	$ 8,251	$ 16,703	$ (8,452)

Interest expense ï long term consists of the interest amounts being paid (cash based) in accordance with the face value of long term debt instruments plus accretion of the difference between those face values and their carrying amounts. During the 2014 fiscal year the Company repaid $374,836 in long-term debt thereby eliminating two debentures and reducing a term loan, each of which required the payment of interest and the recognition of accretion costs. In January 2014 two new term loans were added and they too required the payment of interest and the recognition of accretion costs however the aggregate cost of this new debt was lower than the aggregate cost of the debts repaid. In July 2014 the two new term loans were repaid in their entirety using the proceeds of a new commercial term loan. The commercial loan has a lower rate of interest than the debts that were repaid and will not result in the recognition of interest accretion. This is expected to contribute to a further reduction of long-term financing costs in the immediate future.

Interest expense ï other increased during 2014 due primarily to the Company having repaid a portion of one of the debentures with a short-term note. This note was then repaid, in full, prior to the end of the fiscal year but during the six month period that the note was outstanding the associated interest costs were included in other interest.

Throughout most of the 2013 fiscal year the Companyøs bank operating loan was secured, in part, by the personal guarantee of an unrelated individual. As compensation for providing the guarantee the individual received a fee of $800 per month. That personal guarantee was removed in May 2013 when the Company pledged its own $250,000 term deposit as additional security for the operating loan. In July 2014 the Company obtained the release of the $250,000 term deposit and the operating loan is now secured by a general security agreement covering the assets of Permatech Electronics Corporation.

Liquidity

As at June 30, 2014 the Company reported a working capital deficiency of $92,087 representing an improvement of $103,977 for the year, including an improvement of $4,291 in the final quarter. The deficiency includes $776,792 in current liabilities that have been outstanding since June 2007, are not secured, bear no interest or other charges, and for which there are no immediate plans for settlement. Management does not consider the working capital deficiency to be a significant source of business risk and will continue to focus on maximizing cash flows as opposed to managing this deficiency.

Liquidity - continued

The Company utilizes long term debt as a means of financing new equipment acquisitions and of settling other obligations whenever suitable terms can be negotiated. The Company obtained new long-term financing in January of $200,000, from related parties, to finance a new equipment purchase. This financing was replaced by a commercial term loan in July 2014. The Companyôs short-term financing requirements are expected to be met through a $250,000 bank operating line of which $25,000 was drawn as of June 30, 2014.

In addition to satisfying the cost of operations the Company must also address the payment or other settlement of the following amounts as at June 30, 2014:

	Due by June 2015	Due by June 2017	Due by June 2019	Due after June 2019	Total Due
Long-term debt [1, 2, 3]	$ 83,007	$ 78,986	$ 78,986	$ 3,290	$ 244,269
Operating leases	90,993	196,924	210,053	188,550	686,520
Actively serviced obligations	173,000	275,910	289,039	191,840	930,789
Repurchase of preferred shares [4, 5]	665,501	-	-	-	665,501
Settlement of dividends payable [5]	263,337	-	-	-	263,337
Debenture [5]	39,600	-	-	-	39,600
Past-due obligations	968,438	-	-	-	968,438
All obligations	$ 1,142,438	$ 275,910	$ 289,039	$ 191,840	$ 1,899,227

(1) Amount excludes a debenture which was past due.

(2) Long-term debt was altered July 2014 when the proceeds of a new 5-year term loan in the amount of $197,463 were used to repay two terms loans, in their entirety, with aggregate face value of $200,000 and for which no principal payments were due in July. The principal repayments listed above are reflective of the payments due after giving effect to the new term loan and the corresponding retirement.

(3) Long-term debt includes one obligation for which the carrying value is lower than its face value. The financial statements as at June 30, 2014 report this obligation based upon its carrying values while the figures reported above represent the non-discounted cash payments to be made.

(4) The repurchase price includes $473,855 reported as a current liability plus $191,646 in paid up capital that is reported as an element of share capital.

(5) Amounts are past due, unsecured, bear no interest, and no settlement terms have been established.

Capital Resources

The Company has access to a $250,000 revolving line of credit from its financial institution of which $25,000 had been drawn upon as at June 30, 2014. At June 30, 2014 the loan, which is due upon demand, bore interest at the prime lending rate plus 0.5% and was secured by a $250,000 term deposit and by a general security agreement covering the assets of Permatech Electronics Corporation. In July 2014 the TD Bank removed the requirement for the pledge of the $250,000 term deposit and increased the interest rate to the prime lending rate plus 2.5%.

The Company negotiated new term financing, with related parties, in the aggregate amount of $200,000. This debt bore interest at 9%, was repayable as to interest only for 10 months, and then repayable through fixed monthly payments over the ensuing 3 years to mature October 31, 2017. The lenders also received 400,000 share purchase warrants with each warrant entitling the holder to acquire one common share for $0.10 until October 31, 2017. In July 2014 the TD Bank funded a new 5-year term loan 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 $200,000 in related party term loans.

During the year 75,000 stock options were exercised for aggregate proceeds of $7,500.

Related Party Transactions

The Company has an outstanding loan payable to 1114377 Ontario Inc. (ñ1114377ò), a company which is controlled by the spouse of Mr. W. Drzazga, the CEO and a Director of the Company. At its inception the loan provided the Company with cash for working capital purposes. The interest rate charged on the loan is consistent with the rates that were being charged to the Company by non-related parties for similar debts as at the date the loan originated.

As at June 30, 2014 the Company had outstanding term loans payable to 1114377 and to Mike Kindy, the Companyǿs CFO. These loans were negotiated when commercial financing was not available to the Company. The proceeds were used to fund the acquisition and installation of equipment. The repayment terms included interest at 9%, a 10-month interest only period, and then a 3-year repayment term. The creditors also received 400,000 share purchase warrants with each warrant having an exercise price of $0.10 and will expire on October 31, 2017, being the maturity date for the loans. In July 2014 the Company received $197,463 from its bank under a 5-year term loan with interest at the TD Bank prime lending rate (currently 3.0%) plus 1.75%. The proceeds were used to retire the related party term loans.

The Company compensates its key management personnel for services rendered including salaries and benefits paid to the CEO and the President, consulting fees paid to the CFO, legal fees paid to a legal firm in which the Corporate Secretary is a partner, Directorsô fees, and share-based payments. Compensation rates are agreed to by the key management personnel and are predicated upon prevailing market rates.

The following balances are due to related parties as at June 30 of each year:

	2014	2013
Loan payable to 1114377 Ontario Inc. at prime +8% (1)	46,806	85,935
Loan payable to 1114377 Ontario Inc. at 9% (2)	150,000	-
Loan payable to the Companyǿs CFO at 9% (2)	50,000	-
Salaries and benefits payable (3)	3,793	1,019
Consulting fees payable (3)	44,800	24,602
Legal fees payable (3)	3,129	1,991

(1) This is the face value of this obligation. It is reported in the consolidated financial statements at a discounted value. As additional compensation for having advanced these funds the creditor was granted an option that gives it the right to acquire a 24% interest in Permatech Electronics Corporation for $200,000 on or before May 1, 2015.
(2) Retired in July 2014 as described above.
(3) Reported in the consolidated financial statements as an element of accounts payable and accrued liabilities. Aggregate value of $51,722 (2013 - $27,612)

The following expenses have arisen during the years ended June 30 as a result of transactions involving the related parties defined above:

	2014	2013
Salaries and benefits (1)	$ 254,006	$ 257,715
Production wages (2)	3,569	500
Consulting fees (1)	40,609	32,348
Directorsô fees (1)	35,100	29,850
Legal fees (3)	38,053	26,034
Interest expense ï long term	18,150	12,309
Share issuance costs (4)	-	6,000
Cash based expenditures	$ 389,487	$ 364,756
Share-based payments	$ 49,705	$ 42,118

(1) Reported in the consolidated financial statements as an element of employee and consultant compensation.
(2) Reported in the consolidated financial statements as an element of cost of goods sold.
(3) Reported in the consolidated financial statements as an element of professional fees.
(4) Fees charged by legal firm in which the Corporate Secretary is a partner.

Related Party Transactions - continued

The following stock options have been issued to Directors and/or Officers of the Company and were outstanding as at June 30, 2014:

Description	Expiry Date	Number of Common shares
Stock options @ $0.10 per share [1]	Nov. 2015	275,000
Stock options @ $0.10 per share [2]	Sept. 2017	130,000
Stock options @ $0.15 per share [3]	Apr. 2015	200,000
Stock options @ $0.10 per share [3]	Apr. 2015	100,000
Stock options @ $0.10 per share	Dec. 2018	500,000

(1) 25,000 options were exercised during the year leaving the above noted balance outstanding.
(2) 50,000 options were exercised during the year leaving the above noted balance outstanding.
(3) A director of the Company passed away April 27, 2014. In accordance with the terms of the option agreement his options are revised to set the expiry as one year following the date of death.

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Share capital	Quantity	Amount
Common shares, June 30, 2013	10,573,696	$ 22,330,215
Stock options exercised	75,000	7,500
Plus: value previously attributed to options		5,338
Common shares, June 30, 2014 and as at the date of this document	10,648,696	$ 22,343,053

Preferred shares	Quantity	Amount
Series A preferred shares	166,667	$ 160,000
Series C preferred shares	288,858	505,501
		665,501
Less: amount accounted for as paid in capital		(191,646)
Liability element of preferred shares at June 30, 2014 and as at the date of this document		$ 473,855

In addition to the shares issued and outstanding the Company has issued share purchase warrants and stock options as incentives to various parties. The following list itemizes the common shares that have been reserved to satisfy the conversions and exercise of warrants and options along with the expiry date associated therewith.

Shares reserved	Expiry Date	Number of Common shares
Common shares to be issued for Class A shares [1]		8,246
Stock options @ $0.15 per share	Apr. 2015	200,000
Stock options @ $0.10 per share	Apr. 2015	100,000
Stock options @ $0.10 per share	Nov. 2015	275,000
Warrants @ $0.10 per share	Feb. 2016	1,100,000
Warrants @ $0.10 per share	Mar. 2016	900,000
Stock options @ $0.10 per share	Sept. 2017	130,000
Warrants @ $0.10 per share	Oct. 2017	400,000
Stock options @ $0.10 per share	Mar. 2018	500,000
Shares reserved as at June 30, 2014 and as at the date of this document		3,613,246

(1) During the 2013 fiscal year the shareholders approved the issuance of 99,454 common shares in exchange for the 1,193,442 Class A Special Shares then outstanding. 91,208 common shares have been issued to date, representing the entitlement of the Class A shareholders the Company was able to identify. The remaining common shares will be issued only in the event the remaining Class A shareholders identify themselves to the Company.

Convertible Instruments and Other Securities - continued

Fully diluted position	
Shares issued	10,648,696
Shares reserved	3,613,246
Fully diluted position as at June 30, 2014 and as at the date of this document	14,261,942

Additional disclosures relative to stock options are as follows:

	Common Shares Under Option	Weighted Average Price/Option	Weighted Average Expiry Date
Balance, June 30, 2013	680,000	$0.115	Jan. 20, 2017
Issued during the year	600,000	$0.100	Dec. 31, 2018
Exercised during the year	(75,000)	$0.100	Feb. 8, 2017
Amended during the year [1]	(300,000)	$0.132	June 17, 2018
Amended during the year [1]	300,000	$0.132	Apr. 27, 2015
Balance, June 30, 2014 and as at the date of this document	1,205,000	$0.108	Mar. 28, 2017

All stock options have vested and are held by Directors, former Directors and Officers of the Company. The Company has no ability to cause these options to be exercised.

[1] Options are held by the estate of a former Director. The expiry dates were amended to be one year following the date of death.

Additional disclosures relative to share purchase warrants are as follows:

	Number of Warrants	Weighted Average Price/Warrant	Weighted Average Expiry Date
Balance, June 30, 2013	2,000,000	$0.100	Feb. 26, 2016
Issued during the year	400,000	$0.100	Oct. 31, 2017
Balance, June 30, 2014 and at the date of this document	2,400,000	$0.100	June 7, 2016

Changes in Accounting Policy

The accounting policies followed by the Company are established in accordance with International Financial Reporting Standards (IFRS) and once policies are established they will not, as a matter of policy, be revised unless IFRS changes. The following changes in IFRS were adopted during the year 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.

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.

Financial Instruments

The Companyős 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.

Financial instruments - 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.

Risk Factors

Events seemingly unrelated to the Company, or to its industry, may adversely affect its finances or operations in ways that are hard to predict or defend against. For example, credit contraction in financial markets may hamper the Companyøs ability to access credit when needed or rapid changes in foreign exchange rates may adversely affect its financial results. Finally, a reduction in credit, combined with reduced economic activity, may adversely affect businesses and industries that constitute a significant portion of the Companyøs customer base. As a result, these customers may need to reduce their purchases, or the Company may experience greater difficulty in collecting amounts due from them. Any of these events, or others caused by uncertainty in world financial markets, may have a material adverse effect on the Companyøs business, operating results, and financial condition.

Risk Factors - continued

In addition to the foregoing, the Company is exposed to credit risk, concentration of credit risk, liquidity risk, and currency risk. The Companyøs primary risk management objective is to protect earnings and cash flow and, ultimately, shareholder value. Risk management strategies, as discussed below, are designed and implemented to ensure that the Companyøs risks and the related exposure are consistent with its business objectives and risk tolerance. There have been no changes to the risk management strategies during the current year.

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 Companyøs 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 Companyøs 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.

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 Companyøs 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 Companyøs immediate market risk exposures.

Forward-looking Information

Certain statements in this MD&A may constitute ñforward-lookingò statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and its subsidiary, or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this report, the words ñestimateò, ñbelieveò, ñanticipateò, ñintendò, ñexpectò, ñplanò, ñmayò, ñshouldò, ñwillò, the negative thereof or other variations thereon or comparable terminology are intended to identify forward-looking statements. Such forward-looking statements reflect the current expectations of the management of the Company with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results, performance or achievements to differ materially from those expressed or implied by those forward-looking statements, such as reduced funding, long sales cycles, currency and interest rate fluctuations, increased competition and general economic and market factors and including the risk factors summarized below under the heading ñRisk Factorsò. New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those expressed or implied in such forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements contained in this MD&A speak only as of the date hereof. The Company does not undertake or assume any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.