ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Financial Statements

December 31, 2020

(Stated in Canadian Dollars)

<u>Notice To Reader</u>

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the unaudited condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on February 25, 2021. They have not been reviewed by the Company's auditors.

The accompanying unaudited condensed interim consolidated financial statements have been prepared by, and are the responsibility of, management. These condensed interim consolidated financial statements are presented on the accrual basis of accounting and accordingly, a precise determination of many assets and liabilities is dependent upon future events. Where necessary, management has made informed judgments and estimates in accounting for these assets and liabilities and for transactions which were not complete at the end of the reporting period. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these unaudited condensed interim consolidated financial statements have been fairly presented.

Unaudited Condensed Interim Consolidated Statements of Financial Position
(Stated in Canadian Dollars)
December 31, 2020

	Dec. 31 2020	June 30 2020
Assets		
Current assets		
Cash	$ 403,780	$ 220,403
Accounts receivable	459,986	512,068
Inventories *(note 3)*	673,688	732,961
Prepaid expenses	4,880	18,781
	1,542,334	1,484,213
Equipment *(note 4)*	189,597	210,918
Right-of-use asset *(note 5)*	60,699	112,099
Investments *(note 6)*	2	1
	$ 1,792,632	$ 1,807,231
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities *(note 11)*	$ 824,053	$ 898,237
Customer deposits	25,000	25,000
Current portion of lease liability *(note 8)*	26,809	79,296
	875,862	1,002,533
Long-term debt *(note 9)*	60,000	40,000
	935,862	1,042,533
Shareholders' equity		
Share capital *(note 10)*	23,658,086	23,613,546
Warrants *(note 10)*	150,668	217,665
Contributed surplus *(note 10)*	1,593,525	1,538,667
Deficit	(24,545,509)	(24,605,180)
	856,770	764,698
	$ 1,792,632	$ 1,807,231

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

Approved by the Board:

Signed: "Steve Smith"

Director

Signed: "K. Michael Guerreiro"

Director

Unaudited Condensed Interim Consolidated Statements of Changes in Equity
(Stated in Canadian Dollars)
December 31, 2020

	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
Net loss for the period	-	-	-	(282,745)	(282,745)
Balance, December 31, 2019	23,394,174	182,956	1,533,373	(24,069,188)	1,041,315
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 period	-	-	-	(535,992)	(535,992)
Balance, June 30, 2020	23,613,546	217,665	1,538,667	(24,605,180)	764,698
Preferred shares issued	1	-	-	-	1
Warrants exercised	44,539	(12,139)	-	-	32,400
Warrants expired	-	(54,858)	54,858	-	-
Net income for the period	-	-	-	59,671	59,671
Balance, December 31, 2020	**$ 23,658,086**	**$ 150,668**	**$ 1,593,525**	**$ (24,545,509)**	**$ 856,770**

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

Unaudited Condensed Interim Consolidated Statements of Comprehensive Income (Loss)
(Stated in Canadian Dollars)
December 31, 2020

	Three months ended		Six months ended	
	2020	2019	**2020**	2019
Product sales	**$ 873,206**	$ 828,703	**$ 1,926,707**	$ 1,709,406
Cost of product sales *(note 3)*	**594,600**	622,683	**1,291,173**	1,236,516
	278,606	206,020	**635,534**	472,890
Expenses				
Selling, general and administrative *(note 12)*	**302,346**	344,295	**576,120**	699,189
Interest expense - long term	**-**	-	**-**	5
Interest expense - lease liability *(note 8)*	**506**	1,967	**1,384**	4,286
Interest expense - other	**162**	1,953	**324**	3,381
Finance fees *(note 11)*	**-**	3,652	**-**	7,121
Depreciation of equipment	**1,089**	1,121	**2,178**	2,242
Foreign exchange (gain) loss	**(3,282)**	1,286	**(4,143)**	3,149
	300,821	354,274	**575,863**	719,373
Income (loss) before other income and provisions, and income taxes	**(22,215)**	(148,254)	**59,671**	(246,483)
Other income and provisions				
Miscellaneous income	**-**	2	**-**	4
Equity in loss of Conversance Inc. *(note 6)*	**-**	(13,851)	**-**	(36,266)
	-	(13,849)	**-**	(36,262)
Income (loss) before income taxes	**(22,215)**	(162,103)	**59,671**	(282,745)
Provision for income taxes *(note 13)*	**-**	-	**-**	-
Comprehensive income (loss) for the period	**$ (22,215)**	$ (162,103)	**$ 59,671**	$ (282,745)
Comprehensive income (loss) per share				
Basic	**$ (0.00)**	$ (0.01)	**$ 0.00**	$ (0.01)
Fully diluted	**$ (0.00)**	$ (0.01)	**$ 0.00**	$ (0.01)
Weighted average shares outstanding				
Basic	**23,006,479**	21,103,696	**22,941,587**	21,103,696
Fully diluted	**23,006,479**	21,103,696	**25,477,692**	21,103,696

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

Unaudited Condensed Interim Consolidated Statements of Cash Flows
(Stated in Canadian Dollars)
December 31, 2020

	Three months ended 2020	Three months ended 2019	Six months ended 2020	Six months ended 2019
Cash flow from operating activities				
Net income (loss) for the period	**$ (22,215)**	$ (162,103)	**$ 59,671**	$ (282,745)
Items not involving cash				
Depreciation of equipment	**10,661**	13,013	**21,321**	25,969
Depreciation of right of use assets	**25,700**	25,699	**51,400**	51,399
Imputed interest on lease liability	**506**	1,967	**1,384**	4,286
Equity in loss of Conversance Inc.	**-**	13,851	**-**	36,266
Changes in non-cash working capital items:				
Accounts receivable	**(18,033)**	15,344	**52,082**	256,943
Inventories	**1,490**	86,360	**59,273**	(4,409)
Prepaid expenses	**222**	(10,724)	**13,901**	(9,299)
Accounts payable and accrued liabilities	**(52,493)**	(47,844)	**(74,184)**	(63,981)
Customer deposits	**-**	(24,126)	**-**	15,444
	(54,162)	(88,563)	**184,848**	29,873
Cash flow from investing activities				
Purchase of equipment	**-**	-	**-**	(2,770)
Cash flow from financing activities				
Proceeds of bank operating loan, net	**-**	65,000	**-**	(10,000)
Proceeds of long-term debt	**20,000**	-	**20,000**	-
Repayment of long-term debt	**-**	-	**-**	(3,291)
Repayment of lease liability	**(26,936)**	(26,935)	**(53,871)**	(53,871)
Issuance of common shares	**32,400**	-	**32,400**	-
	25,464	38,065	**(1,471)**	(67,162)
(Decrease) increase in cash	**(28,698)**	(50,498)	**183,377**	(40,059)
Cash, beginning of period	**432,478**	77,067	**220,403**	66,628
Cash, end of period	**$ 403,780**	$ 26,569	**$ 403,780**	$ 26,569

Supplemental Disclosure of Cash Flow Information:

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

	Three months ended 2020	Three months ended 2019	Six months ended 2020	Six months ended 2019
Cash paid for interest	**$ 162**	$ 1,953	**$ 324**	$ 3,397
Cash paid for income taxes	**$ -**	$ -	**$ -**	$ -

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

(Stated in Canadian Dollars)

1. Business of the Company

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

2. Significant Accounting Policies

Statement of compliance
The Company has prepared these unaudited condensed interim financial statements in accordance with IAS 34, *Interim Financial Reporting*, employing all of the same accounting policies and methods of computation as disclosed in the annual financial statements as at June 30, 2020.

The notes to these unaudited condensed interim consolidated financial statements are intended to provide a description of events and transactions that are significant to an understanding of the changes in the Companyôs financial position and performance since June 30, 2020. Certain disclosures that appear in the annual financial statements have not been reproduced in these unaudited condensed interim consolidated financial statements and, in this regard only, these unaudited condensed interim financial statements do not conform in all respects to the requirements of IFRS for annual consolidated financial statements. Accordingly, these unaudited condensed interim consolidated financial statements should only be read in conjunction with the annual financial statements as at June 30, 2020.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on February 25, 2021.

Basis of presentation and going concern considerations
These unaudited condensed interim 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 ñgoing concernò. 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 unaudited condensed interim 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 unaudited condensed interim consolidated financial statements include the accounts of the Company as well as the following subsidiaries' assets and liabilities and the revenues and expenses arising, subsequent to the date of acquisition:

Permatech Electronics Corporation (ñPECò)	- 100%	owned
Twenty49 Ltd	- 100%	owned (inactive)
Northern Cross Minerals Inc.	- 66.7%	owned (inactive)

Significant accounting judgments and estimates
The preparation of these unaudited condensed interim 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 unaudited condensed interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the unaudited condensed interim 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.

(Stated in Canadian Dollars)

2. Significant Accounting Policies - continued

Financial instruments
The Companyôs financial instruments are comprised of the following:

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

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

Amortized cost ï 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. The Company has assessed the assets of all its operating entities and has determined that there is no impairment of its non-financial assets.

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 Companyôs 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 inventory is comprised of:

	Dec. 31 2020	June 30 2020
Raw materials and supplies [(1)]	**$ 616,625**	$ 684,648
Work in process	**32,491**	29,511
Finished goods	**24,572**	18,802
	$ 673,688	$ 732,961

(1) The raw materials and supplies inventory is presented net of provisions for obsolete and/or slow moving items in the amount of $25,693 (June 2020 - $28,527).

(Stated in Canadian Dollars)

3. Inventories - continued

Inventory utilization during the period was as follows:

		Dec. 31 2020		Dec. 31 2019
Raw materials and supplies used	**$**	**934,046**	$	810,906
Labour costs *(note 16)*		**294,930**		373,384
Depreciation		**19,142**		23,727
Other costs		**51,805**		58,617
Net change in finished goods and work in process		**(8,750)**		(30,118)
Cost of product sales	**$**	**1,291,173**	$	1,236,516

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		-		-		2,770		-		2,770
Balance, Dec. 31, 2019		185,048		71,277		2,597,014		84,143		2,937,482
Additions		1,370		-		-		-		-
Balance, June 30, 2020		186,418		71,277		2,597,014		84,143		2,938,852
Additions		-		-		-		-		-
Balance, Dec. 31, 2020	**$**	**186,418**	**$**	**71,277**	**$**	**2,597,014**	**$**	**84,143**	**$**	**2,938,852**
Accumulated Depreciation:										
Balance, June 30, 2019	$	(178,902)	$	(70,242)	$	(2,357,490)	$	(69,102)	$	(2,675,736)
Depreciation		(923)		(103)		(23,786)		(1,157)		(25,969)
Balance, Dec. 31, 2019		(179,825)		(70,345)		(2,381,276)		(70,259)		(2,701,705)
Depreciation		(1,127)		(104)		(23,841)		(1,157)		(26,229)
Balance, June 30, 2020		(180,952)		(70,449)		(2,405,117)		(71,416)		(2,727,934)
Depreciation		(820)		(83)		(19,261)		(1,157)		(21,321)
Balance, Dec. 31, 2020	**$**	**(181,772)**	**$**	**(70,532)**	**$**	**(2,424,378)**	**$**	**(72,573)**	**$**	**(2,749,255)**
Carrying Amounts:										
June 30, 2019	$	6,146	$	1,035	$	236,754	$	15,041	$	258,976
December 31, 2019	$	5,223	$	932	$	215,738	$	13,884	$	235,777
June 30, 2020	$	5,466	$	828	$	191,897	$	12,727	$	210,918
December 31, 2020	**$**	**4,646**	**$**	**745**	**$**	**172,636**	**$**	**11,570**	**$**	**189,597**

5. Right of use asset

The Company occupies its operating facility under a lease that expires March 2021. The right-of-use asset associated with this lease was initially 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 right-of-use asset is measured using the cost model where cost is reduced by any accumulated depreciation and any accumulated impairment losses and is adjusted for any remeasurement of the lease liability. Depreciation is calculated on a straight-line basis over the remaining term of the lease 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.

(Stated in Canadian Dollars)

5. Right of use asset - continued

Cost recognized upon adoption of IFRS 16	$	214,897
Depreciation recorded as an element of occupancy costs		(51,399)
Balance at December 31, 2019		163,498
Depreciation recorded as an element of occupancy costs		(51,399)
Balance at June 30, 2020		112,099
Depreciation recorded as an element of occupancy costs		(51,400)
Balance at December 31, 2020	$	60,699

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 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.

		Dec. 31 2020		June 30 2020
296,250 Class A common shares, representing a 25.29% interest	**$**	**1,129,762**	$	1,129,762
25,000 Class A common shares [(1)]		**1**		-
Equity in post-acquisition loss		**(152,109)**		(152,109)
Impairment provision		**(977,652)**		(977,652)
Aggregate investment	**$**	**2**	$	1

(1) In September 2020, 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 will be automatically converted to common shares of ZTEST if, and only if, Conversance completes an armǿs length financing through which it issues at least 130,139 Class A common shares from treasury, at a price of at least $10.00 per Class A common share, by June 30, 2021. If such a financing is not completed then the ZTEST Series 1 shares will be redeemed for an aggregate price of $1 and the 25,000 Class A common shares of Conversance Inc. will be returned to the majority shareholder. If such a financing does proceed then 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 the financing. As an additional element of this transaction, ZTEST was 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, until December 31, 2022.

7. Bank operating loan

The Company has a line of credit, which was not drawn upon as at December 31, 2020 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 expires March 2021. A refundable deposit of $35,000 was paid at the inception of the lease. The lease liability was initially recorded at the present value of the remaining lease payments, discounted using the Companyҩs incremental borrowing rate, which was determined to be 5.7%. The lease liability has been subsequently reduced by the lease payments paid and interest, imputed at the discount rate, was added to the obligation as follows:

Present value of lease payments remaining upon adoption of IFRS 16	$	179,897
Lease payments paid during period		(53,871)
Interest imputed at 5.7%		4,286
Balance at December 31, 2019		130,312
Lease payments paid during period		(53,871)
Interest imputed at 5.7%		2,855
Balance at June 30, 2020		79,296
Lease payments paid during period		(53,871)
Interest imputed at 5.7%		1,384
Balance at December 31, 2020	$	26,809
Less current portion		(26,809)
	$	-

The Company has negotiated a new extension to this lease which establishes the monthly lease payments required from April 2021 to March 2026.

9. Long-Term Debt

		Dec. 31 2020		June 30 2020
Canadian Emergency Business Account (CEBA), non-interest bearing with no payments required until December 31, 2022, then 5% per annum, payable monthly until maturity December 31, 2025. 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
Less: current portion		**-**		-
	$	**60,000**	$	40,000

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 are subject to a triggering event, and a determination date not to exceed June 30, 2021. If the triggering event occurs, on or before June 30, 2021, then these shares will be automatically converted into 1,250,000 common shares, otherwise they will be redeemed for the aggregate redemption price of $1. The triggering event *(note 6)* is the completion, by Conversance Inc., of an armҩs length financing whereby it issues at least 130,139 Class A shares from treasury, representing at least 10% of the outstanding capital of Conversance after giving effect to the financing, at a price of at least $10 per share.

(Stated in Canadian Dollars)

10. Share Capital - continued

Issued

	Dec. 31 2020	June 30 2020
Common shares	$ **23,658,085**	$ 23,613,546
Convertible Preferred Shares Series 1	**1**	-
Share capital	$ **23,658,086**	$ 23,613,546

Common shares	**Number of Shares** [1]	**Amount**
Balance June 30, 2019 and December 31, 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	540,000	44,539
Balance December 31, 2020	23,416,696	$ **23,658,085**

Convertible Preferred Shares Series 1	**Number of Shares**	**Amount**
Balance June 30, 2019, December 31, 2019, and June 30, 2020	-	$ -
Shares issued to acquire investment in Conversance Inc. *(note 6)*	1,250,000	1
Balance December 31, 2020	1,250,000	$ **1**

(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 findersô 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 and December 31, 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	(540,000)	(12,139)
Warrants expired	(405,400)	(54,858)
Balance December 31, 2020	3,433,000	$ **150,668**

(Stated in Canadian Dollars)

10. Share Capital - continued

Details of warrants outstanding - continued:

	Number of Warrants		Exercise Price	Expiry Date
Issued Dec. 15, 2016	2,360,000	$	0.06	Dec. 15, 2021
Issued Jan. 30, 2018 (1)	312,500	$	0.40	Jan. 31, 2021
Issued Feb. 28, 2020 (2)	750,000	$	0.25	Feb. 28, 2021
Issued Feb. 28, 2020 (3)	10,500	$	0.15	Feb. 28, 2021

(1) These warrants expired subsequent to the financial reporting date.
(2) 600,000 of these warrants were exercised subsequent to the financial reporting date.
(3) These warrants were exercised subsequent to the financial reporting date.

	Number of Warrants		Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning of period	4,378,400	$	0.15	Aug. 30, 2021
Warrants exercised during the period	(540,000)	$	0.06	Dec. 15, 2021
Warrants expired during the period	(405,400)	$	0.40	Dec. 22, 2020
End of period	3,433,000	$	0.13	Sep. 12, 2021

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

	Dec. 31 2020	June 30 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	Number of Options Vested		Exercise Price	Expiry Date
Granted Mar. 3, 2016	400,000 (1, 2)	400,000	$	0.05	Mar. 3, 2021
Granted January 12, 2018	350,000 (1)	550,000	$	0.95	Jan. 12, 2023

(1) Directors and/or Officers of the Company hold these options.
(2) 200,000 options were exercised subsequent to the financial reporting date.

	Common Shares Under Option		Weighted Average Price per Option	Weighted Average Expiry Date
Balance, beginning of the period	1,000,000	$	0.55	Sep. 2, 2021
Expired during the period	(250,000)	$	0.79	Jul. 26, 2020
Balance, end of the period	750,000	$	0.47	Jan. 14, 2022

No stock options were granted during the period ended December 31, 2020 or during the year ended 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:

(Stated in Canadian Dollars)

10. Share Capital - continued

Share based payment transactions and contributed surplus - continued:

		Dec. 31 2020		June 30 2020
Contributed surplus, beginning of period	**$**	**1,538,667**	$	1,533,373
Warrants expired		**-**		5,294
Contributed surplus, end of period	**$**	**1,542,349**	$	1,538,667

11. Related Party Transactions and Balances

The Company had transactions during the periods presented 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.

		Dec. 31 2020		Dec. 31 2019
Employee and consultant compensation *(note 12)*	**$**	**160,189**	$	230,557
Professional fees *(note 12)*		**33,374**		21,485
Finance fees		**-**		7,116
	$	**193,563**	$	259,158
Stock-based compensation	**$**	**-**	$	-

As at December 31, 2020 $452,052 (June 30, 2020 - $359,210) 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:

		Dec. 31 2020		Dec. 31 2019
Employee and consultant compensation *(notes 11 and 16)*	**$**	**344,759**	$	481,076
Occupancy costs *(notes 5 and 16)*		**126,079**		138,518
Professional fees *(note 11)*		**48,999**		34,595
Shareholder services		**15,517**		6,749
Insurance		**17,053**		16,144
Other		**23,713**		22,110
	$	**576,120**	$	699,189

(Stated in Canadian Dollars)

13. Income Taxes

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

		Dec. 31 2020		Dec. 31 2019
Deferred tax assets:				
Non-capital losses carried forward	$	**719**	$	5,864
Deferred tax liabilities:				
Temporary timing differences		**(719)**		(5,864)
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:

		Dec. 31 2020		June 30 2020
Inventory	**$**	**25,693**	**$**	28,527
Share issuance costs		**41,876**		41,876
Property, plant and equipment		**39,548**		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		**2,189,106**		1,921,405
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 from 2027-2040. 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.

14. Capital disclosures

The Companyȇs 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.

		Dec. 31 2020		June 30 2020
Long-term debt	**$**	**60,000**	$	40,000
Share Capital		**23,658,086**		23,613,546
Warrants		**150,668**		217,665
Contributed surplus		**1,593,525**		1,538,667
Deficit		**(24,545,509)**		(24,605,180)
Net capital under management	**$**	**916,770**	$	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 Companyôs primary exposure to credit risk is in its accounts receivable. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. It has been determined that no allowance is required, as all amounts outstanding are considered collectible. The Company incurred no bad debts during the periods ended December 31, 2020 or December 31, 2019**.**

Concentration of credit risk
Concentration of credit risk arises when one or more customers individually account for 10% or more of the Companyôs revenues during a reporting period. The Company had 2 customers during the current period, representing 22% and 15% of revenues (Dec. 31, 2019 - 3 customers, 16%, 15% and 13% of revenues). Amounts due from these customers represented 35% of accounts receivable at December 31, 2020 (Dec. 31, 2019 - 50%). The loss of, or significant curtailment of purchases by, such a 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 December 31, 2020 the Company had current financial assets of $863,766 (June 30, 2020 - $732,471) available to settle current financial liabilities of $875,862 (June 30, 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 Companyôs 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, customer deposits, 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 period the Company reported a foreign exchange gain in the amount of $4,143 (Dec. 2019 ï loss of $3,149).

Sensitivity to market risks
At December 31, 2020, 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, as at the financial reporting date, would result in no additional interest expense over the next 12 month period.
- US$45,515 (June 30, 2020 ï 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 $2,275 in future cash inflow.
- US$86,242 (June 30, 2020 ï 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 $4,312 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 positive 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 Companyȿs suppliers and customers as well as the market risks described in note 15. Although these potential effects cannot be quantified, the Company anticipates that COVID-19 could have an adverse impact on its future business, results of operations, financial position and cash flows.

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. During the period, the Company obtained CEBA benefits of $20,000 *(note 9),* CERS benefits of $6,077 which have been applied to reduce occupancy costs *(note 12)*, and CEWS benefit in the amount of $129,875 which has been applied to reduce labour costs *(note 3)* 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.