

ZTEST Electronics Inc.
Unaudited Condensed Interim Consolidated Financial Statements
March 31, 2017
(Stated in Canadian Dollars)

Notice To Reader

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 May 23, 2017. 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.

ZTEST Electronics Inc.**Unaudited Condensed Interim Consolidated Statements of Financial Position**

(Stated in Canadian Dollars)

March 31, 2017

	Mar. 31 2017	June 30 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 103,317	\$ 293,643
Accounts receivable	606,976	526,752
Inventories (note 3)	480,707	375,266
Prepaid expenses	20,221	14,781
	1,211,221	1,210,442
Lease deposit (note 8)	35,000	35,000
Equipment (note 4)	413,871	463,256
Investments (note 5)	294,562	-
	\$ 1,954,654	\$ 1,708,698
Liabilities		
Current liabilities		
Bank operating loan (note 6)	\$ 35,000	\$ -
Accounts payable and accrued liabilities (note 10)	692,567	539,599
Current portion of long-term debt (note 7)	39,493	39,493
	767,060	579,092
Long-term debt (note 7)	52,656	82,276
	819,716	661,368
Commitment (note 8)		
Shareholders' equity		
Share capital (note 9)	22,382,537	22,151,406
Warrants (note 9)	105,376	4,219
Contributed surplus (note 9)	971,414	952,327
Deficit	(22,324,389)	(22,060,622)
	1,134,938	1,047,330
	\$ 1,954,654	\$ 1,708,698

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

Approved by the Board:

Signed: "John Perreault"

Director

Signed: "Wojciech Drzazga"

Director

ZTEST Electronics Inc.**Unaudited Condensed Interim Consolidated Statements of Changes in Equity**

(Stated in Canadian Dollars)

March 31, 2017

	Share Capital	Warrants	Contributed Surplus	Deficit	Total
Balance, June 30, 2015	22,151,406	\$ 80,896	\$ 835,845	\$ (22,018,069)	\$ 1,050,078
Share based payments	-	-	39,805	-	39,805
Expiration of warrants	-	(76,677)	76,677	-	-
Net income for the period	-	-	-	38,559	38,559
Balance, March 31, 2016	22,151,406	4,219	952,327	(21,979,510)	1,128,442
Net loss for the period	-	-	-	(81,112)	(81,112)
Balance, June 30, 2016	22,151,406	4,219	952,327	(22,060,622)	1,047,330
Stock options exercised	45,226	-	(20,226)	-	25,000
Private placement	116,343	101,157	-	-	217,500
Shares issued as consideration for investment	69,562	-	-	-	69,562
Share-based payments	-	-	39,313	-	39,313
Net loss for the period	-	-	-	(263,767)	(263,767)
Balance, March 31, 2017	\$ 22,382,537	\$ 105,376	\$ 971,414	\$ (22,324,389)	\$ 1,134,938

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

ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Statements of Comprehensive Income

(Stated in Canadian Dollars)

March 31, 2017

	Three months ended		Nine months ended	
	2017	2016	2017	2016
Product sales	\$ 1,099,568	\$ 1,094,232	\$ 2,596,071	\$ 3,197,935
Cost of product sales (note 3)	755,754	766,862	1,849,277	2,141,787
	343,814	327,370	746,794	1,056,148
Expenses				
Selling, general and administrative (note 11)	308,898	303,667	963,696	973,505
Share based payments (notes 9 and 11)	-	39,805	39,313	39,805
Interest expense - long term	1,048	1,544	3,544	4,902
Interest expense - other	226	136	503	441
Depreciation of equipment	1,476	1,693	4,346	3,374
Foreign exchange gain	(1,402)	(3,925)	(682)	(4,396)
	310,246	342,920	1,010,720	1,017,631
Income (loss) before interest income and provision for income taxes	33,568	(15,550)	(263,926)	38,517
Interest income	1	-	159	42
Income (loss) before provision for income taxes	33,569	(15,550)	(263,767)	38,559
Provision for income taxes	-	-	-	-
Comprehensive income (loss) for the period	\$ 33,569	\$ (15,550)	\$ (263,767)	\$ 38,559
Comprehensive income per share				
Basic	\$ 0.00	\$ (0.00)	\$ (0.02)	\$ 0.00
Fully diluted	\$ 0.00	\$ (0.00)	\$ (0.02)	\$ 0.00
Weighted average shares outstanding				
Basic	16,832,585	10,648,696	13,178,167	10,648,696
Fully diluted	17,902,339	10,648,696	13,178,167	10,648,696

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

ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Statements of Cash Flows

(Stated in Canadian Dollars)

March 31, 2017

	Three months ended		Nine months ended	
	2017	2016	2017	2016
Cash flow from operating activities				
Net income (loss) for the period	\$ 33,569	\$ (11,895)	\$ (263,767)	\$ 42,214
Items not involving cash				
Depreciation of equipment	23,425	24,485	70,164	83,191
Share based payments	-	39,805	39,313	39,805
Changes in non-cash working capital items:				
Accounts receivable	(285,269)	52,859	(80,224)	21,389
Inventories	(86,900)	(60,316)	(105,441)	(100,546)
Prepaid expenses	(3,333)	(7,797)	(5,440)	(8,732)
Customer deposits	(1,397)	(139,005)	-	(19,683)
Accounts payable and accrued liabilities	243,819	74,296	152,968	40,104
	(76,086)	(23,568)	(192,427)	97,742
Cash flow from investing activities				
Purchase of equipment	(697)	(25,535)	(20,779)	(30,259)
Acquisition of investment	-	-	(225,000)	-
	(697)	(25,535)	(245,779)	(30,259)
Cash flow from financing activities				
Proceeds of operating loan - net	35,000	-	35,000	-
Repayment of long-term debt	(9,874)	(9,873)	(29,620)	(29,620)
Issuance of common shares	5,000	-	242,500	-
	30,126	(9,873)	247,880	(29,620)
(Decrease) increase in cash and cash equivalents	(46,657)	(58,976)	(190,326)	37,863
Cash and cash equivalents, beginning of period	149,974	209,248	293,643	112,409
Cash and cash equivalents, end of period	\$ 103,317	\$ 150,272	\$ 103,317	\$ 150,272

Supplemental Disclosure of Cash Flow Information:

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

Cash paid for interest	\$ 1,546	\$ 1,672	\$ 4,358	\$ 5,416
Cash paid for income taxes	\$ -	\$ -	\$ -	\$ -

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

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2017

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 Venture Exchange 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, 2016.

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 to the changes in the Company's financial position and performance since June 30, 2016. 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 International Financial Reporting Standards (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, 2016.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 23, 2017.

Basis of presentation and going concern considerations

These unaudited condensed interim consolidated financial statements have been compiled by management on a historical cost basis using the accrual basis of accounting, except for cash flow information, and in accordance with IFRS as issued by the International Accounting Standards Board (IASB).

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 (PEC)	- 100% owned
Northern Cross Minerals Inc.	- 66.7% owned (inactive)

Changes in accounting policies

The Company's accounting policies will typically change only when there is a relevant change in IFRS. There were no changes in IFRS during the current period that were required to be adopted by the Company.

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 recoverability of inventory and the recognition and valuation of deferred tax amounts.

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

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2. Significant Accounting Policies - continued

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period.

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

Financial instruments recorded at fair value

Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of March 31, 2017, and June 30, 2016 cash and cash equivalents are measured at fair value and are classified within Level 1 of the fair value hierarchy.

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.

Cash equivalents

Cash equivalents consist of highly liquid short-term interest bearing securities with maturity at the date of purchase of three months or less. The Company held no cash equivalents as at March 31, 2017 or June 30, 2016.

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.

Accounting standards effective for future periods

IFRS 9, *Financial Instruments*: effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of the financial statements for their assessment of the amounts, timing and uncertainty of future cash flows.

IFRS 15, *Revenue from Contracts with Customers*: effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, replaces existing revenue standards and interpretations with a single standard and provides additional guidance on revenue recognition for contracts with customers.

Management anticipates that these standards will be adopted in the Company's financial statements for the year beginning July 1, 2018 and has not yet considered the potential impact of their adoption.

3. Inventories

The carrying value of inventory is comprised of:

	Mar. 31 2017	June 30 2016
Raw materials and supplies ⁽¹⁾	\$ 446,661	\$ 345,015
Work in process	17,803	10,685
Finished goods	16,243	10,566
	\$ 480,707	\$ 375,266

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

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3. Inventories - continued

⁽¹⁾ Raw materials and supplies is presented net of provisions for obsolete and/or slow moving items in the amount of \$17,581 (June 2016 - \$3,654).

Inventory utilization during the period was as follows:

	Mar. 31 2017	Mar. 31 2016
Raw materials and supplies used	\$ 1,197,128	\$ 1,424,074
Labour costs	499,866	554,433
Depreciation	65,818	79,816
Other costs	99,260	114,729
Net change in finished goods and work in process	(12,795)	(31,265)
Cost of product sales	\$ 1,849,277	\$ 2,141,787

4. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Cost:					
Balance, June 30, 2015	\$ 175,421	\$ 71,277	\$ 2,561,208	\$ 61,003	\$ 2,868,909
Additions	3,819	-	3,300	23,140	30,259
Balance, Mar. 31, 2016	179,240	71,277	2,564,508	84,143	2,899,168
Additions	1,465	-	2,582	-	4,047
Balance, June 30, 2016	180,705	71,277	2,567,090	84,143	2,903,215
Additions	698	-	20,082	-	20,780
Balance, Mar. 31, 2017	\$ 181,403	\$ 71,277	\$ 2,587,172	\$ 84,143	\$ 2,923,995
Accumulated Depreciation:					
Balance, June 30, 2015	\$ (168,548)	\$ (68,438)	\$ (2,030,332)	\$ (61,003)	\$ (2,328,321)
Depreciation	(1,966)	(613)	(80,033)	(579)	(83,191)
Balance, Mar. 31, 2016	(170,514)	(69,051)	(2,110,365)	(61,582)	(2,411,512)
Depreciation	(889)	(205)	(26,775)	(578)	(28,447)
Balance, June 30, 2016	(171,403)	(69,256)	(2,137,140)	(62,160)	(2,439,959)
Depreciation	(2,135)	(303)	(65,991)	(1,736)	(70,165)
Balance, Mar. 31, 2017	\$ (173,538)	\$ (69,559)	\$ (2,203,131)	\$ (63,896)	\$ (2,510,124)
Carrying Amounts:					
June 30, 2015	\$ 6,873	\$ 2,839	\$ 530,876	\$ -	\$ 540,588
Mar. 31, 2016	\$ 8,726	\$ 2,226	\$ 454,144	\$ 22,561	\$ 487,656
June 30, 2016	\$ 9,302	\$ 2,021	\$ 429,950	\$ 21,983	\$ 463,256
Mar. 31, 2017	\$ 7,865	\$ 1,718	\$ 384,041	\$ 20,247	\$ 413,871

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Notes to Unaudited Condensed Interim Consolidated Financial Statements

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March 31, 2017

5. Investments

Investments in non-controlling interests are recorded at fair value plus any directly attributable transaction costs.

	Mar. 31 2017	June 30 2016
155,000 founders' shares representing a 15.05% interest in Conversance Inc., a private Canadian technology company. The Company has the right to increase its interest to 19.91% by making a cash payment of \$140,000 and issuing 275,000 common shares on or before July 14, 2017 ⁽¹⁾ .	\$ 294,562	\$ -

During the period the Company paid \$210,000, issued 1,325,000 common shares at a value of \$0.0525 per share, and incurred costs of \$15,000 to acquire this investment. The Company also has the pre-emptive right to maintain its equity interest by participating in further funding of Conversance Inc. The shares of Conversance Inc. are subject to a hold period and, unless permitted under securities legislation, the shares may not be traded before the date that is four months and a day after the issuer becomes a reporting issuer in any province or territory.

⁽¹⁾ This option was initially granted until April 14, 2017 but was amended, without further compensation, to extend the expiration date to July 14, 2017.

6. Bank operating loan

	Mar. 31 2017	June 30 2016
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.	\$ 35,000	\$ -

7. Long-Term Debt

	Mar. 31 2017	June 30 2016
Term loan bearing interest at the TD Bank prime lending rate plus 1.75% matures July 2019. Monthly payments of \$3,291 plus interest are required until maturity.	\$ 92,149	\$ 121,769
Less: Current portion	39,493	39,493
	\$ 52,656	\$ 82,276
The minimum annual future principal repayments are as follows:		
2018		\$ 39,493
2019		39,493
2020		13,163
		\$ 92,149

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2017

8. Commitment

The Company leases its operating facility under a lease that is due to expire March 31, 2021. A lease deposit in the amount of \$35,000 has been paid and will be applied at the end of the lease. Minimum monthly rental payments ranging from \$8,526 to \$8,979 are required over the remaining term of the lease as follows:

2018	\$	102,989
2019		105,705
2020		107,743
2021		107,743
	\$	<u>424,180</u>

9. Share Capital

Authorized:

Unlimited Common shares

Unlimited Preferred shares in one or more series.

Issued:

	Mar. 31 2017	June 30 2016
Common shares	\$ 22,382,537	\$ 22,151,406
Common shares	Number of Shares	Amount
Balance June 30, 2015, March 31, 2016, and June 30, 2016 ⁽¹⁾	10,648,696	\$ 22,151,406
Exercise of stock options	400,000	45,226
Private placement	4,500,000	116,343
Investment	1,325,000	69,562
Balance March 31, 2017	16,873,696	\$ 22,382,537

⁽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.

Details of warrants outstanding:

	Number of Warrants	Amount
Balance June 30, 2015	2,400,000	\$ 80,896
Expired during the period	(2,000,000)	(76,677)
Balance March 31, 2016 and June 30, 2016	400,000	4,219
Warrants issued	4,500,000	101,157
Balance March 31, 2017	4,900,000	\$ 105,376

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

	Mar. 31 2017	June 30 2015
Dividend yield	Nil	None issued
Risk free interest rate (%)	1.20	None issued
Expected stock volatility (%)	130.19	None issued
Expected life (years)	5	None issued

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2017

9. Share Capital - continued

Details of warrants outstanding - continued:

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

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

Details of options outstanding:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted Sept. 14, 2012	130,000 ⁽¹⁾	130,000	\$ 0.10	Sept. 14, 2017
Granted December 31, 2013	400,000 ^(1,2)	400,000	\$ 0.10	Dec. 31, 2018
Granted Mar. 3, 2016	700,000 ^(1,2)	700,000	\$ 0.05	Mar. 3, 2021
Granted December 21, 2016	200,000 ⁽¹⁾	200,000	\$ 0.15	Dec. 21, 2021
Granted December 21, 2016	100,000	100,000	\$ 0.15	Dec. 21, 2021

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

⁽²⁾ 100,000 options at \$0.10 and 200,000 options at \$0.05 were exercised subsequent to the financial reporting date.

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

	Mar. 31 2017	June 30 2016
Dividend yield	Nil	Nil
Risk free interest rate (%)	1.19	0.68
Expected stock volatility (%)	135.35	112.77
Expected life (years)	5	5

	Common Shares Under Option	Weighted Average Price per Option	Weighted Average Expiry Date
Balance, beginning of the period	1,630,000	\$ 0.07	Mar. 23, 2020
Exercised during period	(400,000)	\$ 0.06	Aug. 16, 2020
Granted during the period	300,000	\$ 0.15	Dec. 21, 2021
Balance, end of the period	1,530,000	\$ 0.09	June 20, 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:

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Notes to Unaudited Condensed Interim Consolidated Financial Statements

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March 31, 2017

9. Share Capital - continued

Share based payment transactions and contributed surplus - continued:

	Mar. 31 2017	June 30 2016
Contributed surplus, beginning of period	\$ 952,327	\$ 835,845
Stock options exercised	(20,226)	-
Stock options issued	39,313	39,805
Warrants expired	-	76,677
Contributed surplus, end of period	\$ 971,414	\$ 952,327

10. Related Party Transactions

All expenses and year end balances with related parties are at exchange amounts established and agreed to by the related parties. All transactions with related parties are in the normal course of operations and have been carried out on the same terms as those accorded to unrelated parties.

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

	Mar. 31 2017	Mar. 31 2016
Employee and consultant compensation ⁽¹⁾	\$ 272,986	\$ 249,455
Professional fees ⁽¹⁾	22,958	37,062
Legal fees included as share issuance costs	7,500	-
Legal fees included as investment acquisition costs	15,000	-
	\$ 318,444	\$ 286,517
Stock-based compensation ⁽¹⁾	\$ 26,208	\$ 39,805

⁽¹⁾ As at March 31, 2017 \$137,148 (June 30, 2016 - \$131,816) 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:

	Mar. 31 2017	Mar. 31 2016
Employee and consultant compensation (note 10)	\$ 628,959	\$ 606,460
Occupancy costs	198,562	200,108
Professional fees (note 10)	50,037	64,625
Shareholder services	19,399	30,543
Insurance	22,293	23,923
Other	44,446	47,846
	\$ 963,696	\$ 973,505

ZTEST Electronics Inc.

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12. Income Taxes

Deferred Tax

The following table summarizes the components of deferred tax:

	Mar. 31 2017	June 30 2016
Deferred tax assets:		
Non-capital losses carried forward	\$ 10,000	\$ 23,040
Deferred tax liabilities:		
Property, plant and equipment	(10,000)	(23,040)
Net deferred tax liabilities	\$ -	\$ -

Unrecognized Deferred Tax Assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	Mar. 31 2017	June 30 2016
Inventory	\$ 17,581	\$ 3,654
Share issuance costs	11,138	3,638
Intangible assets	34,813	34,813
Property, plant and equipment	35,142	34,969
Resource related expenditures	349,050	349,050
Scientific research and experimental development	1,050,618	1,050,618
Non-capital loss carry forwards	1,389,938	1,340,731
Net capital loss carry forwards	15,592,989	15,592,989

Share issue costs expire from 2017 to 2021. The net capital loss carry forwards may be carried forward indefinitely, but can only be used to reduce capital gains. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

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 primarily by continuously monitoring its actual and projected cash flows and making adjustments to capital as necessary. Except for meeting the repayment terms associated with the long-term debt instruments, as may exist from time to time, there are no externally imposed capital requirements.

Management includes the following items in its definition of capital:

	Mar. 31 2017	June 30 2016
Long-term debt	\$ 92,149	\$ 121,769
Share Capital	22,382,537	22,151,406
Warrants	105,376	4,219
Contributed surplus	971,414	952,327
Deficit	(22,324,389)	(22,060,622)
Net capital under management	\$ 1,227,087	\$ 1,169,099

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2017

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. Bad debts in the amount of \$1,286 (March 31, 2016 - \$Nil) were recognized during the nine-month period ended March 31, 2017.

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 nine-month period ended March 31, 2017 the Company had 2 major customers who together represented 24% of total revenues. In the comparative period, there were 2 major customers which together represented 25% of revenues. Amounts due from major customers represented 24% of accounts receivable at March 31, 2017 (Mar. 2016 - 27%). The loss of a major customer, or significant curtailment of purchases by such customer, could have a material adverse effect on the Company's results of operations and financial condition. The Company monitors the relationship with all customers closely and ensures that every customer is subject to the same risk management criteria.

Market risks

The Company is exposed to interest rate risk due to obligations that have floating interest rates as well as currency risk related to cash, accounts receivable and accounts payable denominated in US dollars. Market risks give rise to the potential for future cash flows to fluctuate because of changes in interest rates or foreign exchange rates. Market risks are closely monitored and attempts are made to match foreign cash inflows and outflows. During the nine-month period ended March 31, 2017 the Company realized a loss on foreign exchange in the amount of \$664 (Mar. 2016 a gain of \$4,396).

Sensitivity to market risks

At March 31, 2017, the Company had \$92,149 (June 2016 \$121,769) which bears interest at the TD Bank prime lending rate plus 1.75%. A 1% increase in the TD Bank prime lending rate as at the financial reporting date would result in additional interest expense of \$742 over the next twelve-month period.

At March 31, 2017, the Company had US\$110,444 (June 2016 US\$86,796) included in accounts receivable. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of \$5,522 in future cash inflow.

At March 31, 2017, the Company had US\$187,004 (June 2016 US\$114,725) included in accounts payable. A 5% decrease in the value of the Canadian dollar relative to the US dollar would result in an increase of \$9,350 in future cash outflow.

At March 31, 2017, the Company had US\$33,205 (June 2016 US\$51,935) included in cash. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of \$1,660 in carrying value.

Based upon observations of recent market trends management believes that each of these outcomes is possible but most likely exceed the Company's immediate market risk exposures.