

**ZTEST Electronics Inc.**  
**Consolidated Financial Statements**  
**June 30, 2015 and 2014**  
**(Stated in Canadian Dollars)**

## Independent Auditors' Report

### To the Shareholders of ZTEST Electronics Inc.

We have audited the accompanying consolidated financial statements of ZTEST Electronics Inc., which comprise the consolidated statements of financial position as at June 30, 2015 and 2014, and the consolidated statements of changes in equity, comprehensive income (loss) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of ZTEST Electronics Inc. as at June 30, 2015 and 2014, and its consolidated 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**

Mississauga, Ontario  
October 22, 2015

**ZTEST Electronics Inc.****Consolidated Statements of Financial Position**

(Stated in Canadian Dollars)

*June 30, 2015 and 2014*

	<b>2015</b>	2014
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 112,409	\$ 53,723
Restricted cash equivalents	-	250,000
Accounts receivable	690,386	413,485
Inventories (note 3)	382,545	662,941
Prepaid expenses	10,071	8,254
	<b>1,195,411</b>	1,388,403
Lease deposit (note 9)	35,000	35,000
Equipment (note 4)	540,588	674,697
	<b>\$ 1,770,999</b>	<b>\$ 2,098,100</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank operating loan (note 5)	\$ -	\$ 25,000
Customer deposits	19,683	-
Accounts payable and accrued liabilities (notes 6 and 11)	539,976	594,609
Dividends payable (note 7)	-	263,337
Preferred shares (notes 7 and 10)	-	473,855
Current portion of long-term debt (note 8)	39,493	123,689
	<b>599,152</b>	1,480,490
Long-term debt (note 8)	121,769	158,244
	<b>720,921</b>	1,638,734
<b>Commitment (note 9)</b>		
<b>Shareholders' Equity</b>		
Share capital (note 10)	22,151,406	22,343,053
Warrants (note 10)	80,896	80,896
Contributed surplus (note 10)	835,845	613,819
Deficit	(22,018,069)	(22,578,402)
	<b>1,050,078</b>	459,366
	<b>\$ 1,770,999</b>	<b>\$ 2,098,100</b>

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

Approved by the Board:

*Signed: "Wojciech Drzazga"*

Director

*Signed: "John Perreault"*

Director

**ZTEST Electronics Inc.****Consolidated Statement of Changes in Equity**

(Stated in Canadian Dollars)

*June 30, 2015*

	Share Capital	Warrants	Contributed, Surplus	Deficit	Total
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
Settlement of preferred shares	(191,647)	-	222,026	-	30,379
Net income for the year	-	-	-	560,333	560,333
Balance, June 30, 2015	<b>\$ 22,151,406</b>	<b>\$ 80,896</b>	<b>\$ 835,845</b>	<b>\$ (22,018,069)</b>	<b>\$ 1,050,078</b>

*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, 2015 and 2014

	2015	2014
<b>Product sales</b>	\$ 3,945,720	\$ 4,014,268
<b>Cost of product sales (note 3)</b>	2,758,477	2,643,284
	<b>1,187,243</b>	1,370,984
<b>Expenses</b>		
Selling, general and administrative (note 15)	1,205,502	1,307,047
Stock-based compensation (note 11)	-	49,705
Interest expense - long-term debt (note 11)	15,637	30,785
Interest expense - other	1,523	4,614
Depreciation of equipment	3,761	3,735
Foreign exchange gain	(5,783)	(3,581)
	<b>1,220,640</b>	1,392,305
<b>Loss before other income and income taxes</b>	<b>(33,397)</b>	(21,321)
<b>Other income</b>		
Debts forgiven (note 6)	51,545	-
Gain on settlement of preferred shares (note 7)	540,435	-
Interest and other income	1,750	2,742
	<b>593,730</b>	2,742
<b>Income (loss) before provision for income taxes</b>	<b>560,333</b>	(18,579)
Provision for income taxes (note 12)	-	-
<b>Net income (loss) and comprehensive income (loss) for the year</b>	<b>\$ 560,333</b>	<b>\$ (18,579)</b>
<b>Net income (loss) per share</b>		
Basic	\$ 0.05	\$ (0.00)
Fully diluted	\$ 0.05	\$ (0.00)
<b>Weighted average shares outstanding</b>		
Basic	10,648,696	10,644,175
Fully diluted	10,648,696	11,847,917

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, 2015 and 2014*

	<b>2015</b>	2014
<b>Cash flow from operating activities</b>		
Net income (loss) for the year	\$ 560,333	\$ (18,579)
Items not involving cash		
Stock-based compensation	-	49,705
Interest accretion	4,473	9,149
Depreciation of equipment	136,119	145,090
Debts forgiven	(51,545)	-
Gain on settlement of preferred shares	(540,435)	-
Changes in non-cash working capital items		
Accounts receivable	(276,901)	93,314
Inventories	280,396	(30,482)
Prepaid expenses	(1,817)	(310)
Customer deposits	19,683	(5,113)
Accounts payable and accrued liabilities	(42,688)	29,085
	<b>87,618</b>	271,859
<b>Cash flow from investing activities</b>		
Purchase of equipment	(2,010)	(196,414)
<b>Cash flow from financing activities</b>		
Recovery of restricted cash equivalents	250,000	-
Change in operating loan	(25,000)	25,000
Redemption of preferred shares	(166,378)	-
Repayment of notes payable	-	(144,735)
Proceeds from long-term debt	197,463	200,000
Repayment of long-term debt	(283,007)	(230,101)
Proceeds from share issuances	-	7,500
	<b>(26,922)</b>	(142,336)
<b>Increase (decrease) in cash</b>	<b>58,686</b>	(66,891)
<b>Cash, beginning of year</b>	<b>53,723</b>	120,614
<b>Cash, end of year</b>	<b>\$ 112,409</b>	<b>\$ 53,723</b>

**Supplemental Disclosure of Cash Flow Information:**

During the year the Company had cash flows arising from interest and income taxes paid as follows:

Interest	\$ 12,261	\$ 24,921
Income taxes	\$ -	\$ -

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

**Notes to Consolidated Financial Statements**

(Stated in Canadian Dollars)

June 30, 2015 and 2014

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**1. Business of the Company**

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ZTEST Electronics Inc. (the Company) 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 Securities Exchange under the symbol "ZTE".

**2. Significant Accounting Policies**

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**Statement of compliance**

The Company has prepared these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on October 22, 2015.

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

**Basis of presentation**

These consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting, except for cash flow information.

**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 (PEC)	- 100% owned
Northern Cross Minerals Inc.	- 66.7% owned (inactive)

**Changes in accounting policies**

The Company's accounting policies will typically change only when there is a relevant change in IFRS. There were no changes in IFRS during the current year that were required to be adopted by the Company.

**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 and the recognition and valuation of deferred tax amounts.

**Financial instruments**

The Company's financial instruments are comprised of the following:

<u>Financial assets:</u>	<u>Classification</u>
Cash	Fair value through profit and loss
Restricted cash equivalents	Fair value through profit and loss
Accounts receivable	Loans and receivables
<u>Financial liabilities:</u>	<u>Classification</u>
Bank operating loan	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Customer deposits	Other financial liabilities
Long-term debt	Other financial liabilities

**Notes to Consolidated Financial Statements**

(Stated in Canadian Dollars)

June 30, 2015 and 2014

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**2. Significant Accounting Policies - continued**

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**Financial instruments - continued**

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.

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, 2015 and 2014 cash and restricted cash equivalents are measured at fair value and are classified within Level 1 of the fair value hierarchy.



**Notes to Consolidated Financial Statements**

(Stated in Canadian Dollars)

June 30, 2015 and 2014

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**2. Significant Accounting Policies - continued**

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**Financial instruments - continued**

*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 asset's or CGU's 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 arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset 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.

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 equivalents**

Cash equivalents consist of highly liquid short-term interest bearing securities with maturity at the date of purchase of three months or less. The Company held no cash equivalents at June 30, 2015 and held only restricted cash equivalents at June 30, 2014.

**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.

**Notes to Consolidated Financial Statements**

(Stated in Canadian Dollars)

*June 30, 2015 and 2014*

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**2. Significant Accounting Policies - continued**

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**Revenue recognition**

Revenue is recognized when the risks and rewards of ownership pass to the customer, the amount of revenue can be measured reliably, and the ability to collect is reasonably assured, which typically arises when the product is delivered.

**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.

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 profit and loss and comprehensive income (loss) 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 Company's 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.

**Notes to Consolidated Financial Statements**

(Stated in Canadian Dollars)

June 30, 2015 and 2014

**2. Significant Accounting Policies - continued**

**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, 2018, 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, 2018 and has not yet considered the potential impact of its adoption.

**3. Inventories**

The carrying value of inventories is comprised of:

	2015	2014
Raw materials and supplies <sup>(1)</sup>	\$ 363,740	\$ 636,612
Work in process	10,908	12,393
Finished goods	7,897	13,936
	<b>\$ 382,545</b>	<b>\$ 662,941</b>

<sup>(1)</sup> The raw materials and supplies is presented net of provisions for obsolete and/or slow moving items in the amount of \$30,891 (2014 - \$56,045). Management makes estimates of future demand when establishing appropriate provisions. To the extent that actual inventory losses differ from these estimates both inventories and net income (loss) will be affected.

Inventory utilization during the year was as follows:

	2015	2014
Raw materials and supplies used	\$ 1,837,993	\$ 1,588,919
Labour costs	645,467	761,263
Depreciation	132,358	141,355
Repairs and maintenance	44,753	33,451
Stencils and tooling	35,466	41,279
Shipping costs	47,594	56,643
Other costs	7,322	6,912
Net change in finished goods and work in process	7,524	13,462
Cost of product sales	<b>\$ 2,758,477</b>	<b>\$ 2,643,284</b>

**4. Equipment**

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
<b>Cost:</b>					
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
Additions	2,010	-	-	-	2,010
Balance, June 30, 2015	<b>\$ 175,421</b>	<b>\$ 71,277</b>	<b>\$ 2,561,208</b>	<b>\$ 61,003</b>	<b>\$ 2,868,909</b>

**ZTEST Electronics Inc.****Notes to Consolidated Financial Statements**

(Stated in Canadian Dollars)

June 30, 2015 and 2014

**4. Equipment - continued**

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
<b>Accumulated Depreciation:</b>					
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)
Depreciation	(2,690)	(710)	(132,719)	-	(136,119)
Balance, June 30, 2015	<b>\$ (168,548)</b>	<b>\$ (68,438)</b>	<b>\$ (2,030,332)</b>	<b>\$ (61,003)</b>	<b>\$ (2,328,321)</b>
<b>Carrying Amounts:</b>					
June 30, 2014	\$ 7,553	\$ 3,549	\$ 663,595	\$ -	\$ 674,697
June 30, 2015	<b>\$ 6,873</b>	<b>\$ 2,839</b>	<b>\$ 530,876</b>	<b>\$ -</b>	<b>\$ 540,588</b>

**5. Bank operating loan**

	2015	2014
The line of credit, which can be drawn to a maximum of \$250,000, bears interest at the TD Bank prime lending rate plus 2.5%, is due upon demand, and is secured by a general security agreement covering the assets of PEC.	\$ -	\$ 25,000

**6. Debts forgiven**

During the year the Company determined that certain unsecured obligations, due to their age and being unenforceable, were to be treated as having been forgiven. These obligations were as follows:

Interest payable	\$ 11,945
Non-interest bearing debenture (note 8)	39,600
Total debts determined to have been forgiven	<b>\$ 51,545</b>

**7. Settlement of preferred shares**

During the year the Company negotiated settlement with the holders of the Series A and Series C preferred shares whereby, for aggregate cash payments of \$166,378, all outstanding shares were redeemed and all accrued but unpaid dividends were waived. In accordance with IFRS in effect when the preferred shares were issued, the issuance proceeds were segregated between paid in capital, included in share capital, and a liability. The associated accrued dividends were allocated in proportion to the proceeds with pro-rata amounts charged against equity and against income for the period. The settlement of these obligations has resulted in the recognition of contributed surplus and settlement gains as follows:

	Liability Portion	Equity Portion	Total
Proceeds of Series A shares	\$ 136,024	\$ 23,976	\$ 160,000
Proceeds of Series C shares	337,831	167,671	505,502
Redemption price of preferred shares	473,855	191,647	665,502
Settlement amount paid	(118,466)	(47,912)	(166,378)
Redemption price in excess of settlement amount paid	355,389	143,735	499,124
Dividends waived	185,046	78,291	263,337
Aggregate settlement of preferred shares	<b>\$ 540,435</b>	<b>\$ 222,026</b>	<b>\$ 762,461</b>

**ZTEST Electronics Inc.****Notes to Consolidated Financial Statements**

(Stated in Canadian Dollars)

June 30, 2015 and 2014

**8. Long-Term Debt**

	2015	2014
Term loan bearing interest at the TD Bank prime lending rate plus 1.75% matures July 2019. Monthly payments of \$3,291 plus interest are required until maturity. <sup>(1)</sup>	\$ 161,262	\$ -
Non-interest bearing debenture (note 6).	-	39,600
Term loan, bore interest at 11.00%, was secured by a general security agreement covering the assets of PEC, matured April 2015. <sup>(2)</sup>	-	45,789
Term loan, bore interest at 9%, was repaid July 2014. 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. <sup>(2)</sup>	-	147,408
Term loan, bore interest at 9%, was repaid July 2014. 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. <sup>(2)</sup>	-	49,136
Total long-term debt	161,262	281,933
Less: Current portion	39,493	123,689
	<u>\$ 121,769</u>	<u>\$ 158,244</u>

<sup>(1)</sup> The proceeds of this term loan were used to repay existing term loans.

<sup>(2)</sup> Payable to a related party (note 11).

The minimum annual future principal repayments are as follows:

2016	\$ 39,493
2017	39,493
2018	39,493
2018	39,493
2020	3,290
	<u>\$ 161,262</u>

**9. 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 \$7,696 to \$8,979 are required over the remaining term of the lease as follows:

2016	\$ 95,972
2017	100,952
2018	103,668
2019	106,385
2020	107,743
Remaining	80,807
	<u>\$ 595,527</u>

**10. Share Capital****(a) Authorized**

Unlimited Common shares

Unlimited Preferred shares in one or more series.

During the year the Company filed articles of amendment to cancel the Class A Special Shares as well as the Series A, B, C and D Preferred shares that had been previously authorized.

**ZTEST Electronics Inc.****Notes to Consolidated Financial Statements**

(Stated in Canadian Dollars)

*June 30, 2015 and 2014***10. Share Capital - continued****(b) Issued:**

	<b>2015</b>	2014
Common shares	<b>\$ 22,151,406</b>	\$ 22,343,053
	Number of Shares	Amount
<b>Common shares:</b>		
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
Redemption of Series A and Series C preferred shares ( <i>note 7</i> )	-	(191,647)
Balance June 30, 2015 <sup>(1)</sup>	<b>10,648,696</b>	<b>\$ 22,151,406</b>

<sup>(1)</sup> In the 2013 fiscal year the Company's 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.

**Preferred shares**

Balance June 30, 2013 and June 30, 2014	<b>\$ 473,855</b>
Redemption of Series A and Series C preferred shares ( <i>note 7</i> )	<b>(473,855)</b>
Balance June 30, 2015	\$ -

**(c) Details of warrants outstanding:**

	<b>Number of Warrants</b>	<b>Amount</b>
Balance June 30, 2013	2,000,000	\$ 76,677
Issued during the year	400,000	4,219
Balance June 30, 2014 and June 30, 2015	<b>2,400,000</b>	<b>\$ 80,896</b>

	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 and end of year	2,400,000	\$ 0.10	June 7, 2016

No new warrants were issued during the 2015 fiscal year. The warrants issued during the 2014 fiscal 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 8*)

**(d) Details of options outstanding:**

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted Nov. 30, 2010	275,000 <sup>(1)</sup>	275,000	\$ 0.10	Nov. 30, 2015
Granted Sept. 14, 2012	130,000 <sup>(1)</sup>	130,000	\$ 0.10	Sept. 14, 2017
Granted December 31, 2013	500,000 <sup>(1)</sup>	500,000	\$ 0.10	Dec. 31, 2018

**ZTEST Electronics Inc.****Notes to Consolidated Financial Statements**

(Stated in Canadian Dollars)

June 30, 2015 and 2014

**10. Share Capital - continued****(d) Details of options outstanding - continued:**

	Common Shares Under Option	Weighted Average Price/Option	Weighted Average Expiry Date
Beginning of year	1,205,000	\$ 0.108	Mar. 28, 2017
Expired during year	(300,000)	\$ 0.132	Apr. 27, 2015
End of year	905,000	\$ 0.100	Nov. 15, 2017

<sup>(1)</sup> Directors and/or Officers of the Company hold these options.

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

	2015	2014
Dividend yield	<b>None issued</b>	Nil
Risk free interest rate (%)	<b>None issued</b>	1.93
Expected stock volatility (%)	<b>None issued</b>	119.90
Expected life (years)	<b>None issued</b>	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:

	2015	2014
Contributed surplus, beginning of year	\$ <b>613,819</b>	\$ 569,452
Redemption of Series A and Series C preferred shares (note 7)	<b>222,026</b>	-
Compensation expense related to stock options granted	-	49,705
Stock options exercised	-	(5,338)
Contributed surplus, end of year	\$ <b>838,845</b>	\$ 613,819

**11. Related Party Transactions and Balances**

In addition to key management personnel, the Company had transactions during the year with 1114377 Ontario Inc. (õ1114377õ), 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	2015	2014
Employee and consultant compensation <sup>(1)</sup>	\$ <b>333,766</b>	\$ 329,715
Production wages <sup>(1)</sup>	-	3,569
Professional fees <sup>(1)</sup>	<b>24,080</b>	38,053
Interest expense ó long-term debt	<b>6,408</b>	15,825
Interest expense ó long-term debt <sup>(1)</sup>	<b>999</b>	2,325
	\$ <b>365,253</b>	\$ 389,487
Stock-based compensation <sup>(1)</sup>	\$ -	\$ 49,705

<sup>(1)</sup> Transactions with key management personnel. As at June 30, 2015 \$90,306 (2014 - \$51,722) was payable to key management personnel and included in accounts payable and accrued liabilities.

**Notes to Consolidated Financial Statements**

(Stated in Canadian Dollars)

*June 30, 2015 and 2014***12. Income Taxes****Current Income Taxes**

A reconciliation of combined federal and provincial corporate income taxes at the Company's effective tax rate of 26.50% (2014 ó 26.50%) is as follows:

	2015	2014
Net income (loss) before income taxes	\$ 560,333	\$ (18,579)
Expected income tax expense (recovery)	\$ 148,490	\$ (4,920)
Expenses not deductible for income tax purposes	(27,790)	11,460
Effect of settlement of preferred shares	(143,215)	-
Change in tax benefits not recognized	22,515	(6,540)
<b>Income tax expense</b>	<b>\$ -</b>	<b>\$ -</b>

**Unrecognized Deferred Tax Assets**

Deferred 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 tax assets have not been recognized in respect of the following deductible temporary differences:

	2015	2014
Inventory	\$ 9,460	\$ 5,801
Share issuance costs	7,280	19,460
Intangible assets	37,430	40,250
Property, plant and equipment	2,900	97,200
Resource related expenditures	349,050	349,050
Scientific research and experimental development	1,050,618	1,050,618
Non-capital loss carry forwards	1,358,660	1,273,700
<b>Net capital loss carry forwards</b>	<b>15,592,989</b>	<b>15,592,989</b>

Share issue costs expire from 2016 to 2017. The non-capital loss carry forwards expire from 2027 to 2035. 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	174,605
2031	577,960
2032	14,860
2033	76,560
2034	168,430
2035	136,504
	<b>\$ 1,358,660</b>

The realization of these losses is potentially subject to verification by Canada Revenue Agency (óCRAö). 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.



**Notes to Consolidated Financial Statements**

(Stated in Canadian Dollars)

June 30, 2015 and 2014

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**13. Financial risk factors**

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The Company is exposed in varying degrees to the following 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 Company's 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. It has been determined that no allowance is required, as all amounts outstanding are considered collectible, and no bad debts were recorded in the current or prior year.

**Concentration of credit risk**

Concentration of credit risk arises when one or more customers, defined as a major customer, individually account for 10% or more of the Company's revenues during a reporting period. During the current year the Company had major customers which represented 13% and 12% of total revenues. In the prior year one major customer accounted for 25% of revenues. Amounts due from major customers represented 13% of accounts receivable at June 30, 2015 (2014 - 9%). The loss of a major 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 all customers closely and ensures that every customer is subject to the same risk management criteria.

**Market risks**

The Company is exposed to interest rate risk due to obligations that have floating interest rates as well as currency risk related to cash, accounts receivable and accounts payable denominated in US dollars. Market risks give rise to the potential for future cash flows to fluctuate because of changes in interest rates or foreign exchange rates. Market risks are closely monitored and attempts are made to match foreign cash inflows and outflows. During the current fiscal year the Company has reported a foreign exchange gain of \$5,783 (2014 ó gain of \$3,581).

**Sensitivity to market risks**

At June 30, 2015 the Company had \$161,262 (2014 ó\$Nil) which bears interest at the TD Bank prime lending rate plus 1.75%. A 1% increase in the TD Bank prime lending rate as at the financial reporting date would result in additional interest expense of \$1,432 over the next 12 month period.

At June 30, 2015 the Company had US\$129,966 (2014 óUS\$99,330) 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 \$1,658 in future cash inflow.

At June 30, 2015 the Company had US\$128,894 (2014 ó US\$233,439) 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 \$1,645 in future cash outflow.

At June 30, 2015 the Company had US\$20,825 (2014 ó US\$38,607) included in cash. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of \$266 in carrying value.

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

**14. Capital disclosures**

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The Company's 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.

**ZTEST Electronics Inc.****Notes to Consolidated Financial Statements**

(Stated in Canadian Dollars)

*June 30, 2015 and 2014***14. Capital disclosures - continued**

	<b>2015</b>	2014
Long-term debt	\$ 161,262	\$ 281,933
Share capital	22,151,406	22,343,053
Warrants	80,896	80,896
Contributed surplus	835,845	613,819
Deficit	(22,018,069)	(22,578,402)
<b>Net capital under management</b>	<b>\$ 1,211,340</b>	<b>\$ 741,299</b>

**15. Selling, general and administrative expenses**

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

	<b>2015</b>	2014
Employee and consultant compensation ( <i>note 11</i> )	\$ 782,492	\$ 856,871
Insurance	33,906	33,694
Occupancy costs	261,829	264,970
Professional fees ( <i>note 11</i> )	62,684	75,703
Shareholder services	21,742	25,390
Other	42,849	50,419
	<b>\$ 1,205,502</b>	<b>\$ 1,307,047</b>