ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Financial Statements

March 31, 2019

(Stated in Canadian Dollars)

<u>Notice To Reader</u>

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

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on May 29, 2019. They have not been reviewed by the Companyǒs auditors.

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

Unaudited Condensed Interim Consolidated Statements of Financial Position
(Stated in Canadian Dollars)
March 31, 2019

		Mar. 31 2019		June 30 2018
Assets				
Current assets				
Accounts receivable	$	**440,652**	$	479,621
Inventories *(note 4)*		**825,217**		563,237
Prepaid expenses		**21,433**		19,502
		1,287,302		1,062,360
Equipment *(note 5)*		**274,985**		321,012
Investments *(note 6)*		**866,551**		807,749
Lease deposit *(note 9)*		**35,000**		35,000
	$	**2,463,838**	$	2,226,121
Liabilities				
Current liabilities				
Bank indebtedness *(note 7)*	$	**141,580**	$	157,374
Accounts payable and accrued liabilities *(note 11)*		**924,072**		546,845
Customer deposits		**49,576**		36,895
Current portion of long-term debt *(note 8)*		**13,166**		39,493
		1,128,394		780,607
Long-term debt *(note 8)*		**-**		3,291
		1,128,394		783,898
Commitment *(note 9)*				
Shareholders' equity				
Share capital *(note 10)*		**23,394,174**		23,215,877
Warrants *(note 10)*		**182,956**		137,470
Contributed surplus *(note 10)*		**1,533,373**		1,531,134
Deficit		**(23,775,059)**		(23,442,258)
		1,335,444		1,442,223
	$	**2,463,838**	$	2,226,121

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

Approved by the Board:

Signed: "Steve Smith" — Director

Signed: "K. Michael Guerreiro" — Director

Unaudited Condensed Interim Consolidated Statements of Changes in Equity
(Stated in Canadian Dollars)
March 31, 2019

	Share Capital	Warrants	Contributed Surplus	Deficit	Total
Balance, June 30, 2017	$ 22,418,782	$ 105,376	$ 955,168	$ (22,558,502)	$ 920,824
Stock options exercised	37,085	-	(17,085)	-	20,000
Warrants exercised	165,131	(39,131)	-	-	126,000
Warrants expired	-	(1,055)	1,055	-	-
Private placement	405,679	72,280	-	-	477,959
Shares issued as consideration for investment	189,200	-	-	-	189,200
Share-based payments	-	-	591,996	-	591,996
Net loss for the period	-	-	-	(854,174)	(854,174)
Balance, March 31, 2018	23,215,877	137,470	1,531,134	(23,412,676)	1,471,805
Net loss for the period	-	-	-	(29,582)	(29,582)
Balance, June 30, 2018	23,215,877	137,470	1,531,134	(23,442,258)	1,442,223
Stock options exercised	27,426	-	(12,426)	-	15,000
Private placement	150,871	60,151	-	-	211,022
Warrants expired	-	(14,665)	14,665	-	-
Net loss for the period	-	-	-	(332,801)	(332,800)
Balance, March 31, 2019	**$ 23,394,174**	**$ 182,956**	**$ 1,533,373**	**$ (23,775,059)**	**$ 1,335,444**

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

Unaudited Condensed Interim Consolidated Statements of Comprehensive (Loss) Income
(Stated in Canadian Dollars)
March 31, 2019

	Three months ended 2019	Three months ended 2018	Nine months ended 2019	Nine months ended 2018
Product sales	**$ 1,065,043**	$ 729,743	**$ 3,129,365**	$ 2,675,280
Cost of product sales *(note 4)*	**808,222**	546,301	**2,308,856**	1,887,747
	256,821	183,442	**820,509**	787,533
Expenses				
Selling, general and administrative *(note 12)*	**350,000**	330,353	**1,068,163**	1,041,473
Stock-based compensation *(notes 10 and 11)*	**-**	591,996	**-**	591,996
Interest expense - long term	**247**	723	**1,143**	2,481
Interest expense - other	**2,607**	511	**7,582**	1,120
Finance fees *(note 11)*	**4,811**	-	**13,774**	-
Depreciation of equipment	**1,249**	1,316	**3,689**	3,894
Foreign exchange (gain) loss	**(25)**	(436)	**5,761**	(9,192)
	358,889	924,463	**1,100,112**	1,631,772
Loss before miscellaneous income and income taxes	**(102,068)**	(741,021)	**(279,603)**	(844,239)
Equity in loss of Conversance Inc. *(note 6)*	**(19,504)**	(9,944)	**(47,491)**	(9,944)
Equity in loss of Twenty49 Ltd. *(note 6)*	**(5,707)**	-	**(5,707)**	-
Miscellaneous income	**-**	8	**-**	9
Loss before provision for income taxes	**(127,279)**	(750,957)	**(332,801)**	(854,174)
Provision for income taxes	**-**	-	**-**	-
Net loss and comprehensive loss for the period	**$ (127,279)**	$ (750,957)	**$ (332,801)**	$ (854,174)
Net loss per share				
Basic	**$ (0.01)**	$ (0.04)	**$ (0.02)**	$ (0.05)
Fully diluted	**$ (0.01)**	$ 0.00	**$ (0.02)**	$ (0.05)
Weighted average shares outstanding				
Basic	**20,990,363**	19,675,085	**20,475,375**	18,092,948
Fully diluted	**20,993,363**	19,675,085	**20,475,375**	18,092,948

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

Unaudited Condensed Interim Consolidated Statements of Cash Flows
(Stated in Canadian Dollars)
March 31, 2019

	Three months ended **2019**	Three months ended 2018	Nine months ended **2019**	Nine months ended 2018
Cash flow from operating activities				
Net loss for the period	**$ (127,279)**	$ (750,957)	**$ (332,801)**	$ (854,174)
Items not involving cash				
Depreciation of equipment	**16,009**	19,825	**47,969**	58,539
Share based payments	**-**	591,996	**-**	591,996
Equity in loss of Conversance Inc.	**19,504**	9,944	**47,491**	9,944
Equity in loss of Twenty49 Ltd.	**5,707**	-	**5,707**	-
Changes in non-cash working capital items:				
Accounts receivable	**54,807**	139,621	**38,969**	284,531
Inventories	**(207,542)**	(128,329)	**(261,980)**	(53,813)
Prepaid expenses	**(5,044)**	(48,785)	**(1,931)**	(41,924)
Accounts payable and accrued liabilities	**154,920**	119,686	**377,227**	(102,775)
Customer deposits	**27,642**	38,953	**12,681**	(37,285)
	(61,276)	(8,046)	**(66,668)**	(144,961)
Cash flow from investing activities				
Purchase of equipment	**-**	(7,073)	**(1,942)**	(8,776)
Acquisition of investment	**(112,000)**	(646,000)	**(112,000)**	(646,000)
	(112,000)	(653,073)	**(113,942)**	(654,776)
Cash flow from financing activities				
Net (repayment) proceeds of bank operating loan	**(20,000)**	60,000	**60,000**	60,000
Repayment of long-term debt	**(9,873)**	(9,873)	**(29,619)**	(29,620)
Issuance of common shares	**92,913**	586,459	**226,023**	623,959
	63,040	636,586	**256,404**	654,339
Decrease in cash	**(110,236)**	(24,533)	**75,794**	(145,398)
Cash (deficiency), beginning of period	**138,656**	66,129	**(47,374)**	186,994
Cash, end of period	**$ 28,420**	$ 41,596	**$ 28,420**	$ 41,596

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	**$ 2,887**	$ 1,256	**$ 8,775**	$ 3,637
Cash paid for income taxes	**$ -**	$ -	**$ -**	$ -

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

(Stated in Canadian Dollars)

1. Business of the Company

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

2. Significant Accounting Policies

Statement of compliance
The Company has prepared these unaudited condensed interim financial statements in accordance with IAS 34, *Interim Financial Reporting*, employing all of the same accounting policies and methods of computation as disclosed in the annual financial statements as at June 30, 2018 with the exception of the changes arising from the adoption of IFRS 9 Financial instruments and IFRS 15 Revenue From Contracts With Customers with a date of initial application of July 1, 2018.

The notes to these unaudited condensed interim consolidated financial statements are intended to provide a description of events and transactions that are significant to an understanding of the changes in the Companyôs financial position and performance since June 30, 2018. 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, 2018.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 29, 2019.

Basis of presentation and going concern considerations
These unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting, except for cash flow information and in accordance with IFRS applicable to a ñgoing concernò. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. If the going concern assumption were not appropriate for these unaudited condensed interim consolidated financial statements then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

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

Permatech Electronics Corporation (ñPECò)	- 100% owned
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.

2. Significant Accounting Policies - continued

Significant accounting judgments and estimates - continued
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.

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.

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

3. Changes in Accounting Policies

The Companyôs accounting policies will typically change only when there is a change in IFRS. Effective July 1, 2018 the Company has adopted:

- IFRS 9 Financial instruments, which uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing multiple rules in IAS 39
- IFRS 15 Revenue from contracts with customers, which replaces existing revenue standards and interpretations with a single standard and provides additional guidance on revenue recognition for contracts with customers.

IFRS 9 Financial instruments
The approach in IFRS 9 is generally based on how an entity manages its financial assets in the context of its business model and the contractual cash flow characteristics of the financial assets. Impairment of financial assets is determined using a single impairment model that requires entities to recognize expected credit losses without requiring a triggering event to occur. The new impairment model applies to financial assets measured at amortized cost. IFRS 9 largely retains the existing requirements under IAS 39 for the classification and measurement of financial liabilities.

This standard has been applied retrospectively, resulting in no changes to any amounts presented in prior periods.

We have assessed the classification and measurement of our financial instruments under IFRS 9, with reference to the former classification under IAS39, as follows:

Financial Assets	**IFRS 9**	**IAS39**
Cash	Amortized cost	Fair Value through profit and loss
Accounts receivable	Amortized cost	Loans and receivables
Financial Liabilities		
Bank indebtedness	Amortized cost	Other financial liabilities
Accounts payable and accrued liabilities	Amortized cost	Other financial liabilities
Customer deposits	Amortized cost	Other financial liabilities
Long-term debt	Amortized cost	Other financial liabilities

(Stated in Canadian Dollars)

3. Changes in Accounting Policies - continued

Amortized cost ï The amount at which a financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit losses.

The effective interest method - The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to the net carrying amount on initial recognition.

IFRS 15 Revenue from contracts with customers
IFRS 15 provides a definition of what constitutes a contract with customers as well as differentiating between changes to an existing contract and the commencement of a new contract. It also requires the determination of performance criteria which then trigger the recognition, subject to additional criteria, of revenue at various times throughout a contract or at the end of a contact. Revenue is to be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services.

This standard has been applied retrospectively, resulting in no changes to any amounts presented in prior periods, but it has resulted in the modification of how the Companyùs revenue recognition policy is characterized. The new policy is described as follows:

Revenue recognition - Revenue is recognized when the Company has satisfied its performance obligations, the consideration to be received can be measured reliably, and the ability to collect is probable, which typically arises when the product is delivered.

4. Inventories

The carrying value of inventory is comprised of:

	Mar. 31 2019	June 30 2018
Raw materials and supplies [(1)]	**$ 762,084**	$ 529,192
Work in process	**51,021**	17,060
Finished goods	**12,112**	16,985
	$ 825,217	$ 563,237

(1) Raw materials and supplies is presented net of provisions for obsolete and/or slow moving items in the amount of $23,570 (June 30, 2018 - $10,935).

Inventory utilization during the period was as follows:

	Mar. 31 2019	Mar. 31 2018
Raw materials and supplies used	**$ 1,572,247**	$ 1,254,733
Labour costs	**590,675**	535,410
Depreciation	**44,280**	54,646
Other costs	**130,743**	76,029
Net change in finished goods and work in process	**(29,089)**	(33,071)
Cost of product sales	**$ 2,308,856**	$ 1,887,747

(Stated in Canadian Dollars)

5. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Cost:					
Balance, June 30, 2017	$ 181,402	$ 71,277	$ 2,587,172	$ 84,143	2,923,994
Additions	1,704	-	7,072	-	8,776
Balance, March 31, 2018	183,106	71,277	2,594,244	84,143	2,932,770
Additions	-	-	-	-	-
Balance, June 30, 2018	183,106	71,277	2,594,244	84,143	2,932,770
Additions	1,942	-	-	-	1,942
Balance, March 31, 2019	**$ 185,048**	**$ 71,277**	**$ 2,594,244**	**$ 84,143**	**$ 2,934,712**
Accumulated Depreciation:					
Balance, June 30, 2017	$ (174,298)	$ (69,660)	$ (2,225,138)	$ (64,474)	$ (2,533,570)
Depreciation	(1,777)	(242)	(54,784)	(1,736)	(58,539)
Balance, March 31, 2018	(176,075)	(69,902)	(2,279,922)	(66,210)	(2,592,109)
Depreciation	(610)	(81)	(18,380)	(578)	(19,649)
Balance, June 30, 2018	(176,685)	(69,983)	(2,298,302)	(66,788)	(2,611,758)
Depreciation	(1,649)	(194)	(44,391)	(1,735)	(47,969)
Balance, March 31, 2019	**$ (178,334)**	**$ (70,177)**	**$ (2,342,693)**	**$ (68,523)**	**$ (2,659,727)**
Carrying Amounts:					
June 30, 2017	$ 7,104	$ 1,617	$ 362,034	$ 19,669	$ 390,424
March 31, 2018	$ 7,031	$ 1,375	$ 314,322	$ 17,933	$ 340,661
June 30, 2018	$ 6,421	$ 1,294	$ 295,942	$ 17,355	$ 321,012
March 31, 2019	**$ 6,714**	**$ 1,100**	**$ 251,551**	**$ 15,620**	**$ 274,985**

6. Investments

The Company holds non-controlling interests in the following entities, each of which 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.

	Mar. 31 2019	June 30 2018
Twenty49 Ltd.	**$ 106,293**	$ -
Conversance Inc.	**760,258**	807,749
	$ 866,551	$ 807,749

The Company has determined that as at March 31, 2019 and June 30, 2018, there had been no loss event in relation to either of these investments and accordingly no test for impairment was completed.

Twenty49 Ltd.

Twenty49 Ltd. is a private Canadian technology company, operating in the United States through its wholly-owned subsidiary. Technology is being developed for four business units, three of which focus on collecting information through proprietary hardware and software then packaging and selling data to all operational levels of the cannabis industry. The fourth business unit will provide US cities and townships with the ability to automate the collection of cannabis sales taxes from retailers in their jurisdictions. During the period the Company paid $112,000 to acquire 5,600,000 founder shares, representing a 30.27% interest, and an option to acquire 8,200,000 additional shares at $0.025 each, on or before May 31, 2019.

(Stated in Canadian Dollars)

6. Investments - continued

Twenty49 Ltd. - continued

The carrying value of the investment in Twenty49 Ltd. is comprised of the following:

		Mar. 31 2019		June 30 2018
Investment representing a 30.27% interest (June 30, 2018 ï Nil)	$	**112,000**	$	-
Equity in post-acquisition loss		**(5,707)**		-
	$	**106,293**	$	-

Conversance Inc.

Conversance Inc. is a private Canadian technology company focussed on developing and marketing proprietary artificial-intelligence supported distributed ledger technologies. 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.

The carrying value of the investment in Conversance Inc. is comprised of the following:

		Mar. 31 2019		June 30 2018
Investment representing a 25.29% interest (June 30, 2018 ï 25.29%)	$	**1,129,762**	$	1,129,762
Impairment provision		**(294,562)**		(294,562)
Equity in post-acquisition loss		**(74,942)**		(27,451)
	$	**760,258**	$	807,749

7. Bank indebtedness

		Mar. 31 2019		June 30 2018
Cash (deficiency), inclusive of outstanding payments	$	**28,420**	$	(47,374)
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.		**(170,000)**		(110,000)
	$	**(141,580)**	$	(157,374)

8. Long-Term Debt

		Mar. 31 2019		June 30 2018
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.	$	**13,166**	$	42,784
Less: Current portion		**13,166**		39,493
	$	**-**	$	3,281

The minimum annual future principal repayments are as follows:

2020	$	13,166

(Stated in Canadian Dollars)

9. 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 of $8,979 are required over the remaining term of the lease as follows:

2020	$	107,743
2021		107,743
	$	215,486

10. Share Capital

Authorized:

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

Issued:

	Mar. 31 2019	June 30 2018
Common shares	**$ 23,394,174**	$ 23,215,877

Common shares	Number of Shares [1]	Amount
Balance June 30, 2017	17,173,696	$ 22,418,782
Exercise of stock options	200,000	37,085
Exercise of warrants	1,900,000	165,131
Private placement [2]	625,000	405,679
Investment	275,000	189,200
Balance March 31, 2018 and June 30, 2018	20,173,696	23,215,877
Exercise of stock options	150,000	27,426
Private placement [3]	780,000	150,871
Balance March 31, 2019	21,103,696	**$ 23,394,174**

(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) The Company completed a private placement transaction whereby it issued 625,000 working capital units for gross proceeds of $531,250. Each unit consisted of one common share and one-half common share purchase warrant. Each full common share purchase warrant entitles the holder to acquire one additional common share of the Company at a price of $1.10 until January 31, 2019. The Company paid findersô fees of $37,188, incurred other costs of $16,140, attributed a value of $57,615 to the common share purchase warrants, and issued 43,750 broker warrants valued at $14,665. Each broker warrant entitles the holder to acquire 1 common share of the Company for $0.85 until January 30, 2019.

(3) The Company completed a private placement transaction, through two closings, whereby an aggregate of 780,000 working capital units were issued for gross proceeds of $234,000. In the first closing 440,000 units where issued for gross proceeds of $132,000 and in the second 340,000 units where issued for gross proceeds of $102,000. Each unit consisted of one common share and one-half common share purchase warrant. Each full common share purchase warrant entitles the holder to acquire one additional common share of the Company at a price of $0.40 until eighteen months following the closing date. Through the two closings the Company paid aggregate findersô fees of $11,760, incurred other costs of $11,218, attributed a value of $51,176 to the common share purchase warrants, and issued 39,200 broker warrants valued at $8,975. Each broker warrant entitles the holder to acquire one common share of the Company for $0.30 until eighteen months following the closing date.

(Stated in Canadian Dollars)

10. Share Capital - continued

Details of warrants outstanding:

	Number of Warrants	Amount
Balance June 30, 2017	4,900,000	$ 105,376
Warrants issued via private placement	312,500	57,615
Broker warrants issued via private placement	43,750	14,665
Warrants exercised	(1,900,000)	(39,131)
Warrants expired	(100,000)	(1,055)
Balance March 31, 2018 and June 30, 2018	3,256,250	137,470
Warrants issued via private placement	390,000	51,176
Broker warrants issued via private placement	39,200	8,975
Warrants expired	(43,750)	(14,665)
Balance December 31, 2018	3,641,700	**$ 182,956**

	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	$	1.10	Jan. 31, 2020
Issued Dec. 28, 2018	220,000	$	0.40	June 28, 2020
Issued Dec. 28, 2018	23,800	$	0.30	June 28, 2020
Issued Jan. 31, 2019	170,000	$	0.40	July 31, 2020
Issued Jan. 31, 2019	15,400	$	0.30	July 31, 2020

[1] During the reporting period the Company obtained regulatory approval for the expiry date of these warrants to be extended by one year, to January 31, 2020.

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

	Mar. 31 2019	June 30 2018
Dividend yield	**Nil**	Nil
Risk free interest rate (%)	**1.76 - 1.84**	1.61
Expected stock volatility (%)	**116.25 – 116.52**	70.49
Expected life (years)	**1.5**	1

	Number of Warrants		Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning of period	3,256,250	$	0.17	Sep. 26, 2021
Issued during the period	429,200	$	0.39	July 12, 2020
Expired during the period	(43,750)	$	0.85	Jan. 31, 2019
Expiry date extended during the period	(312,500)	$	1.10	Jan. 31, 2019
Expiry date extended during the period	312,500	$	1.10	Jan. 31, 2020
End of period	3,641,700	$	0.19	Aug. 16, 2021

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

(Stated in Canadian Dollars)

10. Share Capital - continued

Details of options outstanding:

	Common Shares Under Option	Weighted Average Price per Option		Weighted Average Expiry Date
Beginning of period	1,500,000	$	0.43	Aug. 2, 2021
Exercised during the period	(150,000)	$	0.10	Dec. 31, 2018
Expired during the period	(150,000)	$	0.10	Dec. 31, 2018
Expiry date reduced during the period (1)	(150,000)	$	0.15	Dec. 21, 2021
Expiry date reduced during the period	150,000	$	0.15	July 9, 2019
End of period	1,200,000	$	0.52	Mar. 26, 2022

(1) The holder of these options was not re-elected as a director of the Company at the shareholders meeting held January 9, 2019. In accordance with the option agreement the term of these options is reduced to be six months from the date the individual ceased to be a director.

	Common Shares Under Option	Number of Options Vested	Exercise Price		Expiry Date
Granted Mar. 3, 2016	400,000 (1)	400,000	$	0.05	Mar. 3, 2021
Granted December 21, 2016	150,000 (1)	150,000	$	0.15	July 9, 2019
Granted December 21, 2016	50,000	50,000	$	0.15	Dec. 21, 2021
Granted January 12, 2018	600,000 (1)	600,000	$	0.95	Jan. 12, 2023

(1) Directors, former Directors, and/or officers of the Company hold these options.

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

	Mar. 31 2019	June 30 2018
Dividend yield	**None issued**	Nil
Risk free interest rate (%)	**None issued**	1.62 ï 1.98
Expected stock volatility (%)	**None issued**	99.36 ï 154.07
Expected life (years)	**None issued**	1 - 5

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:

		Mar. 31 2019		June 30 2018
Contributed surplus, beginning of period	**$**	**1,531,134**	$	955,168
Stock options granted		**-**		591,966
Stock options exercised		**(12,426)**		(17,085)
Warrants expired		**14,665**		1,055
Contributed surplus, end of period	**$**	**1,533,373**	$	1,531,134

(Stated in Canadian Dollars)

11. Related Party Transactions

The Company had transactions during the period with key management personnel and with 1114377 Ontario Inc., a company controlled by the spouse of a director of Permatech Electronics Corporation.

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

		Mar. 31 2019		Mar. 31 2018
Employee and consultant compensation	**$**	**370,413**	$	311,625
Professional fees		**38,675**		51,409
Financing fees		**13,774**		-
Legal fees included as share issuance costs		**10,318**		15,000
Legal fees included as investment acquisition costs		**-**		6,000
	$	**433,180**	$	384,034
Stock-based compensation	**$**	**-**	$	493,017

As at March 31, 2019 $290,244 (June 30, 2018 - $169,370) was payable to these related parties and included in accounts payable and accrued liabilities.

12. Selling, general and administrative expenses

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

		Mar. 31 2019		Mar. 31 2018
Employee and consultant compensation *(note 11)*	**$**	**735,174**	$	678,561
Occupancy costs		**193,551**		197,531
Professional fees *(note 11)*		**49,676**		73,943
Shareholder services		**21,838**		22,899
Insurance		**23,809**		23,016
Other		**44,115**		45,433
	$	**1,068,163**	$	1,041,473

13. Income Taxes

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

		Mar. 31 2019		June 30 2018
Deferred tax assets:				
Non-capital losses carried forward	$	**12,712**	$	4,875
Deferred tax liabilities:				
Property, plant and equipment		**(12,712)**		(4,875)
Net deferred tax liabilities	$	**-**	$	-

(Stated in Canadian Dollars)

13. Income Taxes - continued

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 2019	June 30 2018
Inventory	**$ 23,570**	$ 10,935
Share issuance costs	**70,140**	47,162
Intangible assets	**30,110**	30,110
Property, plant and equipment	**25,505**	25,394
Resource related expenditures	**349,050**	349,050
Scientific research and experimental development	**1,050,618**	1,050,618
Non-capital loss carry-forwards	**1,837,882**	1,790,025
Net capital loss carry-forwards	**15,592,989**	15,592,989

Share issue costs expire from 2021 to 2024. 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, except for non-capital loss carry-forwards, 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.

Non-capital Loss Carry-Forwards

The potential income tax benefits resulting from the application of income tax losses have not been recognized in these unaudited condensed interim 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:

Year	
2027	$ 209,777
2030	174,603
2031	577,958
2032	14,862
2033	76,561
2034	168,430
2035	136,504
2036	69,013
2037	184,366
2038	294,158
	$ 1,906,232

14. Capital disclosures

The Companyộs 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.

14. Capital disclosures - continued

Management includes the following items in its definition of capital:

	Mar. 31 2019	June 30 2018
Long-term debt	$ **13,166**	$ 42,774
Share Capital	**23,394,174**	23,215,877
Warrants	**182,956**	137,470
Contributed surplus	**1,533,373**	1,531,134
Deficit	**(23,775,059)**	(23,414,807)
Net capital under management	$ **1,348,610**	$ 1,512,448

15. Financial risk factors

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Companyôs primary exposure to credit risk is in its accounts receivable. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. It has been determined that no allowance is required, as all amounts outstanding are considered collectible. No bad debts were recognized during the periods ended March 31, 2019 or March 31, 2018.

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 Companyôs revenues during a reporting period. During the nine-month period ended March 31, 2019 the Company had two major customers who together represented 26% of total revenues. In the comparative period, there were two major customers which together represented 25% of revenues. Amounts due from major customers represented 10% of accounts receivable at March 31, 2019 (Mar. 31, 2018 - 1%). 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.

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. At March 31, 2019 the Company had current financial assets of $440,652 (June 30, 2018 - $479,621) available to settle current financial liabilities of $1,128,394 (June 30, 2018 - $780,607). The Company manages its liquidity risk through the management of its capital *(note 14)* which incorporates the continuous monitoring of actual and projected cash flows to ensure that it has sufficient liquidity to meet its operating commitments without incurring unacceptable losses or risking damage to the Companyôs reputation.

Market risks

The Company is exposed to interest rate risk due 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, 2019 the Company realized a loss on foreign exchange in the amount of $5,761 (Mar. 31, 2018 ï gain of $9,192).

15. Financial risk factors - continued

Sensitivity to market risks

At March 31, 2019, the Company had:

- $13,166 (June 30, 2018 - $42,784) in long term debt and a bank operating loan in the amount of $170,000 (June 30, 2018 - $110,000) each of which bears interest predicated upon the TD Bank prime lending rate. The bank operating loan is revolving, meaning it may increase or decrease based on daily cash requirements. 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 additional interest expense ï long-term debt of $27 and interest expense ï other of $1,700 over the next 12 month period.
- US$109,629 (June 30, 2018 ï US$63,433) included in accounts receivable. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $7,353 in future cash inflow.
- US$4,934 (June 30, 2018 ï US$4,634) included in prepaid expenses. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in recognition of $331 in additional future expenses.
- US$4,701 (June 30, 2018 ï US$16,417 overdraft) included in cash or bank indebtedness. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $315 in carrying value.
- US$226,233 (June 30, 2018 ï US$119,219) 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 $15,175 in future cash outflow.
- US$36,956 (June 30, 2018 ï US$27,879) included in customer deposits. A 5% decrease in the value of the Canadian dollar relative to the US dollar would result in an increase of $2,479 in future cash outflow.

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