ZTEST Electronics Inc.

Consolidated Financial Statements

June 30, 2016 and 2015

(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, 2016 and June 30, 2015, and the consolidated statements of changes in equity, comprehensive (loss) income and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained in our audits 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, 2016 and June 30, 2015, and its consolidated financial performance and its consolidated 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 25, 2016

MNP

ZTEST Electronics Inc.

Consolidated Statements of Financial Position
(Stated in Canadian Dollars)
June 30, 2016 and 2015

		2016		2015
Assets				
Current assets				
Cash	**$**	**293,643**	$	112,409
Accounts receivable		**526,752**		690,386
Inventories *(note 3)*		**375,266**		382,545
Prepaid expenses		**14,781**		10,071
		1,210,442		1,195,411
Lease deposit *(note 7)*		**35,000**		35,000
Equipment *(note 4)*		**463,256**		540,588
	$	**1,708,698**	$	1,770,999
Liabilities				
Current liabilities				
Customer deposits	**$**	**-**	$	19,683
Accounts payable and accrued liabilities *(note 9)*		**539,599**		539,976
Current portion of long-term debt *(note 6)*		**39,493**		39,493
		579,092		599,152
Long-term debt *(note 6)*		**82,276**		121,769
		661,368		720,921
Commitment *(note 7)*				
Shareholders' Equity				
Share capital *(note 8)*		**22,151,406**		22,151,406
Warrants *(note 8)*		**4,219**		80,896
Contributed surplus *(note 8)*		**952,327**		835,845
Deficit		**(22,060,622)**		(22,018,069)
		1,047,330		1,050,078
	$	**1,708,698**	$	1,770,999

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, 2016

	Share Capital	Warrants	Contributed, Surplus	Deficit	Total
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
Warrants expired	-	(76,677)	76,677	-	-
Share-based payments	-	-	39,805	-	39,805
Net loss for the year	-	-	-	(42,553)	(42,553)
Balance, June 30, 2016	**$ 22,151,406**	**$ 4,219**	**$ 952,327**	**$ (22,060,622)**	**$ 1,047,330**

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

Consolidated Statements of Comprehensive (Loss) Income
(Stated in Canadian Dollars)
For the years ended June 30, 2016 and 2015

	2016	2015
Product sales	**$ 4,211,885**	$ 3,945,720
Cost of product sales (*note 3*)	**2,892,752**	2,758,477
	1,319,133	1,187,243
Expenses		
Selling, general and administrative *(note 10)*	**1,312,926**	1,205,502
Stock-based compensation *(note 9)*	**39,805**	-
Interest expense - long-term debt *(note 9)*	**6,300**	15,637
Interest expense - other	**580**	1,523
Depreciation of equipment	**5,119**	3,761
Foreign exchange gain	**(3,002)**	(5,783)
	1,361,728	1,220,640
Loss before other income and income taxes	**(42,595)**	(33,397)
Other income		
Debts forgiven *(note 12)*	**-**	51,545
Gain on settlement of preferred shares *(note 13)*	**-**	540,435
Interest and other income	**42**	1,750
	42	593,730
(Loss) income before provision for income taxes	**(42,553)**	560,333
Provision for income taxes *(note 11)*	**-**	-
Net (loss) income and comprehensive (loss) income for the year	**$ (42,553)**	**$** 560,333
Net (loss) income per share		
Basic	**$ (0.00)**	$ 0.05
Fully diluted	**$ (0.00)**	$ 0.05
Weighted average shares outstanding		
Basic	**10,648,696**	10,648,696
Fully diluted	**10,648,696**	10,648,696

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, 2016 and 2015

	2016	2015
Cash flow from operating activities		
Net (loss) income for the year	$ **(42,553)**	$ 560,333
Items not involving cash		
Stock-based compensation	**39,805**	-
Interest accretion	**-**	4,473
Depreciation of equipment	**111,638**	136,119
Debts forgiven	**-**	(51,545)
Gain on settlement of preferred shares	**-**	(540,435)
Changes in non-cash working capital items		
Accounts receivable	**163,634**	(276,901)
Inventories	**7,279**	280,396
Prepaid expenses	**(4,710)**	(1,817)
Customer deposits	**(19,683)**	19,683
Accounts payable and accrued liabilities	**(9,119)**	(42,688)
	255,033	87,618
Cash flow from investing activities		
Purchase of equipment	**(34,306)**	(2,010)
Cash flow from financing activities		
Recovery of restricted cash equivalents	**-**	250,000
Change in operating loan	**-**	(25,000)
Redemption of preferred shares	**-**	(166,378)
Proceeds from long-term debt	**-**	197,463
Repayment of long-term debt	**(39,493)**	(283,007)
	(39,493)	(26,922)
Increase in cash	**181,234**	58,686
Cash, beginning of year	**112,409**	53,723
Cash, end of year	$ **293,643**	$ 112,409

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

	2016	2015
Interest	$ **6,995**	$ 12,261
Income taxes	$ **-**	$ -

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

1. Business of the Company

ZTEST Electronics Inc. (ñthe Companyò) amalgamated under the laws of Ontario and carries on business at 523 McNicoll Avenue, Toronto, Ontario designing, developing, and assembling printed circuit boards and other electronic equipment. The Company's shares trade on the Canadian 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 (ñIFRSò) as issued by the International Accounting Standards Board (ñIASBò). These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on October 25, 2016.

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

Changes in accounting policies
The Companyôs 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 Companyôs financial instruments are comprised of the following:

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

Financial liabilities:	*Classification*
Bank operating loan	Other financial liabilities
Customer deposits	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities

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 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, 2016 and June 30, 2015 cash was measured at fair value and 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 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 for the period.

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 have suffered an impairment loss.

Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an assetòs 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 in an armòs length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the income for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but 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 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.

Inventories

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

Equipment

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

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

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

Revenue recognition

Revenue is 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.

2. Significant Accounting Policies - continued

Share based payment transactions - continued

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 (loss) income or in equity depending on the item to which the adjustment relates.

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

Income per share

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

Foreign exchange

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

Segment disclosure

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

Accounting standards effective for future periods

IFRS 9, *Financial Instruments:* effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of the financial statements for their assessment of the amounts, timing and uncertainty of future cash flows.

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 these standards 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 their adoption.

(Stated in Canadian Dollars)

3. Inventories

The carrying value of inventories is comprised of:

		2016		2015
Raw materials and supplies [(1)]	**$**	**354,015**	$	363,740
Work in process		**10,685**		10,908
Finished goods		**10,566**		7,897
	$	**375,266**	$	382,545

(1) The raw materials and supplies is presented net of provisions for obsolete and/or slow moving items in the amount of $3,654 (2015 - $30,891). 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 (loss) income will be affected.

Inventory utilization during the year was as follows:

		2016		2015
Raw materials and supplies used	**$**	**1,916,893**	$	1,837,993
Labour costs		**728,021**		645,467
Depreciation		**106,519**		132,358
Repairs and maintenance		**50,625**		44,753
Stencils and tooling		**31,631**		35,466
Shipping costs		**50,284**		47,594
Packaging costs		**11,225**		7,322
Net change in finished goods and work in process		**(2,446)**		7,524
Cost of product sales	**$**	**2,892,752**	$	2,758,477

4. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Cost:					
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
Additions	5,284	-	5,882	23,140	34,306
Balance, June 30, 2016	**$ 180,705**	**$ 71,277**	**$ 2,567,090**	**$ 84,143**	**$ 2,903,215**
Accumulated Depreciation:					
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)
Depreciation	(2,855)	(818)	(106,808)	(1,157)	(111,638)
Balance, June 30, 2016	**$ (171,403)**	**$ (69,256)**	**$ (2,137,140)**	**$ (62,160)**	**$ (2,439,959)**
Carrying Amounts:					
June 30, 2015	$ 6,873	$ 2,839	$ 530,876	$ -	$ 540,588
June 30, 2016	**$ 9,302**	**$ 2,021**	**$ 429,950**	**$ 21,983**	**$ 463,256**

(Stated in Canadian Dollars)

5. Bank operating loan

The Company has a 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. No amounts were drawn upon this line of credit as at June 30, 2016 or June 30, 2015.

6. Long-Term Debt

	2016	2015
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]	$ **121,769**	$ 161,262
Less: Current portion	**39,493**	39,493
	$ **82,276**	$ 121,769

[1] The proceeds of this term loan were used to repay existing term loans.

The minimum annual future principal repayments are as follows:

2017	$ 39,493
2018	39,493
2019	39,493
2020	3,290
	$ 121,769

7. Commitments

The Company leases its operating facility under a lease that is due to expire March 31, 2021. A lease deposit in the amount of $35,000 was paid and will be applied at the end of the lease. Minimum monthly rental payments ranging from $8,299 to $8,979 are required over the remaining term of the lease as follows:

2017	$ 100,952
2018	103,668
2019	106,385
2020	107,743
2021	80,807
	$ 499,555

8. Share Capital

Authorized:
Unlimited Common shares
Unlimited Preferred shares in one or more series.

Issued:

	2016	2015
Common shares	**$ 22,151,406**	$ 22,151,406

Common shares:	Number of Shares	Amount
Balance June 30, 2014	10,648,696	$ 22,343,053
Redemption of Series A and Series C preferred shares	-	(191,647)
Balance June 30, 2016 and June 30, 2015 [1, 2]	10,648,696	**$ 22,151,406**

(Stated in Canadian Dollars)

8. Share Capital - continued

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

(2) Subsequent to the financial reporting date 300,000 stock options were exercised for gross proceeds of $20,000

Details of warrants outstanding:

	Number of Warrants	**Amount**
Balance June 30, 2014 and June 30, 2015	2,400,000	$ 80,896
Expired during the year	2,000,000	(76,677)
Balance June 30, 2016	400,000	**$ 4,219**

	Number of Warrants	Exercise Price	Expiry Date
Issued Jan 10, 2014	400,000	$ 0.10	Oct. 31, 2017

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

Details of options outstanding:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted Sept. 14, 2012	130,000 (1)	130,000	$ 0.10	Sept. 14, 2017
Granted Dec. 31, 2013	500,000 (1, 2)	500,000	$ 0.10	Dec. 31, 2018
Granted Mar. 3, 2016	1,000,000 (1, 2)	1,000,000	$ 0.05	Mar. 3, 2021

	Common Shares Under Option	Weighted Average Price/Option	Weighted Average Expiry Date
Beginning of year	905,000	$ 0.10	Nov. 15, 2017
Expired during year	(275,000)	$ 0.10	Nov. 30, 2015
Granted during year	1,000,000	$ 0.05	Mar. 3, 2021
End of year	1,630,000	$ 0.07	Mar. 23, 2020

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

(2) Subsequent to the financial reporting date 100,000 options at $0.10 and 200,000 options at $0.05 were exercised.

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

	2016	2015
Dividend yield	**Nil**	None issued
Risk free interest rate (%)	**0.68**	None issued
Expected stock volatility (%)	**112.77**	None issued
Expected life (years)	**5**	None issued

(Stated in Canadian Dollars)

8. Share Capital - continued

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:

		2016		2015
Contributed surplus, beginning of year	**$**	**835,845**	$	613,819
Compensation expense related to stock options granted		**39,805**		-
Warrants expired during the year		**76,677**		-
Redemption of Series A and Series C preferred shares		**-**		222,026
Contributed surplus, end of year	**$**	**952,327**	$	835,845

9. Related Party Transactions and Balances

In addition to key management personnel, the Company had transactions during the prior year with 1114377 Ontario Inc. (ñ1114377ò), a company controlled by the spouse of a Director of the Company.

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

Description		2016		2015
Employee and consultant compensation [(1)]	**$**	**365,184**	$	333,766
Professional fees [(1)]		**41,963**		24,080
Interest expense ï long-term debt		**-**		6,408
Interest expense ï long-term debt [(1)]		**-**		999
	$	**407,147**	$	365,253
Stock-based compensation [(1)]	**$**	**39,805**	$	-

(1) Transactions with key management personnel. As at June 30, 2016 $131,816 (2015 - $90,306) was payable to key management personnel and included in accounts payable and accrued liabilities.

10. Selling, general and administrative expenses

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

		2016		2015
Employee and consultant compensation *(note 9)*	**$**	**835,846**	$	782,492
Insurance		**31,395**		33,906
Occupancy costs		**265,967**		261,829
Professional fees *(note 9)*		**84,155**		62,684
Shareholder services		**33,419**		21,742
Other		**62,144**		42,849
	$	**1,312,926**	$	1,205,502

(Stated in Canadian Dollars)

11. Income Taxes

Current Income Taxes

A reconciliation of combined federal and provincial corporate income taxes at the Companyôs effective tax rate of 26.50% (2015 ï 26.50%) is as follows:

		2016		2015
Net (loss) income before income taxes	**$**	**(42,553)**	$	560,333
Expected income tax expense (recovery)	$	**(11,276)**	$	148,490
Expenses not deductible for income tax purposes		**10,726**		(27,790)
Effect of settlement of preferred shares		**-**		(143,215)
Change in tax benefits not recognized		**550**		22,515
Income tax expense	**$**	**-**	$	-

Deferred Tax

The following table summarizes the components of deferred tax:

		2016		2015
Deferred tax assets:				
Non-capital losses carried forward	$	**23,040**	$	12,022
Deferred tax liabilities:				
Property, plant and equipment		**(23,040)**		(12,022)
Net deferred tax liabilities	**$**	**-**	$	-

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:

		2016		2015
Inventory	$	**3,654**	**$**	9,462
Share issuance costs		**3,638**		7,276
Intangible assets		**34,813**		37,433
Property, plant and equipment		**34,969**		48,263
Resource related expenditures		**349,050**		349,050
Scientific research and experimental development		**1,050,618**		1,050,618
Non-capital loss carry forwards		**1,340,731**		1,313,293
Net capital loss carry forwards		**15,592,989**		15,592,989

Share issue costs expire in 2017. 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, which may be subject to verification by Canada Revenue Agency, include 100% of the respective losses of the subsidiary companies and will expire at the end of the taxation years as follows:

(Stated in Canadian Dollars)

11. Income Taxes - continued

Tax Loss Carry-Forwards - continued

Year	
2027	$ 209,770
2030	174,605
2031	577,960
2032	14,860
2033	76,560
2034	168,430
2035	136,504
2036	69,013
	$ 1,427,673

12. Debts forgiven

During the 2015 fiscal 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	39,600
Total debts determined to have been forgiven	$ 51,545

13. Settlement of preferred shares

During the 2015 fiscal 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 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

14. 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 Companyôs primary exposure to credit risk is in its accounts receivable. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. 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.

14. Financial 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 Companyôs revenues during a reporting period. During the current year the Company had two major customers which represented 14% and 11% of total revenues. In the prior year two major customers accounted for 13% and 12% of revenues respectively. Amounts due from major customers represented 30% of accounts receivable at June 30, 2016 (2015 - 13%). 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 $3,002 (2015 ï gain of $5,783).

Sensitivity to market risks

At June 30, 2016 the Company had $121,769 (2015 ï $161,262) 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 $1,037 over the next 12 month period.

At June 30, 2016 the Company had US$86,796 (2015 ï US$129,966) 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 $1,294 in future cash inflow.

At June 30, 2016 the Company had US$114,725 (2015 ï US$128,894) 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 $1,710 in future cash outflow.

At June 30, 2016 the Company had US$51,935 (2015 ï US$20,825) included in cash. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $774 in carrying value.

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

15. Capital disclosures

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

	2016	2015
Long-term debt	**$ 121,769**	$ 161,262
Share capital	**22,151,406**	22,151,406
Warrants	**4,219**	80,896
Contributed surplus	**952,327**	835,845
Deficit	**(22,060,622)**	(22,018,069)
Net capital under management	**$ 1,169,099**	$ 1,211,340

General

The following managementôs discussion and analysis (ñMD&Aò) of the financial condition and results of operations of ZTEST Electronics Inc. (ñZTESTò or the ñCompanyò) constitutes managementôs review of the factors that affected the Companyôs consolidated financial and operating performance for the year ended June 30, 2016. The MD&A was prepared as of October 25, 2016 and was approved by the Board of Directors on October 25, 2016. It should be read in conjunction with the consolidated financial statements of the Company for the year ended June 30, 2016, 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 Companyôs 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 2016 fiscal year saw the Company once again generate positive cash flows, both from operations and overall, while growing revenues, and continuing to improve its liquidity position. Despite these positives there remains room for improvement as the Company sustained a loss for the year of $0.004 per share and saw equity decline by 0.26%.

Cash management been a point of focus for the Company and 2016 represents the eleventh 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 significantly reduce business risks and significantly reduce its debt while investing in its future through strategic equipment additions. Cash management will continue to be a point of emphasis and it is anticipated that positive cash flows will continue.

The marketplace in which the Company operates has undergone some consolidation and contraction in the recent past and this has resulted in enhanced competition, generally smaller production runs, and customers taking delivery later in their production cycles. In spite of these challenges the Company increased its market-share in 2016 and reported a 6.7% increase in annual revenues and an 11.1% increase in gross margin. It is anticipated that there will continue to be changes in the marketplace however the Company is well positioned to meet future challenges and to maintain, and benefit from, its strong reputation.

The Companyôs financial health is not only good but continued to improve in 2016. Management is enthusiastic about the future and will continue efforts to grow the Company and maximize return for stakeholders while minimizing business risks. The following data may provide some additional insights relative to the Companyôs operating performance and financial position:

Corporate Performance - continued

	For the fiscal years ended:		
	June 16	June 15	June 14
Total Revenues	4,211,885	3,945,720	4,014,268
Net loss from operations	(42,595)	(33,397)	(21,321)
Per share - basic	(0.004)	(0.003)	(0.002)
Net income (loss) for the year	(42,553)	560,333	(18,579)
Per share - basic	(0.004)	0.053	(0.002)
Total assets	1,708,698	1,770,999	2,098,100
Total long-term financial liabilities	82,276	121,769	158,244
Total liabilities	661,368	720,921	1,638,734

	For the three month periods ended:				
	June 16	Mar. 16	Dec. 15	Sept. 15	June 15
Total Revenues	1,013,950	1,094,232	1,223,691	880,012	1,122,088
Net (loss) income from operations	(81,112)	(15,550)	66,133	(12,066)	111,838
Per share - basic	(0.008)	(0.001)	0.006	(0.001)	0.011
Net (loss) income for the period	(81,112)	(15,550)	65,452	(11,343)	111,838
Per share - basic	(0.008)	(0.001)	0.006	(0.001)	0.011
Total assets	1,708,698	1,843,819	1,890,491	1,820,333	1,770,999
Total long-term financial liabilities	82,276	92,149	102,022	111,895	121,769
Total liabilities	661,368	715,377	786,304	781,598	720,921

	For the three month periods ended:				
	Mar. 15	Dec. 14	Sept. 14	June 14	Mar. 14
Total Revenues	1,061,276	691,622	1,070,734	1,000,676	933,391
Net (loss) income from operations	(17,243)	(154,718)	26,726	(21,790)	(3,300)
Per share - basic	(0.002)	(0.015)	0.002	(0.002)	(0.000)
Net (loss) income for the period	(17,091)	438,159	27,427	(20,988)	(2,521)
Per share - basic	(0.002)	0.041	0.002	(0.002)	(0.000)
Total assets	1,600,781	1,715,098	1,971,431	2,098,100	2,190,139
Total long-term financial liabilities	131,642	141,516	151,388	158,244	177,893
Total liabilities	662,541	759,767	1,484,638	1,638,734	1,709,785

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

Results of Operations

The 2016 and 2015 fiscal years each resulted in net losses that approximated 1% of gross product sales. The 2016 loss includes a charge of $39,805 for share-based payments while there was no similar charge in 2015. Nonetheless, 2016 represents the third consecutive year for which operating results were just below the break-even level. While management has successfully improved the Companyós financial position during this timeframe it remains intent on providing even better results through a return to profitability. There are many factors that contribute to the Companyós operating results and the highlights are discussed below.

Revenues for 2016 were 6.7% greater than they were in 2015 however the inconsistency that has plagued the marketplace in recent periods continued. The Company reported revenues in its second and third quarters that exceeded the comparable periods in the 2015 fiscal year but the same was not true for the first or fourth quarters. Management is pleased with the overall result but will continue to strive to increase revenues and to achieve greater consistency from period to period.

Gross margins for 2016 were 31.3% of product sales which is an improvement over the 30.1% generated in 2015 but lags behind the 34.1% realized in 2014 and 33.9% from 2013. The altered marketplace may make comparison to 2014 and 2013 less meaningful but a return to those gross margin levels remains as a short-term goal for management. A better understanding of the margins can be achieved through review of the elements of the cost of product sales.

Results of Operations - continued

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

Years ended	June 16	June 15	Change
Raw materials and supplies consumed	$ 1,916,893	$ 1,837,993	$ 78,900
Labour costs incurred	728,021	645,467	82,554
Depreciation	106,519	132,358	(25,839)
Other costs	143,765	135,135	8,630
Net change in finished goods and work in process	(2,446)	7,524	(9,970)
Total cost of product sales	$ 2,892,752	$ 2,758,477	$ 134,275

Three month periods ended	June 16	June 15	Change
Raw materials and supplies consumed	$ 492,819	$ 502,105	$ (9,286)
Labour costs incurred	173,588	145,068	28,520
Depreciation	26,703	33,089	(6,386)
Other costs	29,036	35,655	(6,619)
Net change in finished goods and work in process	28,819	814	28,005
Total cost of product sales	$ 750,965	$ 716,731	$ 34,234

The cost of materials consumed during the 2016 fiscal year is 4.3% higher than it was in the preceding year and it also rose to 45.5% of periodic revenues. For 2015 the costs were 44.8% of revenues, after normalizing to eliminate the impact of an anomalous transaction. During the final quarter of 2016 the costs declined in value by 1.8% but rose to 48.6% of periodic revenues as compared to 44.7% in June 2015. This increase as a percentage of revenues is contrary to a recent trend whereby material costs had been declining slightly. Material costs are incurred at the discretion of our customers who also have the option to contract assembly of materials that they themselves supply. While this customer choice leads to variances in periodic costs, particularly over shorter time periods, recent variances have remained small and well within management expectations.

Labour costs incurred have increased 12.7% for the year ended June 2016, and 19.7% for the quarter then ended, in comparison to the same periods one year earlier. These increases are primarily the result of a government approved work-share program that was in effect from mid November 2014 until the end of August 2015. Had all other factors remained equal, the cessation of this program would have provided for an annual increase of 10.3% and a quarterly increase of 20%. Annual wage increases are effective January 1 of each year and can account for the vast majority of the remaining difference in the annual results. The balance is attributable to short-term fluctuations in labour demand including the incurrence or avoidance of overtime.

The total labour costs included in cost of product sales combine the labour costs incurred with the net change in finished goods and work in process. The latter is a measurement of the change in labour costs that are included as an element of inventory. The combined figures are 11.1% higher for the year and 38.7% more for the fourth quarter. The annual figure is relatively consistent with the annual labour cost increase, which is to be expected, however the fourth quarter results reflect the short-term impact of the incurrence of overtime.

Depreciation costs continued to decline with the expense for the fourth quarter and 2016 year each being lower than they were in 2015. Depreciation is a function of time and the carrying value of the manufacturing equipment in use. Management continually evaluates equipment needs and monitors the equipment market for opportunities but there are no major equipment additions currently being investigated or considered.

Results of Operations - continued

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 16	June 15	Change
Employee and consultant compensation	$ 835,846	$ 782,492	$ 53,354
Occupancy costs	265,967	261,829	4,138
Professional fees	84,155	62,684	21,471
Insurance	31,395	33,906	(2,511)
Shareholder services	33,419	21,742	11,677
Other costs	62,144	42,849	19,295
Total selling, general and administrative	$ 1,312,926	$ 1,205,502	$ 107,424

Three month periods ended	June 16	June 15	Change
Employee and consultant compensation	$ 229,387	$ 191,258	$ 38,129
Occupancy costs	65,859	65,203	656
Professional fees	19,530	15,773	3,757
Insurance	7,472	8,208	(736)
Shareholder services	2,876	1,800	1,076
Other costs	14,298	7,961	6,337
Total selling, general and administrative	$ 339,422	$ 290,203	$ 49,219

Compensation costs include salaries and benefits, consulting fees and directorsô fees, each of which have risen in 2016. Salaries and benefits and consulting fees each rose by more than $25,000 in 2016 while Directorsô fees increased by $1,380. The salary and benefit increase, most of which arose in the final two quarters of the year, is primarily a return to normal levels as a government sponsored workshare program in effect throughout the final two quarters of the 2015 fiscal year did not recur. The increase in consulting fees is split almost equally between additional costs for the Companyós information technology systems and additional services from the Companyós CFO. Consulting fees are incurred as need dictates and this can lead to fluctuations from period to period.

Occupancy costs consist primarily of rent, common area costs, and utility charges for the Companyós operating facility. Basic rental charges represented approximately 35% of the 2015 periodic expenses but increased 7.8% in January 2016 so they were almost 38% of the fourth quarter expense and 36% for all of 2016. More modest rental increases are scheduled for January 2017, 2018 and 2019 then will remain constant until the lease ends March 2021. Other occupancy costs have been declining and further savings can be anticipated as a result of the Company replacing its lighting during the year with LED.

Professional fees are comprised of the cost of legal services as well as the cost of reporting on the annual financial statements. Financial statement reporting costs rose approximately $3,500, all of which arose in the final quarter, while legal costs increased by approximately $18,000 earlier in the year. The increased legal costs are primarily due to the Companyós shares being moved from the TSXV to the Canadian securities Exchange.

Shareholder services include the cost of public disclosures, distribution of materials to shareholders, stock exchange fees, and transfer agent fees. The increase in the 2016 annual costs is also attributed to the change in the exchange on which the Companyós shares are listed.

Results of Operations - continued

Other costs includes advertising and promotion expenses which are the cause of the periodic increases as the Company initiated advertising into US markets in an effort to expand its market. The remaining elements of other costs are individually insignificant, continuously monitored by management, and within expectations.

The Companyøs financing costs for the periods were as follows:

Years ended	June 16	June 15	Change
Interest expense ï long term (cash based)	$ 6,300	$ 11,164	$ (4,864)
Interest expense ï long term (accretion)	-	4,473	(4,473)
Interest expense ï other	580	1,523	(943)
Total financing expenses	$ 6,880	$ 17,160	$ (10,280)

Three month periods ended	June 16	June 15	Change
Interest expense ï long term (cash based)	$ 1,398	$ 1,944	$ (546)
Interest expense ï long term (accretion)	-	101	(101)
Interest expense ï other	139	155	(16)
Total financing expenses	$ 1,537	$ 2,200	$ (663)

In recent years the Company has significantly reduced its debt load such that throughout 2016 the only outstanding debt instrument was a commercial loan used to finance a 2014 equipment addition. Historically there were obligations measured at amortized cost, using the effective interest method, which gave rise to interest accretion. The lower interest costs for 2016 are reflective of the blended principal and interest payments being made on that loan until its maturity July 2019.

Interest ï other represents miscellaneous interest charges incurred although the 2015 fiscal year includes interest arising from the brief use of the Companyøs operating line.

Liquidity

The Company has a working capital surplus of $631,350, a 6% improvement over June 2015 levels. At June 30, 2016 the Company had current financial assets of $820,395 (2015- $802,795) available to settle current financial liabilities of $579,092 (2015- $599,152). The Company also has access to a $250,000 bank operating line, which was not drawn upon as of June 30, 2016 or during the year then ended.

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, 2016:

	Due by June 2017	Due by June 2019	Due by June 2021	Due after June 2021	Total Due
Long-term debt	$ 39,493	$ 78,986	$ 3,290	$ -	$ 121,769
Operating leases	100,952	210,053	188,550	-	499,555
	$ 140,445	$ 289,039	$ 191,840	$ -	$ 621,324

Capital Resources

The Company has a $250,000 commercial line of credit from which nothing was drawn as at June 30, 2016 or June 30, 2015. 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.

Related Party Transactions

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 and accounting fees paid to Michael D. Kindy (CFO), legal fees paid to a legal firm in which William R. Johnstone (Corporate Secretary) is a partner, Directorsô 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 expenses have arisen involving these related parties:

	2016	2015
Salaries and benefits (1)	$ 278,354	$ 267,766
Consulting fees (1)	50,850	38,400
Directorsô fees (1)	28,980	27,600
Legal fees (2)	41,963	24,080
Accounting fees (2)	7,000	-
Interest expense ï long term	-	7,407
Cash based expenditures	$ 407,147	$ 365,253
Share-based payments	$ 39,805	$ -

(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 professional fees.

The following balances due to related parties as at June 30 of each year are reported as an element of accounts payable and accrued liabilities in the consolidated financial statements:

	2016	2015
Salaries and benefits payable	$ 17,296	$ 6,106
Consulting fees payable	$ 112,000	$ 83,200
Legal fees payable	$ 2,520	$ 1,000

(1) Reported in the unaudited condensed interim consolidated financial statements as.

The following stock options have been issued to Directors and/or Officers of the Company and were outstanding as at June 30, 2016:

Description	Expiry Date	Number of Common shares
Stock options @ $0.10 per share	Sept. 2017	130,000
Stock options @ $0.10 per share	Dec. 2018	500,000
Stock options @ $0.05 per share	Mar. 2021	1,000,000

1,000,000 stock options were granted and 275,000 stock options expired during the year and 300,000 stock options were exercised subsequent to June 30, 2016.

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Share capital	Quantity	Amount
Common shares, June 30, 2015 and June 30, 2016	10,648,696	$ 22,151,406
Stock options exercised	300,000	36,245
Common shares, as at the date of this document	10,948,696	$ 22,187,651

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.

Convertible Instruments and Other Securities - continued

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	Sept. 2017	130,000
Warrants @ $0.10 per share	Oct. 2017	400,000
Stock options @ $0.10 per share	Dec. 2018	500,000
Stock options @ $0.05 per share	Mar. 2021	1,000,000
Shares reserved as at June 30, 2016		2,038,246
Stock options @ $0.10 per share exercised	Dec. 2018	(100,000)
Stock options @ $0.05 per share exercised	Mar. 2021	(200,000)
Shares reserved as at the date of this document		1,738,246

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

Fully diluted position	
Shares issued as at June 30, 2016	10,648,696
Shares reserved as at June 30, 2016	2,038,246
Fully diluted position as at June 30, 2016	12,686,942
Shares issued after June 30, 2016	300,000
Reduction in shares reserved after June 30, 2016	(300,000)
Fully diluted position as at the date of this document	12,686,942

Additional disclosures relative to stock options as at the date of this document are as follows:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted Sept. 14, 2012	130,000	130,000	$ 0.10	Sept. 14, 2017
Granted December 31, 2013	400,000	400,000	$ 0.10	Dec. 31, 2018
Granted March 3, 2016	800,000	800,000	$ 0.05	Mar. 3, 2021

The Company has no ability to cause these options to be exercised.

no ability to cause these options to be exercised.

	Common Shares Under Option	Weighted Average Price/Option	Weighted Average Expiry Date
Balance, June 30, 2015	905,000	$ 0.10	Nov. 15, 2017
Granted during year	1,000,000	$ 0.05	Mar. 3, 2021
Expired during year	(275,000)	$ 0.10	Nov. 30, 2015
Balance, June 30, 2016	1,630,000	$ 0.07	Mar. 23, 2020
Exercised after the end of the year	(300,000)	$ 0.07	June 11, 2020
Balance, as at the date of this document	1,330,000	$ 0.07	Mar. 5, 2020

Additional disclosures relative to share purchase warrants are as follows:

	Number of Warrants	Value of Warrants	Exercise Price	Expiry Date
Issued Jan. 10, 2014	400,000	$ 4,219	$ 0.10	Oct. 31, 2017

Convertible Instruments and Other Securities - continued

	Number of Warrants	Weighted Average Price/Warrant	Weighted Average Expiry Date
Balance, June 30, 2015	2,400,000	$ 0.10	June 7, 2016
Expired during the period	(2,000,000)	$ 0.10	Feb. 26, 2016
Balance, June 30, 2016 and as at the date of this document	400,000	$ 0.10	Oct. 31, 2017

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.

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 these standards 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 their adoption.

Financial Instruments

The Companyọs financial instruments are comprised of the following:

Financial assets:	Classification
Cash	Fair value through profit and loss
Accounts receivable	Loans and receivables

Financial liabilities:	Classification
Bank operating loan	Other financial liabilities
Customer deposits	Other financial liabilities
Accounts payable and accrued liabilities	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.

Financial Instruments - continued

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 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, 2016 and June 30, 2015 cash was measured at fair value and classified within Level 1 of the fair value hierarchy.

Financial instruments recorded at amortized cost:
Financial instruments recorded at amortized cost 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 for the period.

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 Companyǿs 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 Companyǿs 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 Companyǿs business, operating results, and financial condition.

Risk Factors - continued

In addition to the foregoing, the Company is exposed to credit risk, concentration of credit risk, liquidity risk, and currency risk. The Companyœs 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 Companyœs 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 Companyœs 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 Companyœs revenues during a reporting period. During the current year the Company had two major customers which represented 14% and 11% of total revenues. In the prior year two major customers accounted for 13% and 12% of revenues respectively. Amounts due from major customers represented 30% of accounts receivable at June 30, 2016 (2015 - 13%). 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 $3,002 (2015 ï gain of $5,783).

Sensitivity to market risks

At June 30, 2016 the Company had $121,769 (2015 ï $161,262) 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 $1,037 over the next 12 month period.

At June 30, 2016 the Company had US$86,796 (2015 ï US$129,966) 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 $1,294 in future cash inflow.

At June 30, 2016 the Company had US$114,725 (2015 ï US$128,894) 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 $1,710 in future cash outflow.

At June 30, 2016 the Company had US$51,935 (2015 ï US$20,825) included in cash. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $774 in carrying value.

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

Forward-looking Information

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

Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements contained in this MD&A speak only as of the date hereof. The Company does not undertake or assume any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.