ZTEST Electronics Inc.

Consolidated Financial Statements

June 30, 2017 and 2016

(Stated in Canadian Dollars)

Wasserman Ramsay

Chartered Accountants

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Independent Auditors' Report

To the Shareholders of ZTEST Electronics Inc.:

We have audited the accompanying consolidated financial statements of ZTEST Electronics Inc. and its subsidiaries, which comprise the consolidated statement of financial position as at June 30, 2017 and the consolidated statements of changes in equity, comprehensive loss and cash flows for the year 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 audit. We conducted our audit 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 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 consolidated 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. and its subsidiaries as at June 30, 2017, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements as at June 30, 2016 and for the year then ended were audited by another firm of Chartered Accountants who expressed an unmodified opinion on them in their report dated October 25, 2016.

Wasserman Ramsay

Markham, Ontario
October 24, 2017

Chartered Accountants
Licensed Public Accountants

ZTEST Electronics Inc.

Consolidated Statements of Financial Position
(Stated in Canadian Dollars)
June 30, 2017 and 2016

	2017	2016
Assets		
Current assets		
Cash	**$ 186,994**	$ 293,643
Accounts receivable	**643,966**	526,752
Inventories *(note 3)*	**512,026**	375,266
Prepaid expenses	**15,102**	14,781
	1,358,088	1,210,442
Lease deposit *(note 8)*	**35,000**	35,000
Equipment *(note 4)*	**390,424**	463,256
	$ 1,783,512	$ 1,708,698
Liabilities		
Current liabilities		
Customer deposits	**$ 83,151**	$ -
Accounts payable and accrued liabilities *(note 10)*	**697,260**	539,599
Current portion of long-term debt *(note 7)*	**39,493**	39,493
	819,904	579,092
Long-term debt *(note 7)*	**42,784**	82,276
	862,688	661,368
Commitment *(note 8)*		
Shareholders' Equity		
Share capital *(note 9)*	**22,418,782**	22,151,406
Warrants *(note 9)*	**105,376**	4,219
Contributed surplus *(note 9)*	**955,168**	952,327
Deficit	**(22,558,502)**	(22,060,622)
	920,824	1,047,330
	$ 1,783,512	$ 1,708,698

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, 2017

	Share Capital	Warrants	Contributed, Surplus	Deficit	Total
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
Stock options exercised	81,471	-	(36,471)	-	45,000
Private placement, net	116,343	101,157	-	-	217,500
Shares issued as consideration for investment	69,562	-	-	-	69,562
Share-based payments	-	-	39,312	-	39,312
Net loss for the year	-	-	-	(497,880)	(497,880)
Balance, June 30, 2017	**$ 22,418,782**	**$ 105,376**	**$ 955,168**	**$ (22,558,502)**	**$ 920,824**

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

ZTEST Electronics Inc.

Consolidated Statements of Comprehensive Loss
(Stated in Canadian Dollars)
For the years ended June 30, 2017 and 2016

		2017		2016
Product sales	$	**3,754,883**	$	4,211,885
Cost of product sales (*note 3*)		**2,637,434**		2,892,752
		1,117,449		1,319,133
Expenses				
Selling, general and administrative *(note 11)*		**1,278,212**		1,312,926
Stock-based compensation *(notes 9 and 10)*		**39,312**		39,805
Interest expense - long-term debt		**4,505**		6,300
Interest expense - other		**858**		580
Depreciation of equipment		**5,843**		5,119
Foreign exchange gain		**(7,705)**		(3,002)
		1,321,025		1,361,728
Loss before other income and provisions, and income taxes		**(203,576)**		(42,595)
Other income and provisions				
Interest income		**258**		42
Impairment provision *(note 5)*		**(294,562)**		-
		(294,304)		42
Loss before provision for income taxes		**(497,880)**		(42,553)
Provision for income taxes *(note 12)*		**-**		-
Net loss and comprehensive loss for the year	**$**	**(497,880)**	**$**	(42,553)
Net loss per share				
Basic	**$**	**(0.04)**	$	(0.00)
Fully diluted	**$**	**(0.04)**	$	(0.00)
Weighted average shares outstanding				
Basic		**14,158,696**		10,648,696
Fully diluted		**14,158,696**		10,648,696

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

ZTEST Electronics Inc.

Consolidated Statements of Cash Flows
(Stated in Canadian Dollars)
For the years ended June 30, 2017 and 2016

		2017		2016
Cash flow from operating activities				
Net loss for the year	**$**	**(497,880)**	$	(42,553)
Items not involving cash				
Stock-based compensation		**39,312**		39,805
Depreciation of equipment		**93,611**		111,638
Impairment provision		**294,562**		-
Changes in non-cash working capital items				
Accounts receivable		**(117,214)**		163,634
Inventories		**(136,760)**		7,279
Prepaid expenses		**(321)**		(4,710)
Customer deposits		**83,151**		(19,683)
Accounts payable and accrued liabilities		**157,661**		(9,119)
		(83,878)		255,033
Cash flow from investing activities				
Purchase of equipment		**(20,779)**		(34,306)
Investment in Conversance		**(225,000)**		-
		(245,779)		(34,306)
Cash flow from financing activities				
Repayment of long-term debt		**(39,492)**		(39,493)
Proceeds from share issuances		**262,500**		-
		223,008		(39,493)
Increase in cash		**(106,649)**		181,234
Cash, beginning of year		**293,643**		112,409
Cash, end of year	**$**	**186,994**	$	293,643

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

Interest	**$**	**5,475**	$	6,995
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 24, 2017.

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*
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, 2017, and June 30, 2016 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 assetợs 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 armợs 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 each of its operating entities and has determined that the fair value of its investment in Conversance Inc. *(note 5)* is not currently determinable resulting in an impairment provision of $294,562 to reduce the carrying value of the investment to $Nil.

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.

Investments

Corporate investments that constitute less than a 20% ownership interest, and are not financial instruments, are initially recorded at the cost of acquisition plus any directly attributable transaction costs. Subsequent to the acquisition date they are carried at amortized value, representing the initial carrying value net of any impairment provisions.

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.

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.

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.

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.

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

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.

(Stated in Canadian Dollars)

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.

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.

3. Inventories

The carrying value of inventories is comprised of:

	2017	2016
Raw materials and supplies [1]	**$ 496,707**	$ 345,015
Work in process	**9,155**	10,685
Finished goods	**6,164**	10,566
	$ 512,026	$ 375,266

[1] The raw materials and supplies is presented net of provisions for obsolete and/or slow-moving items in the amount of $11,236 (2016 - $3,654). 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 will be affected.

Inventory utilization during the year was as follows:

	2017	2016
Raw materials and supplies used	**$ 1,712,277**	$ 1,916,893
Labour costs	**688,893**	728,021
Depreciation	**87,767**	106,519
Repairs and maintenance	**52,296**	50,625
Stencils and tooling	**28,512**	31,631
Shipping costs	**49,050**	50,284
Packaging costs	**12,707**	11,225
Net change in finished goods and work in process	**5,932**	(2,446)
Cost of product sales	**$ 2,637,434**	$ 2,892,752

4. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Cost:					
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
Additions	697	-	20,082	-	20,779
Balance, June 30, 2017	**$ 181,402**	**$ 71,277**	**$ 2,587,172**	**$ 84,143**	**$ 2,923,994**

(Stated in Canadian Dollars)

4. Equipment - continued

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Accumulated Depreciation:					
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)
Depreciation	(2,895)	(404)	(87,998)	(2,314)	(93,611)
Balance, June 30, 2017	**$ (174,298)**	**$ (69,660)**	**$ (2,225,138)**	**$ (64,474)**	**$ (2,533,570)**
Carrying Amounts:					
June 30, 2016	$ 9,302	$ 2,021	$ 429,950	$ 21,893	$ 463,256
June 30, 2017	**$ 7,104**	**$ 1,617**	**$ 362,034**	**$ 19,669**	**$ 390,424**

5. Investments

	2017	2016
Conversance Inc., a private Canadian technology company currently developing its technology. The Company has 155,000 foundersô shares representing a 15.05% interest.	**$ 294,562**	$ -
Less: Impairment provision	(294,562)	-
	$ -	$ -

During the year the Company paid $210,000, issued 1,325,000 common shares at $0.0525 per share, and incurred costs of $15,000 *(note 10)* to acquire this investment and an option to increase its interests to 19.91%. This option lapsed September 14, 2017. The Company has the right to maintain its equity interest by participating in further funding of Conversance Inc.

The shares of Conversance Inc. are subject to a hold period and, unless permitted under securities legislation, the shares may not be traded before the date that is four months and a day after the issuer becomes a reporting issuer in any province or territory.

Conversance Inc. is in the development phase with respect to its technology and is not generating revenue or positive cash flow. Under the circumstances, the fair value of Conversance Inc., as at the financial reporting date, is not readily determinable. Accordingly, the Company has recognized an impairment provision to reduce the carrying value of its investment to $Nil.

6. 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, 2017 or June 30, 2016.

7. Long-Term Debt

	2017	2016
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.	$ **82,277**	$ 121,769
Less: Current portion	**39,493**	39,493
	$ 42,784	$ 82,276

(Stated in Canadian Dollars)

7. Long-Term Debt - continued

The minimum annual future principal repayments are as follows:

2018	$	39,493
2019		39,493
2020		3,291
	$	82,277

8. Commitment

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 $8,526 to $8,979 are required over the remaining term of the lease as follows:

2018	$	103,668
2019		106,385
2020		107,743
2021		80,807
	$	398,603

9. Share Capital

Authorized:

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

Issued:

	2017	2016
Common shares	**$ 22,418,782**	$ 22,151,406

Common shares:	Number of Shares	Amount
Balance June 30, 2016 and June 30, 2015	10,648,696	$ 22,151,406
Exercise of stock options	700,000	81,471
Private placement (1)	4,500,000	116,343
Investment in Conversance Inc. *(note 5)*	1,325,000	69,562
Balance June 30, 2017 (2, 3)	17,173,696	**$ 22,418,782**

(1) During the period the Company completed a private placement whereby it raised gross proceeds of $225,000 through the issuance of 4,500,000 units at a price of $0.05 per unit. The amount reported is net of costs of $7,500 *(note 10)* and $101,157 allocated to the warrants. Each unit was comprised of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share at a price of $0.06 until December 15, 2021. The proceeds of this financing were used to fund the Companyôs investment in Conversance Inc.

(2) Following the 2013 conversion of Class A Special Shares to common shares, 8,246 common shares remain reserved to be issued if and when the remaining Class A shareholders identify themselves to the Company.

(3) Subsequent to the financial reporting date 100,000 share purchase warrants were exercised for gross proceeds of $10,000.

(Stated in Canadian Dollars)

9. Share Capital - continued

Details of warrants outstanding:

	Number of Warrants		Amount
Balance 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
Warrants issued	4,500,000		101,157
Balance June 30, 2017	4,900,000	**$**	**105,376**

	Number of Warrants		Exercise Price	Expiry Date
Issued Jan 10, 2014	400,000 [(1)]	$	0.10	Oct. 31, 2017
Issued Dec. 15, 2016	4,500,000	$	0.06	Dec. 15, 2021

	Number of Warrants		Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning of year	400,000 [(1)]	$	0.10	Oct. 31, 2017
Issued during year	4,500,000	$	0.06	Dec. 15, 2021
End of year	4,900,000	$	0.06	Aug. 14, 2021

(1) Subsequent to the financial reporting date 100,000 share purchase warrants were exercised for gross proceeds of $10,000.

The following weighted average assumptions were used to calculate the fair value of the warrants issued during the period:

	2017	2016
Dividend yield	**Nil**	None issued
Risk free interest rate (%)	**1.20**	None issued
Expected stock volatility (%)	**130.19**	None issued
Expected life (years)	**5**	None issued

Details of options outstanding:

	Common Shares Under Option	Number of Options Vested		Exercise Price	Expiry Date
Granted Sept. 14, 2012	130,000 [(1, 2)]	130,000	$	0.10	Sept. 14, 2017
Granted Dec. 31, 2013	300,000 [(1)]	300,000	$	0.10	Dec. 31, 2018
Granted Mar. 3, 2016	500,000 [(1)]	500,000	$	0.05	Mar. 3, 2021
Granted December 21, 2016	200,000 [(1)]	200,000	$	0.15	Dec. 21, 2021
Granted December 21, 2016	100,000	100,000	$	0.15	Dec. 21, 2021

	Common Shares Under Option		Weighted Average Price/Option	Weighted Average Expiry Date
Beginning of year	1,630,000	$	0.07	Mar. 23, 2020
Exercised during year	(700,000)	$	0.06	Jul. 19, 2020
Granted during year	300,000	$	0.15	Dec. 21, 2021
End of year	1,230,000	$	0.09	June 20, 2020

(1) Directors and/or Officers of the Company hold these options.
(2) Subsequent to the financial reporting date 130,000 options expired.

(Stated in Canadian Dollars)

9. Share Capital - continued

Details of options outstanding - continued:

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

	2017	2016
Dividend yield	**Nil**	Nil
Risk free interest rate (%)	**1.19**	0.68
Expected stock volatility (%)	**135.35**	112.77
Expected life (years)	**5**	5

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:

		2017		2016
Contributed surplus, beginning of year	**$**	**952,327**	$	835,845
Stock options granted		**39,312**		39,805
Stock options exercised		**(36,471)**		-
Warrants expired during the year		**-**		76,677
Contributed surplus, end of year	**$**	**955,168**	$	952,327

10. Related Party Transactions and Balances

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.

The Company had the following transactions during the year with key management personnel:

Description		2017		2016
Employee and consultant compensation	**$**	**361,492**	$	365,184
Professional fees		**31,074**		41,963
Professional fees classified as cost of investment		**15,000**		-
Professional fees classified as share issuance costs		**7,500**		-
	$	**415,066**	$	407,147
Stock-based compensation	**$**	**26,208**	$	39,805

As at June 30, 2017 $154,136 (2016 - $131,816) was payable to key management personnel and included in accounts payable and accrued liabilities.

(Stated in Canadian Dollars)

11. Selling, general and administrative expenses

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

		2017		2016
Employee and consultant compensation *(note 10)*	$	**852,682**	$	835,846
Insurance		**29,643**		31,395
Occupancy costs		**262,472**		265,967
Professional fees *(note 10)*		**56,074**		84,155
Shareholder services		**22,117**		33,419
Other		**55,224**		62,144
	$	**1,278,212**	$	1,312,926

12. Income Taxes

Current Income Taxes

A reconciliation of combined federal and provincial corporate income taxes at the Companyôs effective tax rate of 26.50% (2016 ï 26.50%) is as follows:

		2017		2016
Net (loss) income before income taxes	$	**(497,880)**	$	(42,553)
Expected income tax expense (recovery)	$	**(131,939)**	$	(11,276)
Expenses not deductible for income tax purposes		**10,649**		10,726
Change in tax benefits not recognized		**121,290**		550
Income tax expense	$	**-**	$	-

Deferred Tax

The following table summarizes the components of deferred tax:

		2017		2016
Deferred tax assets:				
Non-capital losses carried forward	$	**5,675**	$	23,040
Deferred tax liabilities:				
Property, plant and equipment		**(5,675)**		(23,040)
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:

		2017		2016
Inventory	$	**11,236**	**$**	3,654
Share issuance costs		**6,000**		3,638
Intangible assets		**32,376**		34,813
Property, plant and equipment		**35,146**		34,969
Resource related expenditures		**349,050**		349,050
Scientific research and experimental development		**1,050,618**		1,050,618
Non-capital loss carry-forwards		**1,503,716**		1,340,731
Net capital loss carry-forwards		**15,592,989**		15,592,989

(Stated in Canadian Dollars)

12. Income Taxes - continued

Unrecognized Deferred Tax Assets - continued
Share issue costs expire in 2021. 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 there from.

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:

Year	
2027	$ 209,777
2030	174,603
2031	577,958
2032	14,862
2033	76,561
2034	168,430
2035	136,504
2036	69,013
2037	184,366
	$ 1,612,074

13. 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.

	2017	2016
Long-term debt	**$ 82,277**	$ 121,769
Share capital	**22,418,782**	22,151,406
Warrants	**105,376**	4,219
Contributed surplus	**955,168**	952,327
Deficit	**(22,558,502)**	(22,060,622)
Net capital under management	**$ 1,003,101**	$ 1,169,099

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 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. The Company incurred bad debts of $1,286 (2016 - $Nil) during the year ended June 30, 2017.

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 one major customer which represented 14% of total revenues. In the prior year two major customers accounted for 14% and 11% of revenues respectively. Amounts due from major customers represented 11% of accounts receivable at June 30, 2017 (2016 - 30%). 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 an obligation that has a floating interest rate as well as currency risk related to cash, accounts receivable, prepaid expenses, customer deposits 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 $7,705 (2016 ï gain of $3,002).

Sensitivity to market risks

At June 30, 2017 the Company had $82,277 (2016 ï $121,769) 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 $642 over the next 12 month period.

At June 30, 2017 the Company had US$46,339 (2016 ï US $51,935) included in cash. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $705 in carrying value.

At June 30, 2017 the Company had US$3,488 (2016 ï US $3,257) included in prepaid expenses. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a recognition of $53 in additional future expenses.

At June 30, 2017 the Company had US$56,360 (2016 ï US $86,796) 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 $857 in future cash inflow.

At June 30, 2017 the Company had US$63,707 (2016 ï US $Nil) included in customer deposits. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $969 in future revenue.

At June 30, 2017 the Company had US$195,669 (2016 ï US$114,725) 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 $2,976 in future cash outflow.

Based upon observations of recent market trends management believes that each of these outcomes is possible.