

ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Financial Statements

September 30, 2020

(Stated in Canadian Dollars)

Responsibility for Financial Statements

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.

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.

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on November 24, 2020. They have not been reviewed by the Company's auditors.

ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Statements of Financial Position

(Stated in Canadian Dollars)

September 30, 2020

	Sept. 30 2020	June 30 2020
Assets		
Current assets		
Cash	\$ 432,478	\$ 220,403
Accounts receivable	441,953	512,068
Inventories (note 3)	675,178	732,961
Prepaid expenses	5,103	18,781
	1,554,712	1,484,213
Equipment (note 4)	200,257	210,918
Right-of-use asset (note 5)	86,399	112,099
Investments (note 6)	2	1
	\$ 1,841,370	\$ 1,807,231
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	\$ 876,546	\$ 898,237
Customer deposits	25,000	25,000
Current portion of lease liability (note 8)	53,239	79,296
	954,785	1,002,533
Long-term debt (note 9)	40,000	40,000
	994,785	1,042,533
Shareholders' Equity		
Share capital (note 10)	23,613,547	23,613,546
Warrants (note 10)	213,983	217,665
Contributed surplus (note 10)	1,542,349	1,538,667
Deficit	(24,523,294)	(24,605,180)
	846,585	764,698
	\$ 1,841,370	\$ 1,807,231

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

Approved by the Board:

Signed: "K. Michael Guerreiro"

Director

Signed: "Steve Smith"

Director

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

(Stated in Canadian Dollars)

September 30, 2020

	Share Capital	Warrants	Contributed Surplus	Deficit	Total
Balance, June 30, 2019	\$ 23,394,174	\$ 182,956	\$ 1,533,373	\$ (23,786,443)	\$ 1,324,060
Net loss for the period	-	-	-	(120,642)	(120,642)
Balance, September 30, 2019	23,394,174	182,956	1,533,373	(23,907,085)	1,203,418
Shares for debt	153,450	-	-	-	153,450
Private placement	65,922	40,003	-	-	105,925
Warrants expired	-	(5,294)	5,294	-	-
Net loss for the period	-	-	-	(698,095)	(698,095)
Balance, June 30, 2020	23,613,546	217,665	1,538,667	(24,605,180)	764,698
Preferred shares issued	1	-	-	-	1
Warrants expired	-	(3,682)	3,682	-	-
Net income for the period	-	-	-	81,886	81,886
Balance, September 30, 2020	\$ 23,613,547	\$ 213,983	\$ 1,542,349	\$ (24,523,294)	\$ 846,585

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

ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Statements of Comprehensive Income (Loss)

(Stated in Canadian Dollars)

For the three month periods ended September 30

	2020	2019
Product sales	\$ 1,053,501	\$ 880,703
Cost of product sales (note 3)	696,573	613,833
	356,928	266,870
Expenses		
Selling, general and administrative (note 12)	273,774	354,894
Interest expense - long-term debt	-	5
Interest expense of lease liability (note 8)	878	2,319
Interest expense - other	162	1,428
Finance fees (note 11)	-	3,469
Depreciation of equipment	1,089	1,121
Foreign exchange loss (gain)	(861)	1,863
	275,042	365,099
Income (loss) before other income and provisions, and income taxes	81,886	(98,229)
Other income and provisions		
Interest income	-	2
Equity in loss of Conversance Inc. (note 6)	-	(22,415)
	-	(22,413)
Income (loss) before provision for income taxes	81,886	(120,642)
Provision for income taxes	-	-
Net income (loss) and comprehensive income (loss) for the period	\$ 81,886	\$ (120,642)
Net income (loss) per share		
Basic	\$ 0.00	\$ (0.01)
Fully diluted	\$ 0.00	\$ (0.01)
Weighted average shares outstanding		
Basic	22,876,696	21,103,696
Fully diluted	25,446,682	21,103,696

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

ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Statements of Cash Flows

(Stated in Canadian Dollars)

For the three month periods ended September 30

	2020	2019
Cash flow from operating activities		
Net income (loss) for the period	\$ 81,886	\$ (120,642)
Items not involving cash		
Depreciation of equipment	10,660	12,956
Depreciation of right of use assets	25,700	25,700
Equity in loss of Conversance Inc.	-	22,415
Accreted lease interest	878	2,319
Changes in non-cash working capital items:		
Accounts receivable	70,115	241,599
Inventories	57,783	(90,769)
Prepaid expenses	13,679	1,425
Customer deposits	-	39,570
Accounts payable and accrued liabilities	(21,691)	(16,137)
	239,010	118,436
Cash flow from investing activities		
Purchase of equipment	-	(2,770)
Cash flow from financing activities		
Proceeds of bank operating loan, net	-	(75,000)
Repayment of long-term debt	-	(3,291)
Repayment of lease obligation	(26,935)	(26,936)
	(26,935)	(105,227)
Increase in cash	212,075	10,439
Cash, beginning of period	220,403	66,638
Cash, end of period	\$ 432,478	\$ 77,067

Supplemental Disclosure of Cash Flow Information:

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

Interest	\$ 162	\$ 1,444
Income taxes	\$ -	\$ -

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

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2020

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

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

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on November 24, 2020.

Basis of presentation and going concern considerations

These unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting, except for cash flow information, and in accordance with IFRS applicable to a 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 unaudited condensed interim consolidated financial statements then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

Basis of consolidation

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

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

Significant accounting judgments and estimates

The preparation of these unaudited condensed interim consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. These unaudited condensed interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the unaudited condensed interim consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and also in future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant estimates and judgments include, but are not limited to, the assessment of the Company as a going concern, recoverability of inventory, the inputs used in applying the Black-Scholes valuation model, and the recognition and valuation of deferred tax amounts.

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2020

2. Significant Accounting Policies - continued

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

Income (loss) per share

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

Stock options and warrants outstanding are excluded from the computation of diluted income (loss) per share if their inclusion would increase the income per share, or decrease the loss per share, or if their exercise price exceeds the average market price of the Company's shares for the financial reporting period.

Segment disclosure

The Company has a single location and operating segment. Accordingly, all revenues are generated in Canada and all assets are located in Canada.

3. Inventories

The carrying value of inventory is comprised of:

	Sept. 30 2020	June 30 2020
Raw materials and supplies ⁽¹⁾	\$ 612,592	\$ 684,648
Work in process	38,597	29,511
Finished goods	23,989	18,802
	<u>\$ 675,178</u>	<u>\$ 732,961</u>

⁽¹⁾ Raw materials and supplies is presented net of provisions for obsolete and/or slow moving items in the amount of \$25,525 (June 2020 - \$28,527).

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2020

3. Inventories - continued

Inventory utilization during the period was as follows:

	Sept. 30 2020	Sept. 30 2019
Raw materials and supplies used	\$ 531,064	\$ 405,783
Labour costs (<i>note 16</i>)	143,771	194,211
Depreciation	9,571	11,836
Repairs and maintenance	1,439	5,879
Other costs	25,001	24,020
Net change in finished goods and work in process	(14,273)	(27,896)
Cost of product sales	\$ 696,573	\$ 613,833

4. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Cost:					
Balance, June 30, 2019	\$ 185,048	\$ 71,277	\$ 2,594,244	\$ 84,143	\$ 2,934,712
Additions	-	-	2,770	-	2,770
Balance, Sept. 30, 2019	185,048	71,277	2,597,014	84,143	2,937,482
Additions	1,370	-	-	-	1,370
Balance, June 30, 2020	186,418	71,277	2,597,014	84,143	2,937,482
Additions	-	-	-	-	-
Balance, Sept. 30, 2020	\$ 186,418	\$ 71,277	\$ 2,597,014	\$ 84,143	\$ 2,937,482
Accumulated Depreciation:					
Balance, June 30, 2019	\$ (178,902)	\$ (70,242)	\$ (2,357,490)	\$ (69,102)	\$ (2,675,736)
Depreciation	(461)	(52)	(11,865)	(578)	(12,956)
Balance, Sept. 30, 2019	(179,363)	(70,294)	(2,369,355)	(69,680)	(2,688,692)
Depreciation	(1,589)	(155)	(35,762)	(1,736)	(39,242)
Balance, June 30, 2020	(180,952)	(70,449)	(2,405,117)	(71,416)	(2,727,934)
Depreciation	(410)	(41)	(9,631)	(579)	(10,661)
Balance, Sept. 30, 2020	\$ (181,362)	\$ (70,490)	\$ (2,414,748)	\$ (71,995)	\$ (2,738,595)
Carrying Amounts:					
June 30, 2019	\$ 6,146	\$ 1,035	\$ 236,754	\$ 15,041	\$ 258,976
September 30, 2019	\$ 5,685	\$ 983	\$ 227,659	\$ 14,463	\$ 248,790
June 30, 2020	\$ 5,466	\$ 828	\$ 191,897	\$ 12,727	\$ 210,918
September 30, 2020	\$ 5,056	\$ 787	\$ 182,266	\$ 12,148	\$ 200,257

5. Right of use asset

The Company occupies its operating facility under a lease that expires March 2021. The right-of-use asset associated with this lease was initially recorded at cost equal to the present value of the remaining lease payments, plus a refundable deposit paid at the inception of the lease. Subsequent to initial recording, the right-of-use asset is measured using the cost model where cost is reduced by any accumulated depreciation and any accumulated impairment losses and is adjusted for any remeasurement of the lease liability. Depreciation is calculated on a straight-line basis over the remaining term of the lease and charged to net income as an element of occupancy costs (*note 11*). There have been no impairment losses and no remeasurement of the lease liability.

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2020

5. Right of use asset - continued

Cost recognized upon adoption of IFRS 16	\$ 214,897
Depreciation recorded as an element of occupancy costs	(25,700)
Balance at September 30, 2019	189,197
Depreciation recorded as an element of occupancy costs	(76,498)
Balance at June 30, 2020	112,099
Depreciation recorded as an element of occupancy costs	(25,700)
Balance at September 30, 2020	\$ 86,399

6. Investments

The Company holds a non-controlling interest in Conversance Inc., a private Canadian technology company. The shares of Conversance Inc. are subject to a hold period and, unless permitted under securities legislation, the shares may not be traded before the date that is four months and a day after the issuer becomes a reporting issuer in any province or territory.

Conversance Inc. is engaged in the development of its proprietary technology and has not yet produced any revenues. The timing of such revenues, if any, is not currently determinable. The absence of cash flows, or the ability to predict when any may arise, made it infeasible for the Company to ascertain the value of Conversance Inc. as a going concern as at June 30, 2020. Accordingly, a provision for impairment was recognized to reduce the carrying value of the investment to \$1. Should future circumstances warrant doing so, this provision may be reversed, but only to the extent that the carrying value of the investment at the time of reversal does not exceed the carrying value that would have resulted had the provision not been recorded.

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

⁽¹⁾ In September 2020, ZTEST entered into an agreement with the founder and majority shareholder of Conversance Inc. whereby ZTEST issued 1,250,000 Convertible First Preferred Shares Series 1 to that majority shareholder in exchange for 25,000 Class A common shares of Conversance Inc. The ZTEST Series 1 shares will be automatically converted to common shares of ZTEST if, and only if, Conversance completes an 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.

7. Bank operating loan

The Company has a line of credit, which was not drawn upon as at September 30, 2020 or June 30, 2020. It may be drawn to a maximum of \$250,000, bears interest at the TD Bank prime lending rate plus 2.5%, is due upon demand, and is secured by a general security agreement covering the assets of PEC.

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2020

8. Lease liability

The Company occupies its operating facility under a lease that expires March 2021. A refundable deposit of \$35,000 was paid at the inception of the lease. The lease liability was initially recorded at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate, which was determined to be 5.7%. The lease liability has been subsequently reduced by the lease payments paid and interest, imputed at the discount rate, was added to the obligation as follows:

Present value of lease payments remaining upon adoption of IFRS 16	\$	179,897
Lease payments paid during period		(26,936)
Interest imputed at 5.7%		2,319
Balance at September 30, 2019		155,280
Lease payments paid during period		(80,806)
Interest imputed at 5.7%		4,822
Balance at June 30, 2020		79,296
Lease payments paid during period		(26,935)
Interest imputed at 5.7%		878
Balance at September 30, 2020	\$	53,239
Less current portion		(53,239)
	\$	-

Subsequent to the financial reporting date, the Company has negotiated a new extension to this lease which establishes the monthly lease payments required from April 2021 to March 2026.

9. Long-Term Debt

	Sept. 30 2020	June 30 2020
Canadian Emergency Business Account (CEBA), non-interest bearing with no payments required until December 31, 2022, then 5% per annum, payable monthly until maturity December 31, 2025. The principal amount may be pre-paid in whole or in part at any time without penalty. Provided the loan balance is no more than \$10,000 as at December 31, 2022 the remaining balance of the loan will be forgiven.	\$ 40,000	\$ 40,000
Less: current portion	-	-
	\$ 40,000	\$ 40,000

10. Share Capital

Authorized

Unlimited Common shares

Unlimited Preferred shares in one or more series.

1,250,000 Convertible Preferred Shares Series 1, redeemable, non-voting, with no dividend rights. These shares are subject to a triggering event, and a determination date not to exceed June 30, 2021. If the triggering event occurs, on or before June 30, 2021, then these shares will be automatically converted into 1,250,000 common shares, otherwise they will be redeemed for the aggregate redemption price of \$1. The triggering event (*note 6*) is the completion, by Conversance Inc., of an arm's length financing whereby it issues at least 130,139 Class A shares from treasury, representing at least 10% of the outstanding capital of Conversance after giving effect to the financing, at a price of at least \$10 per share.

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2020

10. Share Capital - continued

Issued	Sept. 30 2020	June 30 2020
Common shares	\$ 23,613,546	\$ 23,613,546
Convertible Preferred Shares Series 1	1	-
Share capital	\$ 23,613,547	\$
Common shares	Number of Shares ⁽¹⁾	Amount
Balance June 30, 2019 and September 30, 2019	21,103,696	\$ 23,394,174
Shares issued in settlement of debt ⁽²⁾	1,023,000	153,450
Private placement ⁽³⁾	750,000	65,922
Balance June 30, 2020 and September 30, 2020	22,876,696	\$ 23,623,546
Convertible Preferred Shares Series 1	Number of Shares	Amount
Balance June 30, 2019, September 30, 2019, and June 30, 2020	-	\$ -
Shares issued in settlement of debt ⁽¹⁾	1,250,000	1
Balance September 30, 2020	1,250,000	\$ 1

⁽¹⁾ Following the 2013 conversion of Class A Special Shares to common shares, 8,246 common shares remain reserved to be issued if and when the remaining Class A shareholders identify themselves to the Company.

⁽²⁾ In accordance with agreements between the Company and its Chief Executive Officer and a former Director, the Company issued 1,023,000 common shares, valued at \$0.15 per share, in settlement of amounts aggregating \$153,450 that were due them as at December 31, 2019 (*note 11*).

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

Details of warrants outstanding:

	Number of Warrants	Amount
Balance June 30, 2019 and September 30, 2019	3,641,700	\$ 182,956
Warrants issued via private placement	750,000	38,756
Broker warrants issued via private placement	10,500	1,247
Warrants expired	(23,800)	(5,294)
Balance June 30, 2020	4,378,400	217,665
Warrants expired	(15,400)	(3,682)
Balance September 30, 2020	4,363,000	\$ 213,983

	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	220,000	\$ 0.40	Dec. 28, 2020
Issued Jan. 31, 2019	170,000	\$ 0.40	Dec. 28, 2020
Issued Feb. 28, 2020	750,000	\$ 0.25	Feb. 28, 2021
Issued Feb. 28, 2020	10,500	\$ 0.15	Feb. 28, 2021

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2020

10. Share Capital - continued

Details of warrants outstanding - continued:

	Number of Warrants	Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning of period	4,378,400	\$ 0.15	Aug. 30, 2021
Warrants expired during the period	(15,400)	\$ 0.30	July 31, 2020
End of period	4,363,000	\$ 0.15	Sep. 1, 2021

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

	Sept. 30 2020	June 30 2020
Dividend yield	None issued	Nil
Risk free interest rate (%)	None issued	1.27
Expected stock volatility (%)	None issued	119.88
Expected life (years)	None issued	1.0

Details of options outstanding:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted Mar. 3, 2016	400,000 ⁽¹⁾	400,000	\$ 0.05	Mar. 3, 2021
Granted January 12, 2018	350,000 ⁽¹⁾	550,000	\$ 0.95	Jan. 12, 2023

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

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

No stock options were granted during the period ended September 30, 2020 or during the year ended June 30, 2020.

Share based payment transactions and contributed surplus

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

	Sept. 30 2020	June 30 2020
Contributed surplus, beginning of period	\$ 1,538,667	\$ 1,533,373
Warrants expired	3,682	5,294
Contributed surplus, end of period	\$ 1,542,349	\$ 1,538,667

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2020

11. Related Party Transactions and Balances

The Company had transactions during the periods presented with key management personnel and with 1114377 Ontario Inc., a company controlled by the spouse of a former director of PEC. The service agreement with 1114377 Ontario Inc. was terminated July 31, 2020.

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

Party	Description	Sept. 30 2020	Sept. 30 2019
Management	Employee and consultant compensation	\$ 80,733	\$ 124,025
Management	Professional fees	16,845	6,294
1114377	Financing fees	-	3,469
		<u>\$ 97,578</u>	<u>\$ 134,418</u>
Management	Stock-based compensation	\$ -	\$ -

As at September 30, 2020 there was a balance of \$401,552 (June 30, 2020 - \$359,210) included in accounts payable and accrued liabilities that was payable to these related parties.

12. Selling, general and administrative expenses

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

	Sept. 30 2020	Sept. 30 2019
Employee and consultant compensation (<i>notes 11 and 16</i>)	\$ 163,519	\$ 250,448
Occupancy costs (<i>note 5</i>)	66,562	70,746
Professional fees (<i>note 11</i>)	23,721	13,174
Shareholder services	4,309	3,250
Insurance	8,526	8,072
Other	7,137	9,204
	<u>\$ 273,774</u>	<u>\$ 354,894</u>

13. Income Taxes

Deferred Tax

The following table summarizes the components of deferred tax:

	Sept. 30 2020	Sept. 30 2019
Deferred tax assets:		
Non-capital losses carried forward	\$ 2,294	\$ 2,691
Deferred tax liabilities:		
Temporary timing differences	(2,294)	(2,691)
Net deferred tax liabilities	<u>\$ -</u>	<u>\$ -</u>

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:

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2020

13. Income Taxes - continued

Unrecognized Deferred Tax Assets - continued

	Sept. 30 2020	June 30 2020
Inventory	\$ 25,525	\$ 28,527
Share issuance costs	41,876	41,876
Property, plant and equipment	39,488	39,429
Resource related expenditures	349,050	349,050
Scientific research and experimental development	1,050,618	1,050,618
Net capital loss carry-forwards	1,933,006	1,921,405
Non-capital loss carry-forwards	15,592,989	15,592,989

Share issue costs expire from 2021-2023 and non-capital loss carry-forwards expire from 2027-2033. The remaining deductible temporary differences may be carried forward indefinitely but net capital loss carry-forwards can only be used to reduce capital gains. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

14. Capital disclosures

The 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.

	Sept. 30 2020	June 30 2020
Long-term debt	\$ 40,000	\$ 40,000
Share Capital	23,613,547	23,613,546
Warrants	213,983	217,665
Contributed surplus	1,542,349	1,538,667
Deficit	(24,523,294)	(24,605,180)
Net capital under management	\$ 886,585	\$ 804,698

15. Financial risk factors

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

Credit risk

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

Concentration of credit risk

Concentration of credit risk arises when one or more customers individually account for 10% or more of the Company's revenues during a reporting period. The Company had 2 customers during the current period, representing 20% and 15% of revenues (Sept. 30, 2019 - 2 customers, 17% and 15% of revenues). Amounts due from these customers represented 36% of accounts receivable at September 30, 2020 (Sept. 30, 2019 - 6%). The loss of, or significant curtailment of purchases by, such a customer, could have a material adverse effect on the Company's results of operations and financial condition. The Company monitors the relationship with all customers closely and ensures that every customer is subject to the same risk management criteria.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2020

15. 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 September 30, 2020 the Company had current financial assets of \$874,431 (June 30, 2020 - \$732,471) available to settle current financial liabilities of \$954,785 (June 30, 2020 - \$1,002,533). The Company manages its liquidity risk through the management of its capital (*note 14*) which incorporates the continuous monitoring of actual and projected cash flows to ensure that it has sufficient liquidity to meet its operating commitments without incurring unacceptable losses or risking damage to the 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 period the Company has reported a foreign exchange gain of \$861 (Sept. 30, 2019 ó loss of \$1,863).

Sensitivity to market risks

At September 30, 2020, the Company had:

- A bank operating loan that had not been drawn upon (June 30, 2020 - \$Nil) which bears interest predicated upon the TD Bank prime lending rate. Based upon the current amount due on the operating loan, a 1% increase in the TD Bank prime lending rate, as at the financial reporting date, would result in no additional interest expense over the next 12 month period.
- US\$46,399 (June 30, 2020 ó US\$61,399) included in accounts receivable. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of \$2,320 in future cash inflow.
- US\$109,059 (June 30, 2020 óUS\$114,337) included in accounts payable. A 5% decrease in the value of the Canadian dollar relative to the US dollar would result in an increase of \$5,453 in future cash outflow.

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

16. COVID-19

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

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

The health and safety of our personnel is our top priority however continuing to operate free of COVID-19 infections does not ensure that there will be no related implications to the business. The present and future economic effects of COVID-19 cannot be accurately predicted at this time. This includes the potential impact the pandemic may have on the 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 future business, results of operations, financial position and cash flows.

To help mitigate the uncertainty created by COVID-19, the Company has availed itself of subsidies made available to it by the Canadian Federal government. During the period, the Company obtained CEWS benefit in the amount of \$76,584 which has been applied to reduce labour costs (*note 3*) and Employee and consultant compensation (*note 12*). The Company will continue to monitor all government subsidies and will make application wherever it satisfies the eligibility criteria.