ZTEST Electronics Inc.

Consolidated Financial Statements

June 30, 2021 and 2020

(Stated in Canadian Dollars)

Wasserman
Ramsay

Chartered Professional Accountants

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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, 2021 and 2020, 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, 2021 and 2020, 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.

Wasserman Ramsay

Markham, Ontario
October 28, 2021

Chartered Professional Accountants
Licensed Public Accountants

ZTEST Electronics Inc.

Consolidated Statements of Financial Position
(Stated in Canadian Dollars)
June 30, 2021 and 2020

	2021	2020
Assets		
Current assets		
Cash	**$ 557,013**	$ 220,403
Accounts receivable	**654,758**	512,068
Inventories *(note 3)*	**488,333**	732,961
Prepaid expenses	**17,416**	18,781
	1,717,520	1,484,213
Equipment *(note 4)*	**580,807**	210,918
Right-of-use asset *(note 5)*	**822,430**	112,099
Investments *(note 6)*	**1**	1
	$ 3,120,758	$ 1,807,231
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities *(note 11)*	**$ 959,507**	$ 898,237
Customer deposits	**1**	25,000
Current portion of lease liability *(note 8)*	**149,092**	79,296
Current portion of long-term debt *(note 9)*	**58,932**	-
	1,167,532	1,002,533
Lease liability *(note 8)*	**643,568**	-
Long-term debt *(note 9)*	**305,223**	40,000
	2,116,323	1,042,533
Shareholders' Equity		
Share capital *(note 10)*	**23,859,872**	23,613,546
Warrants *(note 10)*	**53,052**	217,665
Contributed surplus *(note 10)*	**1,650,929**	1,538,667
Deficit	**(24,559,418)**	(24,605,180)
	1,004,435	764,698
	$ 3,120,758	$ 1,807,231

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, 2021

	Share Capital	Warrants	Contributed, Surplus	Deficit	Total
Balance, June 30, 2019	$ 23,394,174	$ 182,956	$ 1,533,373	$ (23,786,443)	$ 1,324,060
Shares for debt	153,450	-	-	-	153,450
Private placement	65,922	40,003	-	-	105,925
Warrants expired	-	(5,294)	5,294	-	-
Net loss for the year	-	-	-	(818,737)	(818,737)
Balance, June 30, 2020	23,613,546	217,665	1,538,667	(24,605,180)	764,698
Preferred shares issued	1	-	-	-	1
Preferred shares redeemed	(1)	-	-	-	(1)
Stock options exercised	17,961	-	(7,961)	-	10,000
Warrants exercised	228,365	(44,390)	-	-	183,975
Warrants expired	-	(120,223)	120,223	-	-
Net income for the period	-	-	-	45,762	45,762
Balance, June 30, 2021	**$ 23,859,872**	**$ 53,052**	**$ 1,650,929**	**$ (24,559,418)**	**$ 1,004,435**

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

ZTEST Electronics Inc.

Consolidated Statements of Comprehensive Income (Loss)
(Stated in Canadian Dollars)
For the years ended June 30, 2021 and 2020

		2021		2020
Product sales	**$**	**4,009,460**	$	3,888,898
Cost of product sales (*note 3*)		**2,777,945**		2,660,103
		1,231,515		1,228,795
Expenses				
Selling, general and administrative *(note 12)*		**1,174,408**		1,262,788
Interest expense - long-term debt		**2,439**		5
Interest expense - lease liability *(note 8)*		**8,304**		7,141
Interest expense - other		**599**		5,608
Financing fees *(note 11)*		**-**		16,181
Depreciation of equipment		**5,046**		4,688
Foreign exchange (gain) loss		**(5,043)**		13,486
		1,185,753		1,309,897
Income (loss) before other income and provisions, and income taxes		**45,762**		(81,102)
Other income and provisions				
Interest income		**-**		4
Equity in loss of Conversance Inc. *(note 6)*		**-**		(54,549)
Provision for impairment of Conversance Inc. *(note 6)*		**-**		(683,090)
		-		(737,635)
Income (loss) before provision for income taxes		**45,762**		(818,737)
Provision for income taxes *(note 13)*		**-**		-
Net income (loss) and comprehensive income (loss) for the year	**$**	**45,762**	**$**	(818,737)
Net income (loss) per share				
Basic	**$**	**0.00**	$	(0.04)
Fully diluted	**$**	**0.00**	$	(0.04)
Weighted average shares outstanding				
Basic		**24,227,196**		21,704,385
Fully diluted		**25,907,107**		21,704,385

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, 2021 and 2020

		2021		2020
Cash flow from operating activities				
Net income (loss) for the year	$	**45,762**	$	(818,737)
Items not involving cash				
Depreciation of equipment		**43,331**		52,198
Depreciation of right of use asset		**118,542**		102,798
Imputed interest on lease liability		**8,304**		7,141
Equity in loss of Conversance Inc.		**-**		54,549
Provision for impairment of Conversance Inc.		**-**		683,090
		215,939		81,039
Changes in non-cash working capital items				
Accounts receivable		**(142,690)**		79,507
Inventories		**244,628**		(96,067)
Prepaid expenses		**1,365**		(10,821)
Customer deposits		**(24,999)**		25,000
Accounts payable and accrued liabilities		**61,270**		194,365
		355,513		273,023
Cash flow from investing activities				
Purchase of equipment		**(413,220)**		(4,140)
Cash flow from financing activities				
Repayment of bank operating loan, net		**-**		(150,000)
Proceeds of long-term debt		**333,748**		40,000
Repayment of long-term debt		**(9,593)**		(3,291)
Repayment of lease obligation		**(123,813)**		(107,742)
Proceeds from share issuances		**193,975**		105,925
		394,317		(115,108)
Increase in cash		**336,610**		153,775
Cash, beginning of year		**220,403**		66,628
Cash, end of year	$	**557,013**	$	220,403

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

		2021		2020
Interest	$	**2,361**	$	5,624
Income taxes	$	**-**	$	-

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

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 28, 2021.

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:

Permatech Electronics Corporation ("PEC")	- 100%	owned
Twenty49 Ltd	- 100%	owned (inactive)
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.

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

Financial assets:	*Classification*
Cash	Amortized cost
Accounts receivable	Amortized cost

2. Significant Accounting Policies - continued

Financial instruments - continued

Financial liabilities:	*Classification*
Accounts payable and accrued liabilities	Amortized cost
Customer deposits	Amortized cost
Lease liability	Amortized cost
Long-term debt	Amortized cost

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.

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 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.

2. Significant Accounting Policies - continued

Investments - continued
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 years	straight-line

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

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

Share based payment transactions
The fair value of share options granted to employees is recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

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.

(Stated in Canadian Dollars)

2. Significant Accounting Policies - continued

Income taxes - continued
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.

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

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 Inventories

The carrying value of inventories is comprised of:

	2021	2020
Raw materials and supplies [1]	**$ 432,917**	$ 684,648
Work in process	**31,859**	29,511
Finished goods	**23,557**	18,802
	$ 488,333	$ 732,961

[1] Raw materials and supplies is presented net of provisions for obsolete and/or slow-moving items in the amount of $4,373 (2020 - $28,517). Management makes estimates of future demand when establishing appropriate provisions. To the extent that actual inventory losses differ from these estimates both inventories and net income (loss) will be affected.

Inventory utilization during the year was as follows:

	2021	2020
Raw materials and supplies used	**$ 1,998,385**	$ 1,868,875
Labour costs *(note 15)*	**637,884**	647,450
Shipping costs	**66,619**	60,750
Depreciation	**38,285**	47,509
Repairs and maintenance	**11,327**	24,765
Stencils and tooling	**26,077**	22,095
Packaging costs	**6,470**	10,000
Net change in finished goods and work in process	**(7,102)**	(21,341)
Cost of product sales	**$ 2,777,945**	$ 2,660,103

(Stated in Canadian Dollars)

4. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Cost:					
Balance, June 30, 2019	$ 185,048	$ 71,277	$ 2,594,244	$ 84,143	$ 2,934,712
Additions	1,370	-	2,770	-	4,140
Balance, June 30, 2020	186,418	71,277	2,597,014	84,143	2,938,852
Additions	5,703	-	407,517	-	413,220
Balance, June 30, 2021	**$ 192,121**	**$ 71,277**	**$ 3,004,531**	**$ 84,143**	**$ 3,352,072**

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Accumulated Depreciation:					
Balance, June 30, 2019	$ (178,902)	$ (70,242)	$ (2,357,490)	$ (69,102)	$ (2,675,736)
Depreciation	(2,050)	(207)	(47,627)	(2,314)	(52,198)
Balance, June 30, 2020	(180,952)	(70,449)	(2,405,117)	(71,416)	(2,727,934)
Depreciation	(2,330)	(165)	(38,522)	(2,314)	(43,331)
Balance, June 30, 2021	**$ (183,282)**	**$ (70,614)**	**$ (2,443,639)**	**$ (73,730)**	**$ (2,771,265)**
Carrying Amounts:					
June 30, 2020	$ 5,466	$ 828	$ 191,897	$ 12,727	$ 210,918
June 30, 2021	**$ 8,839**	**$ 663**	**$ 560,892**	**$ 10,413**	**$ 580,807**

5. Right of use asset

The Company occupies its operating facility under a lease that expired March 31, 2021, but was extended during the period to March 31, 2026. In each instance, the resulting right-of-use asset was recorded at cost equal to the present value of the remaining lease payments, plus a refundable deposit paid at the inception of the lease. Subsequent to initial recording, the carrying value of the right-of-use asset is equal to cost less accumulated depreciation and, if any, impairment losses and remeasurement of the lease liability. Depreciation is calculated on a straight-line basis over the remaining lease term and charged to net income as an element of occupancy costs *(note 12)*. There have been no impairment losses and no remeasurement of the lease liability.

Cost recognized upon adoption of IFRS 16	$ 214,897
Depreciation recorded as an element of occupancy costs	(102,798)
Balance at June 30, 2020	112,099
Cost recognized upon extension of the lease	828,873
Depreciation recorded as an element of occupancy costs	(118,542)
Balance at June 30, 2021	$ **822,430**

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.

(Stated in Canadian Dollars)

6. Investments - continued

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 absence of cash flows, or the ability to predict when any may arise, made it infeasible for the Company to ascertain the value of Conversance Inc. as a going concern as at June 30, 2020. Accordingly, a provision for impairment was recognized to reduce the carrying value of the investment to $1. Should future circumstances warrant doing so, this provision may be reversed, but only to the extent that the carrying value of the investment at the time of reversal does not exceed the carrying value that would have resulted had the provision not been recorded.

During the year ZTEST entered into an agreement with the founder and majority shareholder of Conversance Inc. whereby ZTEST issued 1,250,000 Convertible First Preferred Shares Series 1 to that majority shareholder in exchange for 25,000 Class A common shares of Conversance Inc. The ZTEST Series 1 shares would have been automatically converted to common shares of ZTEST if, and only if, Conversance had completed an arm's length financing by June 30, 2021 whereby at least 130,139 Class A shares were issued at a price of at least $10 per Class A share. No such financing occurred therefore the preferred shares were redeemed for an aggregate price of $1 and the 25,000 Class A common shares of Conversance Inc. were to be returned to the majority shareholder. However, the Class A shares were not returned and a replacement agreement was executed subsequent to the year end. This replacement agreement, which is subject to the issuance of a press release and the filing of documentation with the Canadian Securities Exchange, replaced the 1,250,000 Convertible First Preferred Shares Series 1 shares with 1,250,000 Convertible First Preferred Shares Series 2 shares and the expiry date was extended to June 30, 2022. The trigger for automatic conversion to common shares on a 1:1 basis remained unchanged.

ZTEST retains its right to maintain its 25.29% interests by subscribing for the requisite number of Class A common shares of Conversance, at the same price and payment terms applicable to any financing. As an additional element of the expired transaction ZTEST had been granted an option by Conversance Inc., to acquire 75,000 Class A common shares from treasury, in exchange for a cash payment of $1,000,000. This option was set to expire December 31, 2022 but the replacement agreement extended that expiry to June 30, 2023.

	2021	2020
296,250 Class A common shares, representing a 25.29% interest	**$ 1,129,762**	$ 1,129,762
Equity in post-acquisition loss	**(152,109)**	(152,109)
Impairment provision	**(977,652)**	(977,652)
Aggregate investment	**$ 1**	$ 1

Subsequent to the financial reporting date, Conversance acquired a 28% interest in 3955 trading Inc. (o/a Cannamerx) pursuant to a purchase agreement dated August 1, 2021. Cannamerx operates an international cannabis and hemp exchange platform and facilitates trade in bulk cannabis, hemp, and cannabis and hemp products, between licensed producers worldwide. It is expected that Conversance will first upgrade the existing Cannamerx platform then replace it with a new platform developed from the Conversance proprietary technology. Conversance will receive additional shares of Cannamerx upon completion of these objectives as well as when Cannamerx achieves a certain level of operations based upon these new platforms. Based upon the current share structure of Cannamerx, the issuance of these additional shares would provide Conversance with a controlling interest.

7. Bank operating loan

The Company has a line of credit, which was not drawn upon as at June 30, 2021 or June 30, 2020. It may 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.

(Stated in Canadian Dollars)

8. Lease liability

The Company occupies its operating facility under a lease that was extended during the period to March 31, 2026. A refundable deposit of $35,000 was paid at the inception of the lease. Upon adoption of IFRS 16, and at the time of the lease extension, a lease liability was recorded based equal to the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate, which was determined to be 5.7% for the initial lease and 3.386% for the lease extension. The lease liability is subsequently reduced by the lease payments paid and increased by interest imputed at the discount rate as follows:

Present value of lease payments remaining upon adoption of IFRS 16	$	179,897
Lease payments paid during period		(107,742)
Interest imputed at 5.7%		7,141
Balance at June 30, 2020		79,296
Lease payments paid during period		(123,813)
Interest imputed at 5.7%		8,304
Present value of lease payments upon lease extension		828,873
Balance at June 30, 2021		792,660
Less current portion		(149,092)
	$	**643,568**

9. Long-Term Debt

		2021		2020
Canadian Emergency Business Account (CEBA), non-interest bearing until December 31, 2022 then 5% per annum, payable monthly until maturity December 31, 2025. Principal repayments are not required until maturity. The principal amount may be pre-paid in whole or in part at any time without penalty. Provided the loan balance is no more than $20,000 as at December 31, 2022 the remaining balance of the loan will be forgiven.	**$**	**60,000**	$	40,000
Term loan bearing interest at 3.386% matures April 2026. Monthly payments of $5,691, blended as to principal and interest, are required until maturity.		**304,155**		-
		364,155		40,000
Less: Current portion		**58,932**		-
	$	**305,223**	$	40,000

The minimum annual future principal repayments are as follows:

2022	$	58,932
2023		70,929
2024		83,011
2025		85,192
2026		66,091
Remaining		-
	$	364,155

(Stated in Canadian Dollars)

10. Share Capital

Authorized:

Unlimited Common shares
Unlimited Preferred shares in one or more series.
1,250,000 Convertible Preferred Shares Series 1, redeemable, non-voting, with no dividend rights. These shares were subject to a triggering event, the occurrence of which would have resulted in these shares being automatically converted into 1,250,000 common shares, however this triggering event did not occur and the shares were redeemed for the aggregate redemption price of $1.

Issued:

	2021	2020
Common shares	**$ 23,859,872**	$ 23,613,546

Common shares:	Number of Shares [1]	Amount
Balance June 30, 2019	21,103,696	$ 23,394,174
Shares issued in settlement of debt [2]	1,023,000	153,450
Private placement [3]	750,000	65,922
Balance June 30, 2020	22,876,696	$ 23,613,546
Warrants exercised	1,150,500	228,365
Stock options exercised	200,000	17,961
Balance June 30, 2021	24,227,196	**$ 23,859,872**

(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) In accordance with agreements between the Company and its Chief Executive Officer and a former Director, the Company issued 1,023,000 common shares, valued at $0.15 per share, in settlement of amounts aggregating $153,450 that were due them as at December 31, 2019.

(3) The Company completed a private placement whereby an aggregate of 750,000 working capital units were issued for gross proceeds of $112,500. Each unit consisted of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one additional common share of the Company at a price of $0.25 until twelve months following the closing date. The Company paid finders' fees of $1,575, incurred other costs of $5,000, attributed a value of $38,756 to the common share purchase warrants, and issued 10,500 broker warrants valued at $1,247. Each broker warrant entitles the holder to acquire one common share of the Company for $0.15 until February 28, 2021.

Details of warrants outstanding:

	Number of Warrants	Amount
Balance June 30, 2019	3,641,700	$ 182,956
Warrants issued via private placement	750,000	38,756
Broker warrants issued via private placement	10,500	1,247
Warrants expired	(23,800)	(5,294)
Balance June 30, 2020	4,378,400	$ 217,665
Warrants exercised	(1,150,500)	(44,390)
Warrants expired	(867,900)	(120,223)
Balance June 30, 2021	2,360,000 [1]	**$ 53,052**

(Stated in Canadian Dollars)

10. Share Capital - continued

	Number of Warrants		Exercise Price	Expiry Date
Issued Dec. 15, 2016	2,360,000 [1]	$	0.06	Dec. 15, 2021

	Number of Warrants		Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning of year	4,378,400	$	0.15	Aug. 30, 2021
Exercised during the year	(1,150,500)	$	0.16	Jul. 14, 2021
Expired during the year	(867,900)	$	0.40	Jan. 17, 2021
End of year	2,360,000 [1]	$	0.06	Dec. 15, 2021

[1] 540,000 warrants, including 100,000 held by a related party, were exercised subsequent to the financial reporting date.

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

	2021	2020
Dividend yield	**None issued**	Nil
Risk free interest rate (%)	**None issued**	1.27
Expected stock volatility (%)	**None issued**	119.88
Expected life (years)	**None issued**	1.0

Details of options outstanding:

	Common Shares Under Option		Weighted Average Price/Option	Weighted Average Expiry Date
Balance, beginning of the year	1,000,000	$	0.55	Sep. 2, 2021
Exercised during the year	(200,000)	$	0.05	Mar. 3, 2021
Expired during the year	(250,000)	$	0.79	Jul. 26, 2020
Balance, end of the year	550,000	$	0.62	May 9, 2022

	Common Shares Under Option	Number of Options Vested		Exercise Price	Expiry Date
Granted Mar. 3, 2016	200,000 [1, 2]	200,000	$	0.05	Mar. 3, 2021
Granted January 12, 2018	350,000 [1]	350,000	$	0.95	Jan. 12, 2023

[1] Directors and/or Officers of the Company hold these options.
[2] The expiry date of these options was extended in accordance with the terms of the stock options agreements. Each of these options was exercised subsequent to the financial reporting date.

No stock options were granted during the years ended June 30, 2021 or June 30, 2020.

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:

		2021		2020
Contributed surplus, beginning of year	**$**	**1,538,667**	$	1,533,373
Stock options exercised		**(7,961)**		-
Warrants expired		**120,223**		5,294
Contributed surplus, end of year	**$**	**1,650,929**	$	1,538,667

(Stated in Canadian Dollars)

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 former director of PEC. The service agreement with 1114377 Ontario Inc. was terminated July 31, 2020.

All expenses and period 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		**2021**		2020
Employee and consultant compensation	**$**	**325,674**	$	446,773
Professional fees		**48,786**		38,547
Finance fees		**-**		16,181
Professional fees classified as share issuance costs		**-**		5,000
	$	**374,461**	$	506,411
Stock-based compensation	**$**	**-**	$	-

As at June 30, 2021 $517,217 (2020 - $359,210) was payable to key management personnel and included in accounts payable and accrued liabilities. During the 2020 fiscal year, $153,450 owing to related parties was settled through the issuance of 1,023,000 common shares of the Company.

12. Selling, general and administrative expenses

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

		2021		2020
Employee and consultant compensation *(notes 11 and 16)*	**$**	**744,373**	$	841,418
Occupancy costs *(note 5)*		**248,043**		266,277
Insurance		**32,376**		33,197
Professional fees *(note 11)*		**79,412**		64,067
Shareholder services		**28,783**		16,377
Other		**41,421**		41,452
	$	**1,174,408**	$	1,262,788

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% (2020 – 26.50%) is as follows:

		2021		2020
Net income (loss) before income taxes	**$**	**45,762**	$	(818,737)
Expected income tax recovery	$	**12,127**	$	(216,965)
Expenses not deductible for income tax purposes		**804**		195,474
Change in tax benefits not recognized		**(12,931)**		21,491
Income tax expense	**$**	**-**	$	-

(Stated in Canadian Dollars)

13. Income Taxes – continued

Deferred Tax
The following table summarizes the components of deferred tax:

		2021		2020
Deferred tax assets:				
Non-capital losses carried forward	$	**27,768**	$	24,508
Deferred tax liabilities:				
Temporary timing differences		**(27,768)**		(24,508)
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:

		2021		2020
Inventory	$	**4,373**	**$**	28,527
Share issuance costs		**23,799**		41,876
Property, plant and equipment		**34,132**		39,429
Resource related expenditures		**349,050**		349,050
Scientific research and experimental development		**1,050,618**		1,050,618
Non-capital loss carry-forwards		**2,166,546**		1,921,405
Net capital loss carry-forwards		**15,592,989**		15,592,989

Share issue costs expire from 2022-2023 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:

Year		
2030	$	174,603
2031		508,773
2032		14,862
2033		76,561
2034		125,170
2035		136,504
2036		69,013
2037		184,366
2038		294,158
2039		344,141
2040		246,499
2041		279,798
	$	2,454,448

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.

	2021	2020
Long-term debt	**$ 364,155**	$ 40,000
Share capital	**23,859,873**	23,613,546
Warrants	**53,052**	217,665
Contributed surplus	**1,650,929**	1,538,667
Deficit	**(24,559,418)**	(24,605,180)
Net capital under management	**$ 1,368,591**	$ 804,698

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, 2021 and June 30, 2020.

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 21% and 13% of total revenues. In the prior year, two major customers accounted for 20% and 19% of total revenues. Amounts due from major customers represented 22% of accounts receivable at June 30, 2021 (2020 - 17%). 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.

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. At June 30, 2021 the Company had current financial assets of $1,211,771 (2020 - $732,471) available to settle current financial liabilities of $1,167,532 (2020 - $1,002,533). 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 a bank operating loan that has a floating interest rate as well as currency risk related to accounts receivable, accounts payable, and nominal amounts of cash, prepaid expenses, and customer deposits denominated in US dollars. Market risks give rise to the potential for future cash flows to fluctuate because of changes in interest rates or foreign exchange rates. Market risks are closely monitored and attempts are made to match foreign cash inflows and outflows. During the current fiscal year, the Company has reported a foreign exchange gain of $5,043 (2020 – loss of $13,486).

15. Financial risk factors - continued

Sensitivity to market risks

At June 30, 2021 the Company had:

- A bank operating loan that had not been drawn upon (June 30, 2020 - $Nil) which bears interest predicated upon the TD Bank prime lending rate. Based upon the current amount due on the operating loan, a 1% increase in the TD Bank prime lending rate would have no impact upon interest expense – other over the next 12 month period.
- US$175,397 (June 30, 2020 – US$61,399) 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 $8,770 in future cash inflow.
- US$103,251 (June 30, 114,337 –US$114,337) 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 $5,163 in future cash outflow.

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

16. COVID-19

On January 30, 2020 the World Health Organization (WHO) declared COVID-19 a global health emergency and on March 11, 2020 they declared it a pandemic. These WHO declarations were soon followed by announcements of numerous restrictions by domestic and international governments affecting the way people could interact and how business was conducted. Many of these restrictions remain in place as of the financial reporting date.

As a contract manufacturer, the Company met the Ontario definition of an essential business thus allowing it to continue operations. The Company encouraged certain personnel to work from home and took steps to facilitate physical distancing and other safety measures for those for whom working from home was not feasible. To the date of the approval of these unaudited condensed consolidated financial statements, the Company, including its subsidiaries and investee company, have operated free of positive tests for COVID-19.

The health and safety of our personnel is our top priority however continuing to operate free of COVID-19 infections does not ensure that there will be no related implications to the business. The present and future economic effects of COVID-19 cannot be accurately predicted at this time. This includes the potential impact the pandemic may have on the Company's suppliers and customers as well as the market risks described in note 14. Although these potential effects cannot be quantified, the Company anticipates that COVID-19 could have an adverse impact on its business, results of operations, financial position and cash flows throughout 2021.

To help mitigate the uncertainty created by COVID-19, the Company has availed itself of subsidies made available to it by the Canadian Federal government. The Company obtained subsidy under the Canada Emergency Business Account (CEBA), the Canada Emergency Wage Subsidy (CEWS), and the Canada Emergency Rent Subsidy (CERS). During the year, the Company obtained CEBA benefit in the form of a $20,000 loan expansion *(note 9)* which is interest free, and requires no repayment prior to December 31, 2022. Also during the year, the Company obtained CERS benefits of $23,386 which has been applied to reduce Occupancy costs *(note 12)* and CEWS benefit during the year in the amount of $222,388 which has been applied to reduce Labour costs *(note 4)* and Employee and consultant compensation *(note 12)*. The Company will continue to monitor all government subsidies and will make application wherever it satisfies the eligibility criteria.