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

ACCOUNTING › CONSULTING › TAX
50 BURNHAMTHORPE ROAD WEST, SUITE 900
MISSISSAUGA, ON, L5B 3C2
P: 416.626.6000 F: 416.626.8650 MNP.ca

ZTEST Electronics Inc.

Consolidated Statements of Financial Position
(Stated in Canadian Dollars)
June 30, 2015 and 2014

	2015	2014
Assets		
Current assets		
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
	1,195,411	1,388,403
Lease deposit *(note 9)*	**35,000**	35,000
Equipment *(note 4)*	**540,588**	674,697
	$ **1,770,999**	$ 2,098,100
Liabilities		
Current liabilities		
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
	599,152	1,480,490
Long-term debt *(note 8)*	**121,769**	158,244
	720,921	1,638,734
Commitment *(note 9)*		
Shareholders' Equity		
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)
	1,050,078	459,366
	$ **1,770,999**	$ 2,098,100

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

Approved by the Board:

Signed: "Wojciech Drzazga"	*Signed: "John Perreault"*
Director	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	**$ 22,151,406**	**$ 80,896**	**$ 835,845**	**$ (22,018,069)**	**$ 1,050,078**

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
Product sales	**$ 3,945,720**	$ 4,014,268
Cost of product sales (*note 3*)	**2,758,477**	2,643,284
	1,187,243	1,370,984
Expenses		
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)
	1,220,640	1,392,305
Loss before other income and income taxes	**(33,397)**	(21,321)
Other income		
Debts forgiven *(note 6)*	**51,545**	-
Gain on settlement of preferred shares *(note 7)*	**540,435**	-
Interest and other income	**1,750**	2,742
	593,730	2,742
Income (loss) before provision for income taxes	**560,333**	(18,579)
Provision for income taxes *(note 12)*	**-**	-
Net income (loss) and comprehensive income (loss) for the year	**$ 560,333**	$ (18,579)
Net income (loss) per share		
Basic	**$ 0.05**	$ (0.00)
Fully diluted	**$ 0.05**	$ (0.00)
Weighted average shares outstanding		
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

Consolidated Statements of Cash Flows
(Stated in Canadian Dollars)
For the years ended June 30, 2015 and 2014

	2015	2014
Cash flow from operating activities		
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
	87,618	271,859
Cash flow from investing activities		
Purchase of equipment	**(2,010)**	(196,414)
Cash flow from financing activities		
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
	(26,922)	(142,336)
Increase (decrease) in cash	**58,686**	(66,891)
Cash, beginning of year	**53,723**	120,614
Cash, end of year	$ **112,409**	$ 53,723

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

	2015	2014
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

1. Business of the Company

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

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:

Financial assets:	*Classification*
Cash	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
Customer deposits	Other financial liabilities
Long-term debt	Other financial liabilities

(Stated in Canadian Dollars)

2. Significant Accounting Policies - continued

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.

2. Significant Accounting Policies - continued

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.

(Stated in Canadian Dollars)

2. Significant Accounting Policies - continued

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.

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 [(1)]	$ **363,740**	$ 636,612
Work in process	**10,908**	12,393
Finished goods	**7,897**	13,936
	$ **382,545**	$ 662,941

[(1)] 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	$ **2,758,477**	$ 2,643,284

4. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Cost:					
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	$ **175,421**	$ **71,277**	$ **2,561,208**	$ **61,003**	$ **2,868,909**

4. Equipment - continued

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Accumulated Depreciation:					
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	**$ (168,548)**	**$ (68,438)**	**$ (2,030,332)**	**$ (61,003)**	**$ (2,328,321)**
Carrying Amounts:					
June 30, 2014	$ 7,553	$ 3,549	$ 663,595	$ -	$ 674,697
June 30, 2015	**$ 6,873**	**$ 2,839**	**$ 530,876**	**$ -**	**$ 540,588**

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	$ 51,545

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	$ 540,435	$ 222,026	$ 762,461

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 $3,291 plus interest are required until maturity. [1]	**$ 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. [2]	**-**	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. [2]	**-**	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. [2]	**-**	49,136
Total long-term debt	**161,262**	281,933
Less: Current portion	**39,493**	123,689
	$ 121,769	$ 158,244

[1] The proceeds of this term loan were used to repay existing term loans.
[2] 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
	$ 161,262

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
	$ 595,527

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.

10. Share Capital - continued

(b) Issued:

	2015	2014
Common shares	$ **22,151,406**	$ 22,343,053

Common shares:	Number of Shares	Amount
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 *(note 7)*	-	(191,647)
Balance June 30, 2015 (1)	10,648,696	$ **22,151,406**

(1) 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	$ **473,855**
Redemption of Series A and Series C preferred shares *(note 7)*	**(473,855)**
Balance June 30, 2015	$ -

(c) Details of warrants outstanding:

	Number of Warrants	**Amount**
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	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 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 (1)	275,000	$ 0.10	Nov. 30, 2015
Granted Sept. 14, 2012	130,000 (1)	130,000	$ 0.10	Sept. 14, 2017
Granted December 31, 2013	500,000 (1)	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

(1) 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	**None issued**	Nil
Risk free interest rate (%)	**None issued**	1.93
Expected stock volatility (%)	**None issued**	119.90
Expected life (years)	**None issued**	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	$ **613,819**	$ 569,452
Redemption of Series A and Series C preferred shares *(note 7)*	**222,026**	-
Compensation expense related to stock options granted	**-**	49,705
Stock options exercised	**-**	(5,338)
Contributed surplus, end of year	$ **838,845**	$ 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. ("1114377"), 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 (1)	$ **333,766**	$ 329,715
Production wages (1)	**-**	3,569
Professional fees (1)	**24,080**	38,053
Interest expense – long-term debt	**6,408**	15,825
Interest expense – long-term debt (1)	**999**	2,325
	$ **365,253**	$ 389,487
Stock-based compensation (1)	$ **-**	$ 49,705

(1) 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.

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 – 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)
Income tax expense	$	**-**	$	-

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
Net capital loss carry forwards		**15,592,989**		15,592,989

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
	$	1,358,660

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

13. Financial risk factors

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 – gain of $3,581).

Sensitivity to market risks

At June 30, 2015 the Company had $161,262 (2014 –$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 –US$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 – 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 – 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

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.

14. Capital disclosures - continued

	2015	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)
Net capital under management	$ **1,211,340**	$ 741,299

15. Selling, general and administrative expenses

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

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

General

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of ZTEST Electronics Inc. ("ZTEST" or the "Company") constitutes management's review of the factors that affected the Company's consolidated financial and operating performance for the year ended June 30, 2015. The MD&A was prepared as of October 22, 2015 and was approved by the Board of Directors on October 22, 2015. It should be read in conjunction with the consolidated financial statements of the Company for the year ended June 30, 2015, 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 Company's shares trade on the Canadian Securities Exchange under the symbol "ZTE".

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

Corporate Performance

The 2015 fiscal year provided some operational challenges while generating positive cash flow from operations as well as significant improvements in the Company's liquidity and capital.

Cash management has long been a focal point for the Company and 2015 represents the tenth consecutive fiscal year for which cash flows from operations have been positive. The positive cash flows throughout this extended period have enabled the Company to invest in its future through strategic equipment additions while also retiring the debts from its past. This emphasis on cash management now enables the Company to go forward into 2016 with financial burdens, and the associated risks, at an all-time low. Cash management will continue to be a point of emphasis and it is anticipated that positive cash flows will continue.

Challenges certainly did arise in 2015 with mergers and acquisitions having a tangible impact upon the Company's marketplace. This includes the acquisition of certain of the Company's customers by U.S. based entities and the redistribution of much of the demand from those customers to U.S. based competitors. The greatest impact of this market activity was experienced in the second quarter when revenues dropped approximately 30% below what had become the quarterly norm. This was followed by a third quarter sale of excess materials, which had been acquired to service a then significant customer, to that customer under the expectation that they would no longer be used in production. The Company not only withstood this challenge but succeeded in replacing departed revenues such that annual revenues declined by less than 2% and annual operating profits were only marginally below break-even. It is anticipated that there will continue to be changes in the market place however management is optimistic that the greatest impact has already been absorbed and that future changes will be less challenging.

Corporate Performance - continued

During that challenging second quarter the Company successfully concluded negotiations with its former preferred shareholders. Preferred shares had been issued from 2001 to 2003 as a means of funding the Company's operations at that time. These preferred shares had dividend and redemption rights which resulted in an obligation of $928,839. This unsecured obligation, which had been on the Company's books since 2007, was settled during the second quarter in exchange for a cash payment of $166,378 thereby adding $762,461 to the Company's capital position.

The redemption of the preferred shares, the simultaneous waiving of accrued dividends by the preferred shareholders, and the forgiveness of $51,545 in other short term obligations not only improved the Company's capital position but also had a significant impact upon the Company's liquidity position and eliminated a major source of business risk. Although those obligations were unsecured and bore no carrying costs their existence was still impactful upon the Company including their effect upon the availability and cost of business financing. As at June 30, 2015 the Company has a working capital surplus, current financial assets that exceed its current and total liabilities, and is financed exclusively through commercial working capital and term debt with market-based carrying costs.

The overall financial health of the Company has never been better and management is eager to move forward and to continue efforts to maximize return for stakeholders and minimize business risks. The following data may provide some additional insights relative to the Company's operating performance and financial position:

	For the fiscal years ended:		
	June 15	June 14	June 13
Total Revenues	3,945,720	4,014,268	4,601,698
Net income (loss) income from operations	(33,397)	(21,321)	141,007
Per share - basic	(0.003)	(0.002)	0.017
Net income (loss) for the year	560,333	(18,579)	148,319
Per share - basic	0.053	(0.002)	0.018
Total assets	1,770,999	2,098,100	2,176,189
Total long-term financial liabilities	121,769	158,244	45,788
Total liabilities	720,921	1,638,734	1,759,668

	For the three month periods ended:				
	June 15	Mar. 15	Dec. 14	Sept. 14	June 14
Total Revenues	1,122,088	1,061,276	691,622	1,070,734	1,000,676
Net income (loss) from operations	111,838	(17,243)	(154,718)	26,726	(21,790)
Per share - basic	0.011	(0.002)	(0.015)	0.002	(0.002)
Net income (loss) for the period	111,838	(17,091)	438,159	27,427	(20,988)
Per share - basic	0.011	(0.002)	0.041	0.002	(0.002)
Total assets	1,770,999	1,600,781	1,715,098	1,971,431	2,098,100
Total long-term financial liabilities	121,769	131,642	141,516	151,388	158,244
Total liabilities	720,921	662,541	759,767	1,484,638	1,638,734

	For the three month periods ended:				
	Mar. 14	Dec. 13	Sept. 13	June 13	Mar. 13
Total Revenues	933,391	945,951	1,134,250	1,288,374	1,127,445
Net income (loss) from operations	(3,300)	(59,301)	63,070	81,609	21,311
Per share - basic	(0.000)	(0.006)	0.006	0.008	0.003
Net income (loss) for the period	(2,521)	(58,928)	63,858	83,815	22,379
Per share - basic	(0.000)	(0.006)	0.006	0.008	0.003
Total assets	2,190,139	1,859,824	2,102,184	2,176,189	2,228,452
Total long-term financial liabilities	177,893	18,830	32,498	45,788	57,496
Total liabilities	1,709,785	1,381,168	1,614,305	1,759,668	2,036,126

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

Results of Operations

The final quarter of 2015 provided the largest profit from operations that the Company has realized since the all-time high reported for the quarter ended March 31, 2012. This profit, however, was not quite sufficient to overcome a particularly weak second quarter as, for the second consecutive year, operating results were just below the break-even level. There are many factors that contribute to the Company's operating results and the highlights are discussed below.

Revenues for the final quarter were almost 6% higher than they were in the preceding quarter and more than 12% greater than the final quarter of 2014. The two most recent quarters each provided revenues that were greater than reported for the comparable quarter one year earlier signalling the end to a five quarter period when revenues declined on that same year over year basis. In spite of the revenue growth realized over the final six months the annual revenues still declined in comparison to the prior year, albeit by less than 2%. The marginal decline in annual revenues was the direct result of the uncharacteristically low revenues realized in the second quarter. It is believed that the final six months signifies that the Company has successfully replaced production that departed to the U.S. however the marketplace remains highly competitive and additional market consolidation may still occur.

Gross margins for 2015 amounted to $1,187,243 or 30% of revenues or lower than had been realized in the 2014 year when margins were $1,370,984 or 34% of revenues. Although changes in the marketplace contributed to the 2015 decline there was also the 24% margins realized in the second quarter and the third quarter component sales to a departing customer that served to reduce margins for that quarter by 3%. Gross margins have fluctuated from period to period and have often been impacted by specific events just as they were in the final quarter of 2015 when equipment acquisitions led to increased periodic depreciation charges. Management constantly strives to control costs in order to maximize longer term margins and profitability and believes that the 36% gross margins realized in the most recent quarter are a solid indication of adherence to this objective. A better understanding of the margins can be achieved through review of the elements of the cost of product sales.

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

Years ended	June 15	June 14	Change
Raw materials and supplies consumed	$ 1,837,993	$ 1,588,919	$ 249,074
Labour costs incurred	645,467	761,263	(115,796)
Depreciation	132,358	141,355	(8,997)
Other costs	135,135	138,285	(3,150)
Net change in finished goods and work in process	7,524	13,462	(5,938)
Total cost of product sales	$ 2,758,477	$ 2,643,284	$ 115,193

Three month periods ended	June 15	June 14	Change
Raw materials and supplies consumed	$ 502,105	$ 402,125	$ 99,980
Labour costs incurred	145,068	203,776	(58,708)
Depreciation	33,089	49,695	(16,606)
Other costs	35,655	47,776	(12,121)
Net change in finished goods and work in process	814	(4,089)	4,903
Total cost of product sales	$ 716,731	$ 699,283	$ 17,448

Results of Operations - continued

The cost of materials consumed in the final quarter of 2015 was 25% higher than in the similar period ended June 30, 2014 signifying that, like the preceding quarter, a larger proportion of assemblies are being produced from components supplied by the Company as opposed to consignment items provided by customers. The inverse was true during the first 6 months of the 2015 fiscal year however as material costs were lower during that period than they had been in fiscal 2014. Materials costs for the current year also include approximately $125,000 on account of materials that were sold during the third quarter to departing customers. This type of transaction occurs from time to time but the 2015 transactions were of greater magnitude than the norm. The Company continuously promotes the supply of components as a cost effective solution for its customers however this service remains at the customers' discretion so the materials costs will always vary from period to period.

Labour cost incurred is a measure of labour paid for during the period and reflects a decrease of almost 29% for the quarter and over 15% for the year. Virtually all of the annual cost savings arose during the final six months of the year. In December 2014 the Company implemented a government approved work-share program which, generally speaking, resulted in a 20% reduction in work hours and the corresponding payroll costs without any permanent reduction in the work force. This provided the cost savings realized without impeding the Company's ability to react to increased labour demand, should it arise. The work-share program ended August 2015 at which time labour supply returned to 100%.

The total labour costs included in cost of product sales combine the labour cost incurred with the net change in finished goods and work in process, which is a measurement of the change in labour costs that are included as an element of inventory. The combined figures have declined by 27% for the quarter and 16% for the year. During the 2014 year the Company produced a number of labour intensive products, often resulting in the incurrence of overtime. There have been no comparable occurrences in 2015 as demand was below capacity as suggested by the existence of the work-share program.

Depreciation costs are lower in 2015 year than they were in the 2014 year even though fourth quarter costs were higher last year. The higher cost in the fourth quarter of 2014 was attributable to an equipment addition completed in January 2014 and installed and placed into use in the final quarter. This contributed to the annual decline in 2015 being less than the decline when comparing the final quarter of each year. Depreciation has no correlation with revenues as it is purely a function of time and the carrying value of the manufacturing equipment in use. 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. Each of these costs is incurred on an as-needed basis without any specific correlation with revenues. These costs are closely monitored and are within management expectations so they will not be further elaborated upon.

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

Years ended	June 15	June 14	Change
Employee and consultant compensation	$ 782,492	$ 856,871	$ (74,379)
Occupancy costs	261,829	264,970	(3,141)
Professional fees	62,684	75,703	(13,019)
Insurance	33,906	33,694	212
Shareholder services	21,742	25,390	(3,648)
Bad debts	-	3,169	(3,169)
Other costs	42,849	47,250	(4,401)
Total selling, general and administrative	$ 1,205,502	$ 1,307,047	$ (101,545)

Results of Operations - continued

Three month periods ended	June 15	June 14	Change
Employee and consultant compensation	$ 191,258	$ 214,920	$ (23,662)
Occupancy costs	65,203	64,278	925
Professional fees	15,773	14,595	1,178
Insurance	8,208	8,744	(536)
Shareholder services	1,800	2,393	(593)
Bad debts	-	3,169	(3,169)
Other costs	7,961	10,163	(2,202)
Total selling, general and administrative	$ 290,203	$ 318,262	$ (28,059)

Compensation costs include salaries and benefits, consulting fees and directors' fees, each of which have declined in 2015. The number of independent directors declined from 3 to 2 resulting in a cost reduction. In 2014 there was $44,000 paid to outside consultants in 2014 to investigate certain business opportunities and this did not recur in 2015. In addition, the effects of the work-share program, combined with lower sales commissions and employee benefit costs, more than offset annual pay rate changes that took effect in January.

Occupancy costs consist primarily of rent and utility charges for the Company's operating facility. Basic rental charges increase by approximately 2% in January of each year but these have been offset by reductions in utility charges. The lease for the Company's operating facility runs through March 2021 and these costs are expected to remain generally comparable throughout that lease term.

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 2015 and 2014 periods however legal fees have declined in 2015 due to there being no securities based transactions in 2015 and lower costs associated with the annual shareholders' meeting held during the year.

Shareholder services include the cost of public disclosures, distribution of materials to shareholders, stock exchange fees, and transfer agent fees. The nature and cost of these services has remained reasonably comparable between the 2015 and 2014 periods except that filing fees incurred in 2014 in relation to the related party financing did not recur in 2015.

The Company has an excellent history with respect to the collection of its accounts receivable. The small bad debt that arose in 2014 was the anomaly as most years have no similar costs.

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.

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 15	June 14	Change
Interest expense – long term (cash based)	$ 11,164	$ 21,636	$ (10,472)
Interest expense – long term (accretion)	4,473	9,149	(4,676)
Interest expense – other	1,523	4,614	(3,091)
Total financing expenses	$ 17,160	$ 35,399	$ (18,239)

Results of Operations - continued

Three month periods ended	June 15	June 14	Change
Interest expense – long term (cash based)	$ 1,944	$ 6,042	$ (4,098)
Interest expense – long term (accretion)	101	712	(611)
Interest expense – other	155	1,497	(1,342)
Total financing expenses	$ 2,200	$ 8,251	$ (6,051)

The Company has been extremely diligent with respect to retiring its long-term debt and this has resulted in significant reductions in long term interest costs and on the associated cash flow burden. In the 2015 fiscal year the Company reduced its long term debt from 4 obligations aggregating $281,933 with a weighted average interest rate of 8.06% to a single obligation of $161,262 bearing interest at the TD Bank prime lending rate (currently 2.70%) plus 1.75%.

Interest accretion arises when the fair value of an obligation, at its inception, is determined to be different from its face value. All debts giving rise to accretion were retired during the 2015 fiscal year.

Interest expense – other includes any interest incurred except that related to long term debt. Interest arising in 2015 relates to modest use of the Company's operating loan facility plus the financing costs associated with paying its insurance policy monthly. In addition to these sources of other interest the Company also paid interest on a note payable from December 2013 through March.

Liquidity

The Company has a working capital surplus of $596,259 representing an improvement of $136,087 during the final quarter and $688,346 greater than at June 30, 2014. Earlier in the fiscal year the Company settled $980,384 in obligations, including $788,737 in current liabilities, through cash payments of $166,378. At June 30, 2015 the Company had current financial assets of $802,795 available to settle current financial liabilities of $599,152. This surplus of $203,643 represents an improvement of $134,102 during the quarter. The Company also has access to a $250,000 bank operating line, which was not drawn upon as of June 30, 2015, to help fund working capital requirements.

The Company utilizes long term debt as a means of financing new equipment acquisitions. In July 2014 the Company obtained a commercial term loan and used the proceeds of that loan to pay out $200,000 in loans obtained January 2014, from related parties, to finance an equipment purchase.

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, 2015:

	Due by June 2016	Due by June 2018	Due by June 2020	Due after June 2020	Total Due
Long-term debt	$ 39,493	$ 78,986	$ 42,783	$ -	$ 161,262
Operating leases	95,972	204,620	214,128	80,807	595,527
	$ 135,465	$ 283,606	$ 256,911	$ 80,807	$ 756,789

Capital Resources

The Company has a $250,000 commercial line of credit from which nothing was drawn as at June 30, 2015 and $25,000 was drawn as at June 30, 2014. The loan bears interest at the prime lending rate plus 2.5%, is due upon demand, and is secured by a general security agreement covering the assets of PEC.

In July 2014 this line of credit was restructured to increase the interest rate from the prime lending rate plus 0.5% and to remove the requirement for term deposit security. The $250,000 term deposit, previously classified as restricted cash equivalents, became available for general use on July 7, 2014.

Related Party Transactions

During the final quarter of 2015 a loan payable to 1114377 Ontario Inc. ("1114377") , a company controlled by the spouse of Mr. W. Drzazga, the CEO and a Director of the Company, matured. An option granted to 1114377 at the inception of this loan, to acquire a 24% interest in Permatech Electronics Corporation, also expired during the year.

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 2.70%) plus 1.75%. The proceeds were used to retire term loans payable to 1114377 and to Mike Kindy, the Company's CFO, which had been negotiated when commercial financing was not available to the Company. At the inception of the term loans the creditors received 400,000 share purchase warrants with each warrant having an exercise price of $0.10 and an expiry date of October 31, 2017.

The Company compensates its key management personnel for services rendered. These include salaries and benefits paid to Wojciech Drzazga (CEO) and John Perreault (President), consulting fees paid to Michael D. Kindy (CFO), legal fees paid to a legal firm in which William R. Johnstone (Corporate Secretary) is a partner, Directors' fees, and share-based payments. The 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:

	2015	2014
Loan payable to 1114377 Ontario Inc. at prime +8% (1)	-	46,806
Loan payable to 1114377 Ontario Inc. at 9% (1)	-	150,000
Loan payable to the Company's CFO at 9% (1)	-	50,000
Salaries and benefits payable (2)	6,106	3,793
Consulting fees payable (2)	83,200	44,800
Legal fees payable (2)	1,000	3,129

(1) This is the face value of this obligation. It was reported in the consolidated financial statements at a discounted value included as an element of long-term debt.
(2) Reported in the consolidated financial statements as an element of accounts payable and accrued liabilities. Aggregate value of $90,306 (2014 - $51,722)

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

	2015	2014
Salaries and benefits (1)	$ 267,766	$ 254,006
Production wages (2)	-	3,569
Consulting fees (1)	38,400	40,609
Directors' fees (1)	27,600	35,100
Legal fees (3)	24,080	38,053
Interest expense – long term	7,407	18,150
Cash based expenditures	$ 365,253	$ 389,487
Share-based payments	$ -	$ 49,705

(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.

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, 2015:

Description	Expiry Date	Number of Common shares
Stock options @ $0.10 per share	Nov. 2015	275,000
Stock options @ $0.10 per share	Sept. 2017	130,000
Stock options @ $0.10 per share	Dec. 2018	500,000

There were 300,000 stock options held by the estate of a former Director, having exercise prices ranging from $0.10 to $0.15, which expired April 27, 2015.

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Share capital	Quantity	Amount
Common shares, June 30, 2014	10,648,696	$ 22,343,053
Less: paid up capital of preferred shares redeemed	-	(191,646)
Common shares, June 30, 2015 and as at the date of this document	10,648,696	$ 22,151,406

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		473,855
Preferred shares redeemed		(473,855)
Preferred shares as at June 30, 2015 and as at the date of this document		$ -

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 @ $0.10 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, 2015 and as at the date of this document		3,313,246

(1) 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.

Convertible Instruments and Other Securities - continued

Fully diluted position	
Shares issued	10,648,696
Shares reserved	3,313,246
Fully diluted position as at June 30, 2015 and as at the date of this document	13,961,942

Additional disclosures relative to stock options are as follows:

	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 December 31, 2013	500,000 (1)	500,000	$ 0.10	Dec. 31, 2018

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

	Common Shares Under Option	Weighted Average Price/Option	Weighted Average Expiry Date
Balance, June 30, 2014	1,205,000	$ 0.108	Mar. 28, 2017
Expired April 27, 2015	(300,000)	$ 0.132	Apr 27, 2015
Balance, June 30, 2015 and as at the date of this document	905,000	$ 0.100	Nov. 15, 2017

Additional disclosures relative to share purchase warrants are as follows:

	Number of Warrants	Value of Warrants	Exercise Price	Expiry Date
Issued Mar. 24, 2011	900,000	$ 38,818	$ 0.10	Mar. 24, 2016
Issued Feb. 4, 2013	1,100,000	37,859	$ 0.10	Feb. 4, 2016
Issued Jan. 10, 2014	400,000	4,219	$ 0.10	Oct. 31, 2017
		$ 80,896		

	Number of Warrants	Weighted Average Price/Warrant	Weighted Average Expiry Date
Balance, June 30, 2014, June 30, 2015 and as at the date of this document	2,400,000	$ 0.10	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. There were no changes in accounting policy during the current period.

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.

Accounting Standards Effective For Future Periods - continued

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.

Financial Instruments

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

Financial assets:	*Classification*
Cash	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
Customer deposits	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.

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.

Financial instruments - continued

Impairment of financial assets - continued:
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.

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 Company's 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 Company's 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 Company's business, operating results, and financial condition.

In addition to the foregoing, the Company is exposed to credit risk, concentration of credit risk, liquidity risk, and currency risk. The Company's 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 Company's 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 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. Bad debt experience has not been significant and it has been determined that no allowance is required as all amounts outstanding are considered collectible.

Risk Factors - continued

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 – gain of $3,581).

Sensitivity to market risks

At June 30, 2015 the Company had $161,262 (2014 –$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 –US$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 – 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 – 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.

Forward-looking Information

Certain statements in this MD&A may constitute "forward-looking" 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 "estimate", "believe", "anticipate", "intend", "expect", "plan", "may", "should", "will", 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 "Risk Factors". 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.

Forward-looking Information - continued

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.