ZTEST Electronics Inc.

Consolidated Financial Statements

June 30, 2016 and 2015

(Stated in Canadian Dollars)

Independent Auditors' Report

To the Shareholders of ZTEST Electronics Inc.

We have audited the accompanying consolidated financial statements of ZTEST Electronics Inc., which comprise the consolidated statements of financial position as at June 30, 2016 and June 30, 2015, and the consolidated statements of changes in equity, comprehensive (loss) income and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of ZTEST Electronics Inc. as at June 30, 2016 and June 30, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Ontario
October 25, 2016

MNP

ZTEST Electronics Inc.

Consolidated Statements of Financial Position
(Stated in Canadian Dollars)
June 30, 2016 and 2015

		2016		2015
Assets				
Current assets				
Cash	**$**	**293,643**	$	112,409
Accounts receivable		**526,752**		690,386
Inventories *(note 3)*		**375,266**		382,545
Prepaid expenses		**14,781**		10,071
		1,210,442		1,195,411
Lease deposit *(note 7)*		**35,000**		35,000
Equipment *(note 4)*		**463,256**		540,588
	$	**1,708,698**	$	1,770,999
Liabilities				
Current liabilities				
Customer deposits	**$**	**-**	$	19,683
Accounts payable and accrued liabilities *(note 9)*		**539,599**		539,976
Current portion of long-term debt *(note 6)*		**39,493**		39,493
		579,092		599,152
Long-term debt *(note 6)*		**82,276**		121,769
		661,368		720,921
Commitment *(note 7)*				
Shareholders' Equity				
Share capital *(note 8)*		**22,151,406**		22,151,406
Warrants *(note 8)*		**4,219**		80,896
Contributed surplus *(note 8)*		**952,327**		835,845
Deficit		**(22,060,622)**		(22,018,069)
		1,047,330		1,050,078
	$	**1,708,698**	$	1,770,999

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

Approved by the Board:

Signed: "Wojciech Drzazga"	*Signed: "John Perreault"*
Director	Director

ZTEST Electronics Inc.

Consolidated Statement of Changes in Equity
(Stated in Canadian Dollars)
June 30, 2016

	Share Capital	Warrants	Contributed, Surplus	Deficit	Total
Balance, June 30, 2014	$ 22,343,053	$ 80,896	$ 613,819	$ (22,578,402)	$ 459,366
Settlement of preferred shares	(191,647)	-	222,026	-	30,379
Net income for the year	-	-	-	560,333	560,333
Balance, June 30, 2015	22,151,406	80,896	835,845	(22,018,069)	1,050,078
Warrants expired	-	(76,677)	76,677	-	-
Share-based payments	-	-	39,805	-	39,805
Net loss for the year	-	-	-	(42,553)	(42,553)
Balance, June 30, 2016	**$ 22,151,406**	**$ 4,219**	**$ 952,327**	**$ (22,060,622)**	**$ 1,047,330**

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

ZTEST Electronics Inc.

Consolidated Statements of Comprehensive (Loss) Income
(Stated in Canadian Dollars)
For the years ended June 30, 2016 and 2015

	2016	2015
Product sales	$ 4,211,885	$ 3,945,720
Cost of product sales (*note 3*)	2,892,752	2,758,477
	1,319,133	1,187,243
Expenses		
Selling, general and administrative *(note 10)*	1,312,926	1,205,502
Stock-based compensation *(note 9)*	39,805	-
Interest expense - long-term debt *(note 9)*	6,300	15,637
Interest expense - other	580	1,523
Depreciation of equipment	5,119	3,761
Foreign exchange gain	(3,002)	(5,783)
	1,361,728	1,220,640
Loss before other income and income taxes	(42,595)	(33,397)
Other income		
Debts forgiven *(note 12)*	-	51,545
Gain on settlement of preferred shares *(note 13)*	-	540,435
Interest and other income	42	1,750
	42	593,730
(Loss) income before provision for income taxes	(42,553)	560,333
Provision for income taxes *(note 11)*	-	-
Net (loss) income and comprehensive (loss) income for the year	$ (42,553)	$ 560,333
Net (loss) income per share		
Basic	$ (0.00)	$ 0.05
Fully diluted	$ (0.00)	$ 0.05
Weighted average shares outstanding		
Basic	10,648,696	10,648,696
Fully diluted	10,648,696	10,648,696

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, 2016 and 2015

		2016		2015
Cash flow from operating activities				
Net (loss) income for the year	$	**(42,553)**	$	560,333
Items not involving cash				
Stock-based compensation		**39,805**		-
Interest accretion		**-**		4,473
Depreciation of equipment		**111,638**		136,119
Debts forgiven		**-**		(51,545)
Gain on settlement of preferred shares		**-**		(540,435)
Changes in non-cash working capital items				
Accounts receivable		**163,634**		(276,901)
Inventories		**7,279**		280,396
Prepaid expenses		**(4,710)**		(1,817)
Customer deposits		**(19,683)**		19,683
Accounts payable and accrued liabilities		**(9,119)**		(42,688)
		255,033		87,618
Cash flow from investing activities				
Purchase of equipment		**(34,306)**		(2,010)
Cash flow from financing activities				
Recovery of restricted cash equivalents		**-**		250,000
Change in operating loan		**-**		(25,000)
Redemption of preferred shares		**-**		(166,378)
Proceeds from long-term debt		**-**		197,463
Repayment of long-term debt		**(39,493)**		(283,007)
		(39,493)		(26,922)
Increase in cash		**181,234**		58,686
Cash, beginning of year		**112,409**		53,723
Cash, end of year	$	**293,643**	$	112,409

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

		2016		2015
Interest	$	**6,995**	$	12,261
Income taxes	$	**-**	$	-

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

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 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 (ñIFRSò) as issued by the International Accounting Standards Board (ñIASBò). These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on October 25, 2016.

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

Basis of presentation
These consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting, except for cash flow information.

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

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

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

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

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

Financial assets:	*Classification*
Cash	Fair value through profit and loss
Accounts receivable	Loans and receivables

Financial liabilities:	*Classification*
Bank operating loan	Other financial liabilities
Customer deposits	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities

2. Significant Accounting Policies - continued

Financial instruments - continued

Fair value through profit and loss:
Financial assets are designated as fair value through profit and loss if they were acquired principally for the purpose of selling in the short term. Fair value through profit and loss assets are recognized and carried at their fair value.

Loans and receivables:
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Other financial liabilities:
Other financial liabilities are recognized initially at fair value, net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial instrument 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 payments through the expected life of the financial instrument to the net carrying amount on initial recognition. Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

Impairment of financial assets:
Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the assets have been negatively impacted.

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in income for the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through income for the period to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial instruments recorded at fair value:
Financial instruments recorded at fair value 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 June 30, 2016 and June 30, 2015 cash was measured at fair value and classified within Level 1 of the fair value hierarchy.

2. Significant Accounting Policies - continued

Financial instruments - continued

Financial instruments recorded at amortized cost:

Financial instruments recorded at amortized cost are amortized using the market rates of interest prevailing at the inception of the financial instrument applied to expected future cash flows. The amortized cost is recomputed in the event that the underlying terms, and therefore the expected future cash flows, of the financial instrument are altered with any change in the amortized cost being charged to income for the period.

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 assetôs 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 armôs 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.

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

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.

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.

2. Significant Accounting Policies - continued

Share based payment transactions - continued
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, taking into account 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.

Income taxes
Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in profit and loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in profit and loss and comprehensive (loss) income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

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

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.

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.

(Stated in Canadian Dollars)

3. Inventories

The carrying value of inventories is comprised of:

		2016		2015
Raw materials and supplies [(1)]	**$**	**354,015**	$	363,740
Work in process		**10,685**		10,908
Finished goods		**10,566**		7,897
	$	**375,266**	$	382,545

[(1)] The raw materials and supplies is presented net of provisions for obsolete and/or slow moving items in the amount of $3,654 (2015 - $30,891). 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) income will be affected.

Inventory utilization during the year was as follows:

		2016		2015
Raw materials and supplies used	**$**	**1,916,893**	$	1,837,993
Labour costs		**728,021**		645,467
Depreciation		**106,519**		132,358
Repairs and maintenance		**50,625**		44,753
Stencils and tooling		**31,631**		35,466
Shipping costs		**50,284**		47,594
Packaging costs		**11,225**		7,322
Net change in finished goods and work in process		**(2,446)**		7,524
Cost of product sales	**$**	**2,892,752**	$	2,758,477

4. Equipment

		Computer Equipment		Office Equipment		Manufacturing Equipment		Leasehold Improvements		Total
Cost:										
Balance, June 30, 2014	$	173,411	$	71,277	$	2,561,208	$	61,003	$	2,866,899
Additions		2,010		-		-		-		2,010
Balance, June 30, 2015		175,421		71,277		2,561,208		61,003		2,868,909
Additions		5,284		-		5,882		23,140		34,306
Balance, June 30, 2016	**$**	**180,705**	**$**	**71,277**	**$**	**2,567,090**	**$**	**84,143**	**$**	**2,903,215**
Accumulated Depreciation:										
Balance, June 30, 2014	$	(165,858)	$	(67,728)	$	(1,897,613)	$	(61,003)	$	(2, 192,202)
Depreciation		(2,690)		(710)		(132,719)		-		(136,119)
Balance, June 30, 2015		(168,548)		(68,438)		(2,030,332)		(61,003)		(2,328,321)
Depreciation		(2,855)		(818)		(106,808)		(1,157)		(111,638)
Balance, June 30, 2016	**$**	**(171,403)**	**$**	**(69,256)**	**$**	**(2,137,140)**	**$**	**(62,160)**	**$**	**(2,439,959)**
Carrying Amounts:										
June 30, 2015	$	6,873	$	2,839	$	530,876	$	-	$	540,588
June 30, 2016	**$**	**9,302**	**$**	**2,021**	**$**	**429,950**	**$**	**21,983**	**$**	**463,256**

(Stated in Canadian Dollars)

5. Bank operating loan

The Company has a 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. No amounts were drawn upon this line of credit as at June 30, 2016 or June 30, 2015.

6. Long-Term Debt

	2016	2015
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. [1]	$ **121,769**	$ 161,262
Less: Current portion	**39,493**	39,493
	$ 82,276	$ 121,769

[1] The proceeds of this term loan were used to repay existing term loans.

The minimum annual future principal repayments are as follows:

2017	$ 39,493
2018	39,493
2019	39,493
2020	3,290
	$ 121,769

7. Commitments

The Company leases its operating facility under a lease that is due to expire March 31, 2021. A lease deposit in the amount of $35,000 was paid and will be applied at the end of the lease. Minimum monthly rental payments ranging from $8,299 to $8,979 are required over the remaining term of the lease as follows:

2017	$ 100,952
2018	103,668
2019	106,385
2020	107,743
2021	80,807
	$ 499,555

8. Share Capital

Authorized:
Unlimited Common shares
Unlimited Preferred shares in one or more series.

Issued:

	2016	2015
Common shares	**$ 22,151,406**	$ 22,151,406

Common shares:	Number of Shares	Amount
Balance June 30, 2014	10,648,696	$ 22,343,053
Redemption of Series A and Series C preferred shares	-	(191,647)
Balance June 30, 2016 and June 30, 2015 [1, 2]	10,648,696	**$ 22,151,406**

(Stated in Canadian Dollars)

8. Share Capital - continued

(1) In the 2013 fiscal year the Companyǿs shareholders approved the issuance of 99,454 common shares in exchange for 100% of the Class A Special Shares outstanding. 91,208 common shares have been issued, representing the entitlement of the identifiable Class A shareholders. 8,246 common shares have been reserved to be issued if and when the remaining Class A shareholders identify themselves to the Company.

(2) Subsequent to the financial reporting date 300,000 stock options were exercised for gross proceeds of $20,000

Details of warrants outstanding:

	Number of Warrants		**Amount**
Balance June 30, 2014 and June 30, 2015	2,400,000	$	80,896
Expired during the year	2,000,000		(76,677)
Balance June 30, 2016	400,000	**$**	**4,219**

	Number of Warrants		Exercise Price	Expiry Date
Issued Jan 10, 2014	400,000	$	0.10	Oct. 31, 2017

	Number of Warrants		Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning of year	2,400,000	$	0.10	June 7, 2016
Expired during year	(2,000,000)	$	0.10	Feb. 26, 2016
End of year	400,000	$	0.10	Oct. 31, 2017

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 Dec. 31, 2013	500,000 (1, 2)	500,000	$	0.10	Dec. 31, 2018
Granted Mar. 3, 2016	1,000,000 (1, 2)	1,000,000	$	0.05	Mar. 3, 2021

	Common Shares Under Option		Weighted Average Price/Option	Weighted Average Expiry Date
Beginning of year	905,000	$	0.10	Nov. 15, 2017
Expired during year	(275,000)	$	0.10	Nov. 30, 2015
Granted during year	1,000,000	$	0.05	Mar. 3, 2021
End of year	1,630,000	$	0.07	Mar. 23, 2020

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

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

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

	2016	2015
Dividend yield	**Nil**	None issued
Risk free interest rate (%)	**0.68**	None issued
Expected stock volatility (%)	**112.77**	None issued
Expected life (years)	**5**	None issued

(Stated in Canadian Dollars)

8. Share Capital - continued

Share based payment transactions and contributed surplus

The Company has a stock option plan. The aggregate number of common shares reserved for issuance under this plan cannot exceed 20% of the aggregate number of common shares of the Company that are issued and outstanding. The Company has granted options for the purchase of common shares to employees, directors, officers and other service providers. The fair values of stock options granted have been determined using the Black-Scholes model and are added to contributed surplus as follows:

		2016		2015
Contributed surplus, beginning of year	**$**	**835,845**	$	613,819
Compensation expense related to stock options granted		**39,805**		-
Warrants expired during the year		**76,677**		-
Redemption of Series A and Series C preferred shares		**-**		222,026
Contributed surplus, end of year	**$**	**952,327**	$	835,845

9. Related Party Transactions and Balances

In addition to key management personnel, the Company had transactions during the prior year with 1114377 Ontario Inc. (ñ1114377ò), a company controlled by the spouse of a Director of the Company.

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		**2016**		2015
Employee and consultant compensation (1)	**$**	**365,184**	$	333,766
Professional fees (1)		**41,963**		24,080
Interest expense ï long-term debt		**-**		6,408
Interest expense ï long-term debt (1)		**-**		999
	$	**407,147**	$	365,253
Stock-based compensation (1)	**$**	**39,805**	$	-

(1) Transactions with key management personnel. As at June 30, 2016 $131,816 (2015 - $90,306) was payable to key management personnel and included in accounts payable and accrued liabilities.

10. Selling, general and administrative expenses

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

		2016		2015
Employee and consultant compensation *(note 9)*	**$**	**835,846**	$	782,492
Insurance		**31,395**		33,906
Occupancy costs		**265,967**		261,829
Professional fees *(note 9)*		**84,155**		62,684
Shareholder services		**33,419**		21,742
Other		**62,144**		42,849
	$	**1,312,926**	$	1,205,502

(Stated in Canadian Dollars)

11. Income Taxes

Current Income Taxes

A reconciliation of combined federal and provincial corporate income taxes at the Companyôs effective tax rate of 26.50% (2015 ï 26.50%) is as follows:

		2016		2015
Net (loss) income before income taxes	**$**	**(42,553)**	$	560,333
Expected income tax expense (recovery)	$	**(11,276)**	$	148,490
Expenses not deductible for income tax purposes		**10,726**		(27,790)
Effect of settlement of preferred shares		**-**		(143,215)
Change in tax benefits not recognized		**550**		22,515
Income tax expense	**$**	**-**	$	-

Deferred Tax

The following table summarizes the components of deferred tax:

		2016		2015
Deferred tax assets:				
Non-capital losses carried forward	$	**23,040**	$	12,022
Deferred tax liabilities:				
Property, plant and equipment		**(23,040)**		(12,022)
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:

		2016		2015
Inventory	$	**3,654**	**$**	9,462
Share issuance costs		**3,638**		7,276
Intangible assets		**34,813**		37,433
Property, plant and equipment		**34,969**		48,263
Resource related expenditures		**349,050**		349,050
Scientific research and experimental development		**1,050,618**		1,050,618
Non-capital loss carry forwards		**1,340,731**		1,313,293
Net capital loss carry forwards		**15,592,989**		15,592,989

Share issue costs expire in 2017. 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.

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, include 100% of the respective losses of the subsidiary companies and will expire at the end of the taxation years as follows:

(Stated in Canadian Dollars)

11. Income Taxes - continued

Tax Loss Carry-Forwards - continued

Year		
2027	$	209,770
2030		174,605
2031		577,960
2032		14,860
2033		76,560
2034		168,430
2035		136,504
2036		69,013
	$	1,427,673

12. Debts forgiven

During the 2015 fiscal year the Company determined that certain unsecured obligations, due to their age and being unenforceable, were to be treated as having been forgiven. These obligations were as follows:

Interest payable	$	11,945
Non-interest bearing debenture		39,600
Total debts determined to have been forgiven	$	51,545

13. Settlement of preferred shares

During the 2015 fiscal year the Company negotiated settlement with the holders of the Series A and Series C preferred shares whereby, for aggregate cash payments of $166,378, all outstanding shares were redeemed and all accrued but unpaid dividends were waived. In accordance with IFRS in effect when the preferred shares were issued, the issuance proceeds were segregated between paid in capital, included in share capital, and a liability. The associated accrued dividends were allocated in proportion to the proceeds with pro-rata amounts charged against equity and against income for the period. The settlement of these obligations resulted in the recognition of contributed surplus and settlement gains as follows:

	Liability Portion	Equity Portion	Total
Proceeds of Series A shares	$ 136,024	$ 23,976	$ 160,000
Proceeds of Series C shares	337,831	167,671	505,502
Redemption price of preferred shares	473,855	191,647	665,502
Settlement amount paid	(118,466)	(47,912)	(166,378)
Redemption price in excess of settlement amount paid	355,389	143,735	499,124
Dividends waived	185,046	78,291	263,337
Aggregate settlement of preferred shares	$ 540,435	$ 222,026	$ 762,461

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 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, and no bad debts were recorded in the current or prior year.

14. Financial risk factors - continued

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 Companyøs revenues during a reporting period. During the current year the Company had two major customers which represented 14% and 11% of total revenues. In the prior year two major customers accounted for 13% and 12% of revenues respectively. Amounts due from major customers represented 30% of accounts receivable at June 30, 2016 (2015 - 13%). 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 current fiscal year the Company has reported a foreign exchange gain of $3,002 (2015 ó gain of $5,783).

Sensitivity to market risks
At June 30, 2016 the Company had $121,769 (2015 ó $161,262) 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 $1,037 over the next 12 month period.

At June 30, 2016 the Company had US$86,796 (2015 ó US$129,966) 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 $1,294 in future cash inflow.

At June 30, 2016 the Company had US$114,725 (2015 ó US$128,894) 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 $1,710 in future cash outflow.

At June 30, 2016 the Company had US$51,935 (2015 ó US$20,825) included in cash. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $774 in carrying value.

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

15. Capital disclosures

The Companyøs 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.

	2016	2015
Long-term debt	**$ 121,769**	$ 161,262
Share capital	**22,151,406**	22,151,406
Warrants	**4,219**	80,896
Contributed surplus	**952,327**	835,845
Deficit	**(22,060,622)**	(22,018,069)
Net capital under management	**$ 1,169,099**	$ 1,211,340