

ZTEST Electronics Inc.

Consolidated Financial Statements

June 30, 2019 and 2018

(Stated in Canadian Dollars)

Independent Auditors' Report

To the Shareholders of
ZTEST Electronics Inc.:

Opinion

We have audited the consolidated financial statements of ZTEST Electronics Inc. (the "Company"), which comprise the consolidated statement of financial position as at June 30, 2019 and 2018, and the consolidated statements of changes in equity, comprehensive loss, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the consolidated Financial Statements

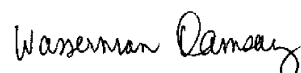
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Kevin Ramsay.



Markham, Ontario
October 25, 2019

Chartered Professional Accountants
Licensed Public Accountants

ZTEST Electronics Inc.

Consolidated Statements of Financial Position

(Stated in Canadian Dollars)

June 30, 2019 and 2018

	2019	2018
Assets		
Current assets		
Accounts receivable	\$ 591,575	\$ 479,621
Inventories (note 4)	636,894	563,237
Prepaid expenses	7,960	19,502
	1,236,429	1,062,360
Equipment (note 5)	258,976	321,012
Investments (note 6)	737,640	807,749
Lease deposit (note 9)	35,000	35,000
	\$ 2,268,045	\$ 2,226,121
Liabilities		
Current liabilities		
Bank indebtedness (note 7)	\$ 83,372	\$ 157,374
Accounts payable and accrued liabilities (note 11)	857,322	546,845
Customer deposits	-	36,895
Current portion of long-term debt (note 8)	3,291	39,493
	943,985	780,607
Long-term debt (note 7)	-	3,291
	943,985	783,898
Commitment (note 9)		
Shareholders' Equity		
Share capital (note 10)	23,394,174	23,215,877
Warrants (note 10)	182,956	137,470
Contributed surplus (note 10)	1,533,373	1,531,134
Deficit	(23,786,443)	(23,442,258)
	1,324,060	1,442,223
	\$ 2,268,045	\$ 2,226,121

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

Approved by the Board:

Signed: "Steve Smith"

Director

Signed: "K. Michael Guerreiro"

Director

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

(Stated in Canadian Dollars)

June 30, 2019

	Share Capital	Warrants	Contributed, Surplus	Deficit	Total
Balance, June 30, 2017	\$ 22,418,782	\$ 105,376	\$ 955,168	\$ (22,558,502)	\$ 920,824
Stock options exercised	37,085	-	(17,085)	-	20,000
Warrants exercised	165,131	(39,131)	-	-	126,000
Warrants expired	-	(1,055)	1,055	-	-
Private placement	405,679	72,280	-	-	477,959
Shares issued as consideration for investment	189,200	-	-	-	189,200
Share-based payments	-	-	591,996	-	591,996
Net loss for the year	-	-	-	(883,756)	(883,756)
Balance, June 30, 2018	23,215,877	137,470	1,531,134	(23,442,258)	1,442,223
Stock options exercised	27,426	-	(12,426)	-	15,000
Private placement	150,871	60,151	-	-	211,022
Warrants expired	-	(14,665)	14,665	-	-
Net loss for the year	-	-	-	(344,185)	(344,185)
Balance, June 30, 2019	\$ 23,394,174	\$ 182,956	\$ 1,533,373	\$ (23,786,443)	\$ 1,324,060

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, 2019 and 2018

	2019	2018
Product sales	\$ 4,399,062	\$ 3,686,132
Cost of product sales (note 4)	3,182,586	2,564,147
	1,216,476	1,121,985
Expenses		
Selling, general and administrative (note 12)	1,450,077	1,375,951
Stock-based compensation (notes 10 and 11)	-	591,996
Interest expense - long-term debt	1,260	3,092
Interest expense - other	10,254	4,034
Financing fees (note 11)	19,283	-
Depreciation of equipment	4,938	5,208
Foreign exchange gain	4,749	(1,982)
	1,490,561	1,978,299
Loss before other income and provisions, and income taxes	(274,085)	(856,314)
Other income and provisions		
Interest income	9	9
Equity in loss of Conversance Inc. (note 6)	(70,110)	(27,451)
	(70,101)	(27,442)
Loss before provision for income taxes	(344,186)	(883,756)
Provision for income taxes (note 13)	-	-
Net loss and comprehensive loss for the year	\$ (344,186)	\$ (883,756)
Net loss per share		
Basic	\$ (0.02)	\$ (0.05)
Fully diluted	\$ (0.02)	\$ (0.05)
Weighted average shares outstanding		
Basic	20,632,025	18,611,710
Fully diluted	20,632,025	18,611,710

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, 2019 and 2018

	2019	2018
Cash flow from operating activities		
Net loss for the year	\$ (344,186)	\$ (883,756)
Items not involving cash		
Stock-based compensation	-	591,996
Depreciation of equipment	63,978	78,188
Equity in loss of Conversance Inc.	70,110	27,451
	(210,098)	(186,121)
Changes in non-cash working capital items		
Accounts receivable	(111,954)	164,345
Inventories	(73,657)	(51,211)
Prepaid expenses	11,542	(4,400)
Customer deposits	(36,895)	(46,256)
Accounts payable and accrued liabilities	310,477	(150,415)
	(110,585)	(274,058)
Cash flow from investing activities		
Purchase of equipment	(1,942)	(8,776)
Investment in Conversance	-	(646,000)
	(1,942)	(654,776)
Cash flow from financing activities		
Proceeds from bank operating loan, net	40,000	110,000
Repayment of long-term debt	(39,493)	(39,493)
Proceeds from share issuances	226,022	623,959
	226,529	694,466
Increase (decrease) in cash	114,002	(234,368)
Cash (deficiency), beginning of year	(47,374)	186,994
Cash (deficiency), end of year	\$ 66,628	\$ (47,374)

Supplemental Disclosure of Cash Flow Information:

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

Interest	\$ 11,590	\$ 7,197
Income taxes	\$ -	\$ -

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

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2019 and 2018

1. Business of the Company

ZTEST Electronics Inc. (“the Company”) amalgamated under the laws of Ontario and carries on business at 523 McNicoll Avenue, Toronto, Ontario designing, developing, and assembling printed circuit boards and other electronic equipment. The Company's shares trade on the Canadian Securities Exchange (“CSE”) under the symbol “ZTE”.

2. Significant Accounting Policies

Statement of compliance

The Company has prepared these consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on October 25, 2019.

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

Basis of presentation and going concern considerations

These consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting, except for cash flow information, and in accordance with IFRS applicable to a “going concern”. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. If the going concern assumption were not appropriate for these consolidated financial statements then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

Basis of consolidation

These consolidated financial statements include the accounts of the Company as well as the following subsidiaries' assets and liabilities and revenues and expenses, arising subsequent to the date of acquisition:

Permotech Electronics Corporation (“PEC”)	- 100%	owned
Twenty49 Ltd	- 100%	owned
Northern Cross Minerals Inc.	- 66.7%	owned (inactive)

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 assessment of the Company as a going concern, recoverability of inventory, the inputs used in applying the Black-Scholes valuation model, and the recognition and valuation of deferred tax amounts.

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.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2019 and 2018

2. Significant Accounting Policies - continued

Impairment of non-financial assets – continued

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 asset's fair value less cost to sell or its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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.

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

Non-controlling interests, which are not financial instruments, and are less than a 20% ownership interest, are initially recorded at the cost of acquisition plus any directly attributable transaction costs. Subsequent to the acquisition date the investment is carried at amortized value, representing the initial carrying value net of any impairment provisions. An investment of this type is considered impaired when its carrying amount exceeds its recoverable amount.

Non-controlling interests, which are not financial instruments, and are equal to or exceeding a 20% ownership interest (an equity instrument), are initially recorded at the cost of acquisition plus any directly attributable transaction costs. Subsequent to the acquisition date the investment is adjusted for the post-acquisition change in the investor's share of the investee's net assets and for any impairment provisions.

An equity instrument is considered impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occur after the initial recognition of the asset (a 'loss event') and that loss event, or events, has an impact on the estimated future cash flows of the non-controlling interest that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognized.

Some items that may be taken into consideration in determining whether a loss event has occurred include significant financial difficulty of the investee, a breach of contract such as a default or delinquency in payments by the investee, it becomes probable that the investee will enter bankruptcy or other financial reorganization, or significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the investee operates, and such changes indicate that the cost of the equity instrument may not be recovered.

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

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2019 and 2018

2. Significant Accounting Policies - continued

Equipment - continued

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.

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, after considering 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 the end of each financial reporting period, 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 loss 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 financial reporting 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 from the computation of diluted loss 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 of the Company's shares for the financial reporting period.

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2019 and 2018

2. Significant Accounting Policies - continued

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.

3. Changes in Accounting Policies

The Company's accounting policies will typically change only when there is a change in IFRS. Effective July 1, 2018 the Company has adopted:

- IFRS 9 Financial instruments, which uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing multiple rules in IAS 39
- IFRS 15 Revenue from contracts with customers, which replaces existing revenue standards and interpretations with a single standard and provides additional guidance on revenue recognition for contracts with customers.

IFRS 9 Financial instruments

The approach in IFRS 9 is generally based on how an entity manages its financial assets in the context of its business model and the contractual cash flow characteristics of the financial assets. Impairment of financial assets is determined using a single impairment model that requires entities to recognize expected credit losses without requiring a triggering event to occur. The new impairment model applies to financial assets measured at amortized cost. IFRS 9 largely retains the existing requirements under IAS 39 for the classification and measurement of financial liabilities.

This standard has been applied retrospectively, resulting in no changes to any amounts presented in prior periods.

We have assessed the classification and measurement of our financial instruments under IFRS 9, with reference to the former classification under IAS39, as follows:

Financial Assets	IFRS 9	IAS39
Cash	Amortized cost	Fair Value through profit and loss
Accounts receivable	Amortized cost	Loans and receivables
Financial Liabilities		
Bank indebtedness	Amortized cost	Other financial liabilities
Accounts payable and accrued liabilities	Amortized cost	Other financial liabilities
Customer deposits	Amortized cost	Other financial liabilities
Long-term debt	Amortized cost	Other financial liabilities

Amortized cost – The amount at which a financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit losses.

The effective interest method - The effective interest method is a method of calculating the amortized cost of a financial asset or liability 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 receipts or payments through the expected life of the financial asset or liability to the net carrying amount on initial recognition.

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2019 and 2018

3. Changes in Accounting Policies - continued

Impairment

IFRS 9 requires an 'expected credit loss' model to be applied which requires a loss allowance to be recognized based on expected credit losses. This applies to financial assets measured at amortized cost. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in initial recognition.

IFRS 15 Revenue from contracts with customers

IFRS 15 provides a definition of what constitutes a contract with customers as well as differentiating between changes to an existing contract and the commencement of a new contract. It also requires the determination of performance criteria which then trigger the recognition, subject to additional criteria, of revenue at various times throughout a contract or at the end of a contract. Revenue is to be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services.

This standard has been applied retrospectively, resulting in no changes to any amounts presented in prior periods, but it has resulted in the modification of how the Company's revenue recognition policy is characterized. The new policy is described as follows:

Revenue recognition - Revenue is recognized when the Company has satisfied its performance obligations, the consideration to be received can be measured reliably, and the ability to collect is probable, which typically arises when the product is delivered.

Accounting standards effective for future periods

IFRS16, *Leases*: effective for annual periods beginning on or after 1 January 2019, replaces existing standards, eliminating the classification of leases as either operating leases or finance leases. The Standard provides a single lessee accounting model, specifying how leases are recognized, measured, presented and disclosed. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on July 1, 2019 and continues to assess the impact it will have on the consolidated financial statements.

4 Inventories

The carrying value of inventories is comprised of:

	2019	2018
Raw materials and supplies ⁽¹⁾	\$ 609,921	\$ 529,192
Work in process	22,615	17,060
Finished goods	4,358	16,985
	\$ 636,894	\$ 563,237

⁽¹⁾ Raw materials and supplies is presented net of provisions for obsolete and/or slow-moving items in the amount of \$25,413 (2018 - \$10,935). 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:

	2019	2018
Raw materials and supplies used	\$ 2,136,502	\$ 1,672,413
Labour costs	800,911	730,614
Depreciation	59,040	72,980
Repairs and maintenance	51,748	17,594
Stencils and tooling	31,182	19,931
Shipping costs	79,051	58,757
Packaging costs	17,080	10,583
Net change in finished goods and work in process	7,072	(18,725)
Cost of product sales	\$ 3,182,586	\$ 2,564,147

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2019 and 2018

5. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Cost:					
Balance, June 30, 2017	\$ 181,402	\$ 71,277	\$ 2,587,172	\$ 84,143	\$ 2,923,994
Additions	1,704	-	7,072	-	8,776
Balance, June 30, 2018	183,106	71,277	2,594,244	84,143	2,932,770
Additions	1,942	-	-	-	1,942
Balance, June 30, 2019	\$ 185,048	\$ 71,277	\$ 2,594,244	\$ 84,143	\$ 2,934,712
	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Accumulated Depreciation:					
Balance, June 30, 2017	\$ (174,298)	\$ (69,660)	\$ (2,225,138)	\$ (64,474)	\$ (2,533,570)
Depreciation	(2,387)	(323)	(73,164)	(2,314)	(78,188)
Balance, June 30, 2018	(176,685)	(69,983)	(2,298,302)	(66,788)	(2,611,758)
Depreciation	(2,217)	(259)	(59,188)	(2,314)	(63,978)
Balance, June 30, 2019	\$ (178,902)	\$ (70,242)	\$ (2,357,490)	\$ (69,102)	\$ (2,675,736)
Carrying Amounts:					
June 30, 2018	\$ 6,421	\$ 1,294	\$ 295,942	\$ 17,355	\$ 321,012
June 30, 2019	\$ 6,146	\$ 1,035	\$ 236,754	\$ 15,041	\$ 258,976

6. Investments

The Company holds a non-controlling interest in Conversance Inc., a private Canadian technology company. 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 engaged in the development of its proprietary technology and has not yet produced any revenues. The timing of such revenues, if any, is not currently determinable.

The Company has determined as at June 30, 2019 that there has been no loss event and accordingly no test for impairment was completed. In prior fiscal years, when the Company held a 15.05% interest, it was determined that the carrying amount of the investment exceeded the recoverable amount resulting in an impairment provision of \$294,562.

	2019	2018
155,000 Class A common shares representing a 15.05% interest	\$ 294,562	\$ 294,562
62,500 Class A common shares representing a 4.86% interest	330,450	330,450
78,750 Class A common shares representing a 5.38% interest	504,750	504,750
Investment representing a 25.29% interest (2018 – 25.29%)	1,129,762	1,129,762
Impairment provision	(294,562)	(294,562)
Equity in post-acquisition loss	(97,560)	(27,451)
Aggregate investment	\$ 737,640	\$ 807,749

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2019 and 2018

7. Bank indebtedness

	2019	2018
Cash (deficiency), inclusive of outstanding payments	\$ 66,628	\$ (47,374)
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.	(150,000)	\$ (110,000)
	<u>\$ (83,372)</u>	<u>\$ (157,374)</u>

8. Long-Term Debt

	2019	2018
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.	\$ 3,291	\$ 42,784
Less: Current portion	3,291	39,493
	<u>\$ -</u>	<u>\$ 3,291</u>
The minimum annual future principal repayments are as follows:		
2020		\$ 3,291

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

2020	\$ 107,743
2021	80,807
	<u>\$ 188,550</u>

10. Share Capital

Authorized:

Unlimited Common shares

Unlimited Preferred shares in one or more series.

Issued:

	2019	2018
Common shares	<u>\$ 23,394,174</u>	<u>\$ 23,215,877</u>

Common shares:	Number of Shares ⁽¹⁾	Amount
Balance June 30, 2017	17,173,696	\$ 22,418,782
Exercise of stock options	200,000	37,085
Exercise of warrants	1,900,000	165,131
Private placement ⁽²⁾	625,000	405,679
Investment	275,000	189,200
Balance June 30, 2018	20,173,696	\$ 23,215,877

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2019 and 2018

10. Share Capital - continued

Common shares - continued:	Number of Shares ⁽¹⁾	Amount
Balance June 30, 2018	20,173,696	\$ 23,215,877
Exercise of stock options	150,000	27,426
Private placement ⁽³⁾	780,000	150,871
Balance June 30, 2019	21,103,696	\$ 23,394,174

⁽¹⁾ 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.

⁽²⁾ The Company completed a private placement transaction whereby it issued 625,000 working capital units for gross proceeds of \$531,250. Each unit consisted of one common share and one-half common share purchase warrant. Each full common share purchase warrant originally entitled the holder to acquire one additional common share of the Company at a price of \$1.10 until January 31, 2019 however the expiry was extended until January 31, 2020. The Company paid finders' fees of \$37,188, incurred other costs of \$16,140, attributed a value of \$57,615 to the common share purchase warrants, and issued 43,750 broker warrants valued at \$14,665. Each broker warrant entitles the holder to acquire 1 common share of the Company for \$0.85 until January 30, 2019.

⁽³⁾ The Company completed a private placement transaction, through two closings, whereby an aggregate of 780,000 working capital units were issued for gross proceeds of \$234,000. In the first closing 440,000 units were issued for gross proceeds of \$132,000 and in the second 340,000 units were issued for gross proceeds of \$102,000. Each unit consisted of one common share and one-half common share purchase warrant. Each full common share purchase warrant entitles the holder to acquire one additional common share of the Company at a price of \$0.40 until eighteen months following the closing date. Through the two closings the Company paid aggregate finders' fees of \$11,760, incurred other costs of \$11,218, attributed a value of \$51,176 to the common share purchase warrants, and issued 39,200 broker warrants valued at \$8,975. Each broker warrant entitles the holder to acquire one common share of the Company for \$0.30 until eighteen months following the closing date.

Details of warrants outstanding:

	Number of Warrants	Amount
Balance June 30, 2017	4,900,000	\$ 105,376
Warrants issued via private placement	312,500	57,615
Broker warrants issued via private placement	43,750	14,665
Warrants exercised	(1,900,000)	(39,131)
Warrants expired	(100,000)	(1,055)
Balance June 30, 2018	3,256,250	137,470
Warrants issued via private placement	390,000	51,176
Broker warrants issued via private placement	39,200	8,975
Warrants expired	(43,750)	(14,665)
Balance June 30, 2019	3,641,700	\$ 182,956

	Number of Warrants	Exercise Price	Expiry Date
Issued Dec. 15, 2016	2,900,000	\$ 0.06	Dec. 15, 2021
Issued Jan. 30, 2018 ⁽¹⁾	312,500	\$ 1.10	Jan. 31, 2020
Issued Dec. 28, 2018	220,000	\$ 0.40	June 28, 2020
Issued Dec. 28, 2018	23,800	\$ 0.30	June 28, 2020
Issued Jan. 31, 2019	170,000	\$ 0.40	July 31, 2020
Issued Jan. 31, 2019	15,400	\$ 0.30	July 31, 2020

⁽¹⁾ During the reporting period the Company obtained regulatory approval for the expiry date of these warrants to be extended by one year, to January 31, 2020.

ZTEST Electronics Inc.

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June 30, 2019 and 2018

10. Share Capital - continued

Details of warrants outstanding - continued:

	Number of Warrants	Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning of the year	3,256,250	\$ 0.17	Sep. 26, 2021
Issued during the year	429,200	\$ 0.39	July 12, 2020
Expired during the year	(43,750)	\$ 0.85	Jan. 31, 2019
Expiry date extended during the year	(312,500)	\$ 1.10	Jan. 31, 2019
Expiry date extended during the year	312,500	\$ 1.10	Jan. 31, 2020
End of year	3,641,700	\$ 0.19	Aug. 16, 2021

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

	2019	2018
Dividend yield	Nil	Nil
Risk free interest rate (%)	1.76 - 1.84	1.61
Expected stock volatility (%)	116.25 - 116.52	70.49
Expected life (years)	1.5	1

Details of options outstanding:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted Mar. 3, 2016	400,000 ⁽¹⁾	400,000	\$ 0.05	Mar. 3, 2021
Granted December 21, 2016	150,000 ⁽¹⁾	150,000	\$ 0.15	July 9, 2019
Granted December 21, 2016	50,000	50,000	\$ 0.15	Dec. 21, 2021
Granted January 12, 2018	50,000 ⁽¹⁾	50,000	\$ 0.95	July 9, 2019
Granted January 12, 2018	550,000 ⁽¹⁾	550,000	\$ 0.95	Jan. 12, 2023

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

	Common Shares Under Option	Weighted Average Price/Option	Weighted Average Expiry Date
Beginning of the year	1,500,000	\$ 0.43	Aug. 2, 2021
Exercised during the year	(150,000)	\$ 0.10	Dec. 31, 2018
Expired during the year	(150,000)	\$ 0.10	Dec. 31, 2018
Expiry date reduced during the year ⁽¹⁾	(200,000)	\$ 0.35	Mar. 27, 2022
Expiry date reduced during the year	200,000	\$ 0.35	July 9, 2019
End of year	1,200,000	\$ 0.52	Mar. 26, 2022

⁽¹⁾ The holder of these options was not re-elected as a director of the Company at the shareholders meeting held January 9, 2019. In accordance with the option agreement the term of these options is reduced to be six months from the date the individual ceased to be a director. These options expired subsequent to the financial reporting date.

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

	2019	2018
Dividend yield	None issued	Nil
Risk free interest rate (%)	None issued	1.62 - 1.98
Expected stock volatility (%)	None issued	99.36 - 154.07
Expected life (years)	None issued	1 - 5

ZTEST Electronics Inc.

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(Stated in Canadian Dollars)

June 30, 2019 and 2018

10. 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:

	2019	2018
Contributed surplus, beginning of year	\$ 1,531,134	\$ 955,168
Stock options granted	-	591,996
Stock options exercised	(12,426)	(17,085)
Warrants expired	14,665	1,055
Contributed surplus, end of year	\$ 1,533,373	\$ 1,531,134

11. Related Party Transactions and Balances

The Company had transactions during the period with key management personnel and with 1114377 Ontario Inc., a company controlled by the spouse of a director of Permtech Electronics Corporation.

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	2019	2018
Employee and consultant compensation	\$ 499,711	\$ 399,698
Professional fees	37,954	69,052
Finance fees	19,283	-
Professional fees classified as cost of investment	-	4,750
Professional fees classified as share issuance costs	10,318	16,250
	\$ 567,266	\$ 489,750
Stock-based compensation	\$ -	\$ 493,017

As at June 30, 2019 \$352,759 (2018 - \$169,370) was payable to key management personnel and included in accounts payable and accrued liabilities.

12. Selling, general and administrative expenses

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

	2019	2018
Employee and consultant compensation (note 11)	\$ 1,005,099	\$ 896,089
Insurance	31,931	30,945
Occupancy costs	260,270	263,446
Professional fees (note 11)	66,979	99,998
Shareholder services	25,071	26,121
Other	60,727	59,352
	\$ 1,450,077	\$ 1,375,951

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2019 and 2018

13. Income Taxes

Current Income Taxes

A reconciliation of combined federal and provincial corporate income taxes at the Company's effective tax rate of 26.50% (2018 – 26.50%) is as follows:

	2019	2018
Net loss before income taxes	\$ (344,186)	\$ (856,305)
Expected income tax recovery	\$ (91,209)	\$ (226,921)
Expenses not deductible for income tax purposes	18,910	157,537
Change in tax benefits not recognized	72,299	69,384
Income tax expense	\$ -	\$ -

Deferred Tax

The following table summarizes the components of deferred tax:

	2019	2018
Deferred tax assets:		
Non-capital losses carried forward	\$ 2,673	\$ 7,643
Deferred tax liabilities:		
Temporary timing differences	(2,673)	(7,643)
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:

	2019	2018
Inventory	\$ 25,413	\$ 10,935
Share issuance costs	53,378	47,162
Intangible assets	-	30,110
Property, plant and equipment	46,409	25,394
Resource related expenditures	349,050	349,050
Scientific research and experimental development	1,050,618	1,050,618
Non-capital loss carry-forwards	2,068,522	1,790,025
Net capital loss carry-forwards	15,592,989	15,592,989

Share issue costs expire from 2021-2023 and non-capital loss carry-forwards expire as disclosed below. The remaining deductible temporary differences may be carried forward indefinitely but net capital loss carry-forwards can only be used to reduce capital gains. 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, will expire at the end of the taxation years as follows:

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2019 and 2018

13. Income Taxes

Tax Loss Carry-Forwards - continued

Year	
2027	\$ 186,700
2030	174,603
2031	577,958
2032	14,862
2033	76,561
2034	125,170
2035	136,504
2036	69,013
2037	184,366
2038	294,158
2039	344,142
	<u>\$ 2,184,037</u>

14. Capital disclosures

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

	2019	2018
Long-term debt	\$ 3,291	\$ 42,774
Share capital	23,394,174	23,215,877
Warrants	182,956	137,470
Contributed surplus	1,533,373	1,531,134
Deficit	(23,786,443)	(23,414,807)
Net capital under management	<u>\$ 1,327,351</u>	<u>\$ 1,512,448</u>

15. 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 no bad debts during the years ended June 30, 2019 and June 30, 2018.

Concentration of credit risk

Concentration of credit risk arises when one or more customers, defined as a major customer, individually account for 10% or more of the Company's revenues during a reporting period. During the current year the Company had two major customers which represented 14% and 12% of total revenues. In the prior year three major customers accounted for 12%, 12% and 10% of total revenues. Amounts due from major customers represented 9% of accounts receivable at June 30, 2019 (2018 - 27%). 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.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2019 and 2018

15. Financial risk factors - continued

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. At June 30, 2019 the Company had current financial assets of \$591,575 (2018 - \$479,621) available to settle current financial liabilities of \$943,985 (2018 - \$780,607). The Company manages its liquidity risk through the management of its capital (*note 14*) which incorporates the continuous monitoring of actual and projected cash flows to ensure that it has sufficient liquidity to meet its operating commitments without incurring unacceptable losses or risking damage to the Company's reputation.

Market risks

The Company is exposed to interest rate risk due to two obligations that have floating interest rates 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 loss of \$4,749 (2018 – gain of \$1,982).

Sensitivity to market risks

At June 30, 2019 the Company had \$3,291 (2018 – \$42,784) 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 \$3 over the next 12 month period.

At June 30, 2019 the Company had cash of US \$38 (2018 – US \$16,417 overdraft) included in bank indebtedness or cash. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of \$2 in carrying value.

At June 30, 2019 the Company had US \$Nil (2018 – US \$4,634) 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 \$Nil in additional future expenses.

At June 30, 2019 the Company had US \$63,433 (2018 – US \$63,433) 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 \$3,172 in future cash inflow.

At June 30, 2019 the Company had US \$Nil (2018 – US \$27,879) 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 \$Nil in future revenue.

At June 30, 2019 the Company had US\$155,987 (2018 – US\$119,219) 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 \$7,799 in future cash outflow.

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