

ZTEST Electronics Inc.

Consolidated Financial Statements

June 30, 2020 and 2019

(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, 2020 and 2019, 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, 2020 and 2019, 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

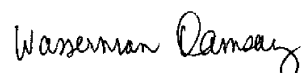
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not 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 26, 2020

Chartered Professional Accountants
Licensed Public Accountants

ZTEST Electronics Inc.

Consolidated Statements of Financial Position

(Stated in Canadian Dollars)

June 30, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash	\$ 220,403	\$ 66,628
Accounts receivable	512,068	591,575
Inventories (note 4)	732,961	636,894
Prepaid expenses	18,781	7,960
	1,484,213	1,303,057
Equipment (note 5)	210,918	258,976
Right-of-use asset (note 3)	112,099	-
Investments (note 6)	1	737,640
Lease deposit (note 3)	-	35,000
	\$ 1,807,231	\$ 2,334,673
Liabilities		
Current liabilities		
Bank operating loan (note 7)	\$ -	\$ 150,000
Accounts payable and accrued liabilities (note 10)	898,237	857,322
Customer deposits	25,000	-
Current portion of lease liability (note 3)	79,296	-
Current portion of long-term debt (note 8)	-	3,291
	1,002,533	1,010,613
Long-term debt (note 8)	40,000	-
	1,042,533	1,010,613
Shareholders' Equity		
Share capital (note 9)	23,613,546	23,394,174
Warrants (note 9)	217,665	182,956
Contributed surplus (note 9)	1,538,667	1,533,373
Deficit	(24,605,180)	(23,786,443)
	764,698	1,324,060
	\$ 1,807,231	\$ 2,334,673

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, 2020

	Share Capital	Warrants	Contributed, Surplus	Deficit	Total
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
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

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, 2020 and 2019

	2020	2019
Product sales	\$ 3,888,898	\$ 4,399,062
Cost of product sales (note 4)	2,660,103	3,182,586
	1,228,795	1,216,476
Expenses		
Selling, general and administrative (note 11)	1,262,788	1,450,077
Interest expense - long-term debt	5	1,260
Interest expense - lease liability (note 3)	7,141	-
Interest expense - other	5,608	10,254
Financing fees (note 10)	16,181	19,283
Depreciation of equipment	4,688	4,938
Foreign exchange loss	13,486	4,749
	1,309,897	1,490,561
Loss before other income and provisions, and income taxes	(81,102)	(274,085)
Other income and provisions		
Interest income	4	9
Equity in loss of Conversance Inc. (note 6)	(54,549)	(70,110)
Provision for impairment of Conversance Inc. (note 6)	(683,090)	-
	(737,635)	(70,101)
Loss before provision for income taxes	(818,737)	(344,186)
Provision for income taxes (note 12)	-	-
Net loss and comprehensive loss for the year	\$ (818,737)	\$ (344,186)
Net loss per share		
Basic	\$ (0.04)	\$ (0.02)
Fully diluted	\$ (0.04)	\$ (0.02)
Weighted average shares outstanding		
Basic	21,704,385	20,632,025
Fully diluted	21,704,385	20,632,025

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, 2020 and 2019

	2020	2019
Cash flow from operating activities		
Net loss for the year	\$ (818,737)	\$ (344,186)
Items not involving cash		
Depreciation of equipment	52,198	63,978
Depreciation of right of use asset	102,798	-
Imputed interest on lease liability	7,141	-
Equity in loss of Conversance Inc.	54,549	70,110
Provision for impairment of Conversance Inc.	683,090	-
	81,039	(210,098)
Changes in non-cash working capital items		
Accounts receivable	79,507	(111,954)
Inventories	(96,067)	(73,657)
Prepaid expenses	(10,821)	11,542
Customer deposits	25,000	(36,895)
Accounts payable and accrued liabilities	194,365	310,477
	273,023	(110,585)
Cash flow from investing activities		
Purchase of equipment	(4,140)	(1,942)
Cash flow from financing activities		
(Repayment) proceeds from bank operating loan, net	(150,000)	40,000
Proceeds of long-term debt	40,000	-
Repayment of long-term debt	(3,291)	(39,493)
Repayment of lease obligation	(107,742)	-
Proceeds from share issuances	105,925	226,022
	(115,108)	226,529
Increase in cash	153,775	114,002
Cash (deficiency), beginning of year	66,628	(47,374)
Cash, end of year	\$ 220,403	\$ 66,628

Supplemental Disclosure of Cash Flow Information:

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

Interest	\$ 5,624	\$ 11,590
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, 2020 and 2019

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 26, 2020.

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.

Financial instruments

The Company’s financial instruments are comprised of the following:

<u>Financial assets:</u>	<u>Classification</u>
Cash	Amortized cost
Accounts receivable	Amortized cost

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2020 and 2019

2. Significant Accounting Policies - continued

Financial instruments - continued

<u>Financial liabilities:</u>	<u>Classification</u>
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 – 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.

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2020 and 2019

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 yrs	straight-line

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

Revenue recognition

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

Share based payment transactions

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

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.

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2020 and 2019

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.

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.

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 typically change only when there is a change in IFRS. Effective July 1, 2019 the Company adopted IFRS 16, Leases which eliminates the classification of leases as either operating leases or finance leases and provides a single lessee accounting model, specifying how leases are recognized, measured, presented, and disclosed.

The Company occupies its operating facility under a lease that, requires monthly lease payments of \$8,979 until expiry March 2021. A refundable deposit of \$35,000 was paid at the inception of the lease. This lease was previously classified as an operating lease in accordance with IAS 17, with the lease deposit reported as an asset, lease payments charged to net income as occupancy costs, and disclosure of the remaining lease payments as a commitment. The Company adopted IFRS 16 using the modified retrospective approach where comparative amounts are not restated.

Upon adoption of IFRS 16, the Company recognized a lease liability and a right-of-use asset. The lease liability was initially recorded at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate which was determined to be prime plus 1.75% or 5.7%. The lease liability was subsequently reduced by the lease payments paid and interest, imputed at the discount rate, was added to the obligation. The right-of-use asset was initially recorded at cost, determined to be equal to the present value of the remaining lease payments plus the 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. There have been no impairment losses and no remeasurement of the lease liability.

Right-of-use asset

Cost recognized upon adoption of IFRS 16	\$ 214,897
Depreciation recorded as an element of occupancy costs (<i>note 11</i>)	(102,798)
Balance at June 30, 2020	\$ 112,099

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2020 and 2019

3. Changes in Accounting Policies - continued

Lease liability

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
Less current portion		(79,296)
Balance at June 30, 2020	\$	-

4 Inventories

The carrying value of inventories is comprised of:

	2020	2019
Raw materials and supplies ⁽¹⁾	\$ 684,648	\$ 609,921
Work in process	29,511	22,615
Finished goods	18,802	4,358
	<u>\$ 732,961</u>	<u>\$ 636,894</u>

⁽¹⁾ Raw materials and supplies is presented net of provisions for obsolete and/or slow-moving items in the amount of \$28,527 (2019 - \$25,413). 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:

	2020	2019
Raw materials and supplies used	\$ 1,868,875	\$ 2,136,502
Labour costs (note 15)	647,450	800,911
Shipping costs	60,750	79,051
Depreciation	47,509	59,040
Repairs and maintenance	24,765	51,748
Stencils and tooling	22,095	31,182
Packaging costs	10,000	17,080
Net change in finished goods and work in process	(21,341)	7,072
Cost of product sales	<u>\$ 2,660,103</u>	<u>\$ 3,182,586</u>

5. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Cost:					
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
Additions	1,370	-	2,770	-	4,140
Balance, June 30, 2020	<u>\$ 186,418</u>	<u>\$ 71,277</u>	<u>\$ 2,597,014</u>	<u>\$ 84,143</u>	<u>\$ 2,938,852</u>

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2020 and 2019

5. Equipment - continued

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Accumulated Depreciation:					
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)
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)
Carrying Amounts:					
June 30, 2019	\$ 6,146	\$ 1,035	\$ 236,754	\$ 15,041	\$ 258,976
June 30, 2020	\$ 5,466	\$ 828	\$ 191,897	\$ 12,727	\$ 210,918

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, makes it infeasible for the Company to ascertain the value of Conversance Inc. as a going concern as at June 30, 2020. Accordingly, the carrying value of the investment has been reduced to \$1.

	2020	2019
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 (2019 – 25.29%)	1,129,762	1,129,762
Impairment provision	(977,652)	(294,562)
Equity in post-acquisition loss	(152,109)	(97,560)
Aggregate investment	\$ 1	\$ 737,640

Subsequent to June 30, 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 arm's 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.

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2020 and 2019

7. Bank operating loan

	2020	2019
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)

8. Long-Term Debt

	2020	2019
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 \$10,000 as at December 31, 2022 the remaining balance of the loan will be forgiven.	\$ 40,000	\$ -
Term loan bearing interest at the TD Bank prime lending rate plus 1.75% matured July 2019.	-	3,291
	40,000	3,291
Less: Current portion	-	3,291
	\$ 40,000	\$ -
The minimum annual future principal repayments are as follows:		
2020		\$ -
Remaining		40,000
		\$ 40,000

9. Share Capital

Authorized:

Unlimited Common shares

Unlimited Preferred shares in one or more series.

Issued:

	2020	2019
Common shares	\$ 23,613,546	\$ 23,394,174
Common shares:	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 ⁽²⁾	780,000	150,871
Balance June 30, 2019	21,103,696	\$ 23,394,174
Shares issued in settlement of debt ⁽³⁾	1,023,000	153,450
Private placement ⁽⁴⁾	750,000	65,922
Balance June 30, 2020	22,876,696	\$ 23,613,546

⁽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.

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2020 and 2019

9. Share Capital - continued

- (2) The Company completed a private placement, 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 entitled the holder to acquire one additional common share of the Company at a price of \$0.40 until eighteen months following the closing date however this expiry date was extended until December 28, 2020. The Company paid 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.
- (3) 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 (*note 10*).
- (4) 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, 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
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

	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	\$ 0.40	Jan. 31, 2021
Issued Dec. 28, 2018 ⁽²⁾	220,000	\$ 0.40	Dec. 28, 2020
Issued Jan. 31, 2019 ⁽²⁾	170,000	\$ 0.40	Dec. 28, 2020
Issued Jan. 31, 2019 ⁽³⁾	15,400	\$ 0.30	July 31, 2020
Issued Feb. 28, 2020	750,000	\$ 0.25	Feb. 28, 2021
Issued Feb. 28, 2020	10,500	\$ 0.15	Feb. 28, 2021

(1) These warrants will expire on the earlier of January 31, 2021, and the date that is thirty seven days after the tenth consecutive trading day for which the closing price for the Company's shares is at least \$0.40.

(2) During the reporting period the Company obtained regulatory approval for the expiry date of these warrants to be extended to December 28, 2020.

(3) These warrants were not exercised and therefor expired July 31, 2020.

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2020 and 2019

9. Share Capital - continued

Details of warrants outstanding - continued:

	Number of Warrants	Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning of year	3,641,700	\$ 0.19	Aug. 16, 2021
Warrants issued during the year	760,500	\$ 0.25	Feb. 28, 2021
Warrants expired during the year	(23,800)	\$ 0.30	Jun. 28, 2020
Warrants altered during the year	(702,500)	\$ 0.71	Apr. 30, 2020
Warrants altered during the year	702,500	\$ 0.40	Jan. 12, 2021
End of year	4,378,400	\$ 0.15	Aug. 30, 2021

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

	2020	2019
Dividend yield	Nil	Nil
Risk free interest rate (%)	1.27	1.76 – 1.84
Expected stock volatility (%)	119.88	116.25 – 116.52
Expected life (years)	1.0	1.5

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	50,000 ⁽²⁾	50,000	\$ 0.15	Aug. 31, 2020
Granted January 12, 2018	200,000 ⁽²⁾	200,000	\$ 0.95	Jul. 17, 2020
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 has been amended to be six months from the date of resignation of the former employee or former Director that holds them. None were exercised and therefore all expired as of the stated expiry dates.

	Common Shares Under Option	Weighted Average Price/Option	Weighted Average Expiry Date
Beginning of the year	1,200,000	\$ 0.52	Oct 12, 2021
Expired during the year	(200,000)	\$ 0.35	Jul. 9, 2019
Expiry date reduced during the year ⁽¹⁾	(250,000)	\$ 0.79	Oct 26, 2022
Expiry date reduced during the year	250,000	\$ 0.79	July 26, 2020
End of year	1,000,000	\$ 0.55	Sep. 2, 2021

⁽¹⁾ The expiry date has been amended to be six months from the date of resignation of the former employee or former Director that holds them. These options expired subsequent to the financial reporting date.

No stock options were granted during the years ended June 30, 2020 or June 30, 2019.

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:

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2020 and 2019

9. Share Capital - continued

Share based payment transactions and contributed surplus - continued:

	2020	2019
Contributed surplus, beginning of year	\$ 1,533,373	\$ 1,531,134
Stock options exercised	-	(12,426)
Warrants expired	5,294	14,665
Contributed surplus, end of year	\$ 1,538,667	\$ 1,533,373

10. 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 Permatech 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	2020	2019
Employee and consultant compensation	\$ 446,773	\$ 499,711
Professional fees	38,457	37,954
Finance fees	16,181	19,283
Professional fees classified as share issuance costs	5,000	10,318
	\$ 506,411	\$ 567,266
Stock-based compensation	\$ -	\$ -

During the year, \$153,450 owing to related parties was settled through the issuance of 1,023,000 common shares of the Company. As at June 30, 2020 \$359,210 (2019 - \$352,759) was payable to key management personnel and included in accounts payable and accrued liabilities.

11. Selling, general and administrative expenses

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

	2020	2019
Employee and consultant compensation (<i>notes 10 and 15</i>)	\$ 841,418	\$ 1,005,099
Occupancy costs (<i>note 3</i>)	266,277	260,270
Insurance	33,197	31,931
Professional fees (<i>note 10</i>)	64,067	66,979
Shareholder services	16,377	25,071
Other	41,452	60,727
	\$ 1,262,788	\$ 1,450,077

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

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June 30, 2020 and 2019

12. 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% (2019 – 26.50%) is as follows:

	2020	2019
Net loss before income taxes	\$ (818,737)	\$ (344,186)
Expected income tax recovery	\$ (216,965)	\$ (91,209)
Expenses not deductible for income tax purposes	195,474	18,910
Change in tax benefits not recognized	21,491	72,299
Income tax expense	\$ -	\$ -

Deferred Tax

The following table summarizes the components of deferred tax:

	2020	2019
Deferred tax assets:		
Non-capital losses carried forward	\$ 24,508	\$ 2,673
Deferred tax liabilities:		
Temporary timing differences	(24,508)	(2,673)
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:

	2020	2019
Inventory	\$ 28,527	\$ 25,413
Share issuance costs	41,876	53,378
Property, plant and equipment	39,429	46,409
Resource related expenditures	349,050	349,050
Scientific research and experimental development	1,050,618	1,050,618
Non-capital loss carry-forwards	1,921,405	2,068,522
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:

Year	
2027	\$ 35,599
2030	174,603
2031	577,958
2032	14,862
2033	76,561
Sub-total	\$ 879,583

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2020 and 2019

12. Income Taxes - continued

Tax Loss Carry-Forwards - continued

Year

Balance forward	\$	879,583
2034		125,170
2035		136,504
2036		69,013
2037		184,366
2038		294,158
2039		284,449
2040		246,498
	\$	2,219,741

13. Capital disclosures

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

	2020	2019
Long-term debt	\$ 40,000	\$ 3,291
Share capital	23,613,546	23,394,174
Warrants	217,665	182,956
Contributed surplus	1,538,667	1,533,373
Deficit	(24,605,180)	(23,786,443)
Net capital under management	\$ 804,698	\$ 1,327,351

14. Financial risk factors

The Company is exposed in varying degrees to the following financial instrument related risks:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is in its accounts receivable. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. It has been determined that no allowance is required, as all amounts outstanding are considered collectible. The Company incurred no bad debts during the years ended June 30, 2020 and June 30, 2019.

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 20% and 19% of total revenues. In the prior year two major customers accounted for 14% and 12% of total revenues. Amounts due from major customers represented 17% of accounts receivable at June 30, 2020 (2019 - 9%). 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, 2020 and 2019

14. 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, 2020 the Company had current financial assets of \$732,471 (2019 - \$591,575) available to settle current financial liabilities of \$1,002,533 (2019 - \$943,985). The Company manages its liquidity risk through the management of its capital (*note 13*) 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, 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 fiscal year, the Company has reported a foreign exchange loss of \$13,486 (2019 – loss of \$4,749).

Sensitivity to market risks

At June 30, 2020 the Company had:

- A bank operating loan that had not been drawn upon (June 30, 2019 - \$150,000) 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\$61,399 (June 30, 2019 – 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 \$3,070 in future cash inflow.
- US\$114,337 (June 30, 2019 –US\$155,987) 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 \$5,717 in future cash outflow.

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

15. COVID-19 and related subsequent events

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 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 in 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) and the Canada Emergency Wage Subsidy (CEWS). The Company obtained CEBA benefit in the form of a \$40,000 loan (*note 7*) which is interest free, and requires no repayment prior to December 31, 2022. The Company also obtained CEWS benefit during the year in the amount of \$164,535 which has been applied to reduce labour costs (*note 4*) and Employee and consultant compensation (*note 11*). The Company will continue to monitor all government subsidies and will make application wherever it satisfies the eligibility criteria.