

**ZTEST Electronics Inc.**  
**Consolidated Financial Statements**  
**June 30, 2011 and 2010**

## 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 balance sheets as at June 30, 2011 and 2010 and the consolidated statements of income, comprehensive income and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### 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 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 auditors' 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 is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present, in all material respects, the financial position of ZTEST Electronics Inc. as of June 30, 2011 and 2010, and its results of operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed: "**MSCM LLP**"

**CHARTERED ACCOUNTANTS  
LICENSED PUBLIC ACCOUNTANTS**

Toronto, Ontario  
October 20, 2011

## ZTEST Electronics Inc.

### Consolidated Balance Sheets

June 30, 2011 and 2010

	2011	2010
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 406,860	\$ 395,767
Accounts receivable	448,164	510,198
Inventories (note 4)	309,512	273,512
Prepaid expenses and other assets	72,079	34,564
	1,236,615	1,214,041
Lease deposit (note 7)	35,000	-
Equipment (note 5)	834,955	1,041,662
	\$ 2,106,570	\$ 2,255,703
<b>Liabilities</b>		
<b>Current liabilities</b>		
Customer deposits and deferred revenue	\$ 56,119	\$ 7,896
Accounts payable and accrued liabilities	475,977	546,752
Dividends payable	268,201	268,201
Current portion of long-term debt (note 6)	250,161	137,563
Preferred shares (note 8)	473,855	473,855
	1,524,313	1,434,267
Long-term debt (note 6)	1,051,125	1,352,187
	2,575,438	2,786,454
<b>Deficiency in assets</b>		
Share capital (note 8)	22,065,037	21,973,055
Warrants (note 8)	81,564	-
Contributed surplus (note 8)	485,451	416,755
Deficit	(23,100,920)	(22,920,561)
	(468,868)	(530,751)
	\$ 2,106,570	\$ 2,255,703

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

Approved by the Board:

Signed: "John Perreault"

Director

Signed: "Wojciech Drzazga"

Director

**ZTEST Electronics Inc.****Consolidated Statements of Income, Comprehensive Income and Deficit***For the years ended June 30, 2011 and 2010*

	<u>2011</u>	<u>2010</u>
<b>Product sales</b>	<b>\$ 4,010,068</b>	<b>\$ 3,837,630</b>
<b>Cost of product sales (note 4)</b>	<b>2,643,484</b>	<b>2,272,935</b>
	<b><u>1,366,584</u></b>	<b><u>1,564,695</u></b>
<b>Expenses</b>		
Selling, general and administrative	<b>1,340,392</b>	1,112,964
Interest expense - long-term debt (note 9)	<b>147,119</b>	160,123
Interest expense - other (note 9)	<b>299</b>	11,147
Financing fees (note 7)	<b>44,346</b>	-
Amortization of equipment	<b>10,445</b>	12,119
Foreign exchange loss	<b>2,049</b>	2,132
	<b><u>1,544,650</u></b>	<b><u>1,298,485</u></b>
<b>(Loss) income from operations</b>	<b>(178,066)</b>	266,210
Miscellaneous income	<b>1,845</b>	-
Gain on disposal of mineral resource properties	<b>-</b>	114,403
Loss on disposal of equipment	<b>(4,138)</b>	-
<b>(Loss) income before provision for income taxes</b>	<b>(180,359)</b>	380,613
Provision for income taxes (note 10)	<b>-</b>	-
<b>Net (loss) income and comprehensive (loss) income for the year</b>	<b>(180,359)</b>	380,613
<b>Deficit, beginning of year</b>	<b>(22,920,561)</b>	(23,301,174)
<b>Deficit, end of year</b>	<b>\$ (23,100,920)</b>	<b>\$ (22,920,561)</b>
<b>Net (loss) income per share - basic</b>	<b>\$ (0.031)</b>	<b>\$ 0.072</b>
<b>- fully diluted</b>	<b>\$ (0.031)</b>	<b>\$ 0.072</b>
<b>Weighted average shares outstanding – basic and fully diluted</b>	<b><u>5,745,776</u></b>	<b><u>5,262,488</u></b>

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

## ZTEST Electronics Inc.

### Consolidated Statements of Cash Flows

For the years ended June 30, 2011 and 2010

	2011	2010
<b>Cash flow from operating activities</b>		
Net (loss) income for the years	\$ (180,359)	\$ 380,613
Items not involving cash		
Amortization of equipment	213,110	264,091
Loss on disposal of equipment	4,138	-
Stock based compensation	68,696	732
Interest accretion	19,730	18,711
Warrants accounted for as financing fees	42,746	-
Gain on disposal of mineral resource properties	-	(114,403)
Changes in non-cash working capital items		
Accounts receivable	62,034	(73,458)
Inventories	(36,000)	6,397
Prepaid expenses and other assets	(72,515)	831
Customer deposits and deferred revenue	48,223	(30,554)
Accounts payable and accrued liabilities	(70,775)	81,360
	<b>99,028</b>	<b>534,320</b>
<b>Cash flow from investing activities</b>		
Purchase of equipment	(11,691)	(19,903)
Proceeds on disposal of equipment	1,150	-
Proceeds on disposal of mineral resource properties	-	114,403
	<b>(10,541)</b>	<b>94,500</b>
<b>Cash flow from financing activities</b>		
Proceeds of notes payable	-	206,500
Proceeds of long-term debt	-	7,132
Proceeds of share issuance	135,000	-
Costs of share issuance	(4,200)	-
Repayment of notes payable	-	(300,680)
Repayment of long-term debt	(208,194)	(227,810)
	<b>(77,394)</b>	<b>(314,858)</b>
<b>Increase in cash</b>	<b>11,093</b>	<b>313,962</b>
<b>Cash, beginning of year</b>	<b>395,767</b>	<b>81,805</b>
<b>Cash, end of year</b>	<b>\$ 406,860</b>	<b>\$ 395,767</b>

### Supplemental Disclosure of Cash Flow Information

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

Interest	\$ 126,399	\$ 133,754
Income taxes	\$ -	\$ -

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

### 1. Business of the Company

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ZTEST Electronics Inc. ("the Company") was amalgamated under the laws of Ontario and carries on business designing, developing, and assembling printed circuit boards and other electronic equipment. The Company's shares trade on the Canadian Venture Exchange under the symbol "ZTE".

### 2. Significant Accounting Policies

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#### Going concern basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a "going concern". This assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. 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. As at June 30, 2011 the Company has a deficit, to date, of \$23,100,920 and working capital deficiency of \$287,698. The Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and its ability to generate positive cash flow from operations. If the going concern assumption were not appropriate for these consolidated financial statements then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

#### Basis of presentation

These consolidated financial statements have been prepared using the consolidation method and accordingly include the following subsidiaries' assets and liabilities as well as the revenues and expenses arising, subsequent to the date of acquisition:

Permatech Electronics Corporation	-	100.0% <sup>(1)</sup>	owned
Northern Cross Minerals Inc.	-	66.7%	owned (inactive)

<sup>(1)</sup> The Company has granted options to two creditors whereby each option-holder has the right to acquire a 24% interest in Permatech Electronics Corp. (*note 6*).

#### Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

The Black Scholes option valuation model used by the Company to determine fair values, was developed for use in estimating the fair value of freely traded options and warrants. This model requires the input of highly subjective assumptions including future stock price volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing model does not necessarily provide a reliable single measure of the fair value of the Company's stock options and warrants.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with maturity at the date of purchase of three months or less. At June 30, 2011 and June 30, 2010 there were no cash equivalents on hand.

#### 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.

**Notes to Consolidated Financial Statements***June 30, 2011 and 2010*

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**2. Significant Accounting Policies - continued**

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**Equipment**

Equipment is stated at cost. Amortization is provided over the related assets' estimated useful lives using the following methods and annual rates with one-half of the rates noted below used in the year of acquisition:

Computer equipment	-	30 %	declining balance
Office equipment and furniture	-	20 %	declining balance
Manufacturing equipment	-	20 %	declining balance
Leasehold improvements	-	10 yrs	straight line

Equipment is reviewed for possible impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

**Investments**

The Company currently has investments in four inactive corporations and holds preference shares of another. The carrying value of each of these investments has been written down to their estimated net realizable value of \$Nil (2010 - \$Nil) and any further recoveries, should any arise, will be accounted for on a cash basis.

**Future income taxes**

The Company accounts for income taxes using the asset and liability method of accounting. Under this method, future income tax assets and future income tax liabilities are recorded based on temporary differences between the financial reporting basis of the Company's assets and liabilities and their corresponding tax basis. The future benefit of each income tax asset, including unused tax losses, is recognized subject to a valuation allowance that is predicated upon the extent to which it is more likely than not that such assets will be realized and losses will be utilized. These future income tax assets and liabilities are measured using substantively enacted tax rates and laws that are expected to apply when the tax assets or liabilities are to be settled or realized.

**Revenue recognition**

Revenue is recorded when the product is delivered and/or the service is completed which corresponds with the transfer of title, and when collection is reasonably assured.

**Earnings per share**

Basic earnings (loss) per share are calculated using the weighted average number of common shares outstanding throughout the year. Diluted earnings (loss) per share are computed using the treasury stock method. Stock options and warrants outstanding are not included in the computation of diluted earnings (loss) per share if their inclusion would be anti-dilutive.

**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 balance sheet date 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 of the current year.

**Stock based compensation**

The Company has in effect a Stock Option Plan. Stock options awarded to directors, officers, consultants and employees are accounted for using the fair value-based method. Fair value is calculated using the Black Scholes model and is added to contributed surplus over the vesting period for the options. Consideration paid on the exercise of stock options is credited to share capital together with any associated contributed surplus.

**Future accounting pronouncements*****International reporting standards:***

The Accounting Standards Board ("AcSB") requires that all public entities transition to International Financial Reporting Standards (IFRS) from Canadian GAAP for fiscal years commencing on or after January 1, 2011. Accordingly, the Company will begin reporting in accordance with IFRS for its fiscal year ended June 30, 2012 and the first report to be issued in under IFRS will be the interim consolidated financial statements for the period ended September 30, 2011. It is currently anticipated that this transition will result in additional disclosures but that it will not result in any revision to, or restatement of, the carrying value of any assets or liabilities or the amounts of any revenues or expenses presented in these consolidated financial statements.

**2. Significant Accounting Policies - continued**

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**Segment Disclosure**

The Company has one operating segment involving the design, development, and assembly of printed circuit boards and other electronic equipment. All of the Company's assets are located in Canada.

**3. Financial Instruments**

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The Company has determined the most appropriate classification for its financial instruments such that cash is classified as held for trading and is measured at fair value. Accounts receivable has been classified as loans and receivables and accounts payable, accrued liabilities, customer deposits, deferred revenue, dividends payable, notes payable, long-term debt and preferred shares are classified as other financial liabilities, which are measured at amortized cost. These classifications have remained unchanged since initial recognition.

**Fair Values**

The carrying amounts of cash, accounts receivable, customer deposits and deferred revenue, accounts payable and accrued liabilities, and notes payable approximate their fair values due to the short-term maturities of these instruments. Long-term debt is recognized initially at fair value. The difference between face value and initial fair value, if any, is amortized on a straight line basis over the remaining term of the debt. It is not practicable to determine the fair value of preferred shares or dividends payable since the timing of cash flows are not known.

**Risks**

The Company is exposed to credit risk, liquidity risk, currency risk, and interest rate risk. The Company's primary risk management objective is to protect earnings and cash flow and, ultimately, shareholder value. Risk management strategies, as discussed below, are designed and implemented to ensure that the Company's risks and the related exposure are consistent with its business objectives and risk tolerance. There have been no changes to the risks to which the Company is exposed or to the corresponding risk management strategies during the current year.

*Credit risk:*

Credit risk represents the financial loss that the Company would experience if one or more of its customers failed to meet its obligations. The maximum credit exposure is represented by the carrying amount of accounts receivable as reported on the balance sheet. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. Bad debt experience has not been significant and it has been determined that no allowance is required as all amounts outstanding are considered collectible.

*Liquidity risk:*

Liquidity risk represents the potential difficulties that the Company may encounter in meeting obligations associated with financial liabilities. The Company is reporting a working capital deficiency of \$287,698 (2010 - \$220,226). This includes a long-term debt, preferred shares and dividends payable with an aggregate carrying value of \$781,656 (2010 - \$781,656), that are each past due. The Company manages its liquidity risk through the management of its capital (note 11) 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.

*Currency risk:*

Currency risk is the risk that the amount of future cash flows of cash, accounts receivables, accounts payable and accrued liabilities that are denominated in US dollars will fluctuate because of changes in foreign exchange rates. The Company purchases some inventory components and makes some of its product sales in US dollars. The Company monitors its exposure to, but does not actively manage this risk. During the current year the Company reported a net loss on foreign exchange of \$2,049 (2010 - \$2,132).

## ZTEST Electronics Inc.

### Notes to Consolidated Financial Statements

June 30, 2011 and 2010

#### 3. Financial instruments - continued

##### *Interest rate risk:*

Interest rate risk represents the possibility that future cash flows arising from financial instruments may fluctuate because of changes in the market rate of interest. The Company has certain long-term debts for which the interest rate is reset periodically in accordance with the prime lending rate of its financial institution. The future monthly payments on these debts will increase or decrease in correlation with the change, if any, in the prime lending rate. The Company manages this risk by establishing fixed interest rates whenever possible.

#### 4. Inventories

The carrying value of inventory is comprised of:

	2011	2010
Raw materials	\$ 272,645	\$ 228,419
Work in process	20,697	33,110
Finished goods	16,170	11,983
	<b>\$ 309,512</b>	<b>\$ 273,512</b>

Inventory utilization during the year was as follows:

	2011	2010
Raw materials and supplies used	\$ 1,202,607	\$ 984,481
Labour costs	1,083,418	889,884
Amortization of equipment	202,665	251,972
Other costs	146,569	128,965
Net change in finished goods and work in process	8,225	17,633
Cost of product sales	<b>\$ 2,643,484</b>	<b>\$ 2,272,935</b>

#### 5. Equipment

2011	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 168,449	\$ 160,286	\$ 8,163
Office equipment and furniture	71,277	64,346	6,931
Manufacturing equipment <sup>(1)</sup>	2,250,093	1,430,232	819,861
Leasehold improvements	61,003	61,003	-
	<b>\$ 2,550,822</b>	<b>\$ 1,715,867</b>	<b>\$ 834,955</b>
2010	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 166,880	\$ 157,124	\$ 9,756
Office equipment and furniture	70,287	62,736	7,551
Manufacturing equipment <sup>(1)</sup>	2,259,510	1,239,947	1,018,563
Leasehold improvements	61,003	56,211	4,792
	<b>\$ 2,557,680</b>	<b>\$ 1,516,018</b>	<b>\$ 1,041,662</b>

<sup>(1)</sup> Equipment with net book value of \$550,768 (2010 - \$688,460) is pledged as security (note 7).

## ZTEST Electronics Inc.

### Notes to Consolidated Financial Statements

June 30, 2011 and 2010

#### 6. Long-Term Debt

	2011	2010
Non interest bearing debenture has matured. <sup>(1)</sup>	\$ 39,600	\$ 39,600
Term loan bearing interest at the prime lending rate plus 4.75%, fixed annually each September 30 and currently at 7.75%, secured by a general security agreement covering the assets of Permatest Electronics Corporation, matures September 2013. Repayment is to be made by way of monthly payments, blended as to principal and interest, of \$6,601 until September 2011, followed by twelve monthly payments of \$8,626, and twelve monthly payments of \$10,859. <sup>(2)</sup>	230,434	312,694
Debenture, bearing interest at 10.5%, secured on a pro-rata basis with another debenture by specific equipment having a net book value of \$550,768 (June 2010 - \$688,460), matures December 2013. The debenture has a face value of \$665,824. It may be repaid, in whole or in part, at any time. Monthly payments, blended as to principal and interest of \$15,865 are required until December 2011, and then \$16,171 each month until maturity. The holder of this debenture was issued 2,800,000 pre-consolidation common shares of the Company as additional compensation for having advanced the funds.	656,935	711,751
Debenture, bearing interest at 4.5%, secured on a pro-rata basis with another debenture by specific equipment having a net book value of \$550,768 (June 2010 - \$688,460), matures December 2013. The debenture has a face value of \$284,067 and may be repaid, in whole or in part, at any time at the Company's discretion. Payments as to interest only are required until maturity. The holder of this debenture was granted an option to acquire a 24% interest in Permatest Electronics Corporation for \$200,000 on or before June 15, 2012 as additional compensation for having advanced the funds.	247,457	232,565
Term loan bearing interest at the prime lending rate plus 8%, fixed semi-annually each April 30 and currently at 11.00%, secured by a general security agreement covering the assets of Permatest Electronics Corporation, matures April 2015. The loan has a face value of \$131,540. It may be repaid, in whole or in part, at any time and the Company opted to make an extra payment of \$60,000 during the year. Repayment is to be made by way of monthly payments, blended as to principal and interest, of \$2,728 until April 2012, then \$2,961 until April 2013, then \$3,692 until April 2014, then \$4,920 until maturity. The holder of this debenture was granted an option to acquire a 24% interest in Permatest Electronics Corporation for \$200,000 on or before May 1, 2015 as additional compensation for having advanced the funds. <sup>(3)</sup>	126,860	193,140
Total long-term debt	1,301,286	1,489,750
Less: Current portion	250,161	137,563
	<b>\$ 1,051,125</b>	<b>\$ 1,352,187</b>

(1) The debenture has matured but no means of settlement has been reached. It is classified as current.

(2) Subsequent to the year end the Company provided the lender with notice and made a pre-payment of \$30,000 on September 30, 2011. Commencing October 31, 2011 the monthly payments will be amended to reflect the reduced principal.

(3) Payable to a corporate shareholder that is controlled by the spouse of a Director of the Company.

## ZTEST Electronics Inc.

### Notes to Consolidated Financial Statements

June 30, 2011 and 2010

#### 6. Long-Term Debt - continued

The minimum annual future principal repayments are as follows:	
2012	\$ 250,161
2013	266,604
2014	738,732
2015	45,789
	<hr/>
	\$ 1,301,286

#### 7. Commitments

##### Bank operating loan

During the year the Company obtained a \$250,000 line of credit from its financial institution. The loan, which has not been drawn upon, bears interest at the prime lending rate plus 0.5%, is due upon demand, matures May 13, 2013, and is secured by a general security agreement covering the assets of Permatest Electronics Corporation and by the personal guarantee of an individual who is not related to the Company. The Company issued 500,000 share purchase warrants to the guarantor with each warrant entitling them to acquire one common share of the Company at a price of \$0.135 until the earlier of May 18, 2013 and the date when the guarantee is removed. If the borrowing limit of the credit line is reduced prior to May 18, 2012 then the number of warrants will be reduced on a pro rata basis within thirty days of the reduction. The guarantor will also be paid a fee of \$800 per month and will receive interest, based upon the amount drawn from time to time on this line of credit, equal to 10% less the interest at prime plus 0.5% that is payable to the Company's financial institution. The monthly fee and the value attributed to the warrants have been accounted for as financing fees.

##### Operating leases

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 or refunded at the end of the lease. Minimum monthly rental payments ranging from \$6,791 to \$8,979 are required over the term of the lease as follows:

2012	\$ 83,297
2013	86,466
2014	88,729
2015	90,993
2016	95,972
Remaining	499,555
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	\$ 945,012

#### 8. Share Capital

##### (a) Authorized

Unlimited Common shares

Unlimited Non-voting, non-participating Class A special shares redeemable by the Company or the holders, under specific conditions that have not yet been satisfied, on a one for one basis for common shares of Northern Cross Minerals Inc.

Unlimited Preferred shares in one or more series. The following four series have been authorized to date:

Series A redeemable, voting <sup>(1)</sup> shares were to be repurchased May 2004. <sup>(2)</sup>

Series B shares may no longer be issued and all previously issued shares were converted into common shares.

Series C redeemable, voting <sup>(1)</sup> shares were to be repurchased May 2007. <sup>(2)</sup>

Series D redeemable, voting <sup>(1)</sup> shares were to be repurchased June 2007. <sup>(2)</sup>

<sup>(1)</sup> These preferred shares carry the right to vote at the meeting of common shareholders as the cumulative dividends previously payable thereon are more than 12 months in arrears.

<sup>(2)</sup> Negotiations as to a means of settlement are ongoing.

## ZTEST Electronics Inc.

### Notes to Consolidated Financial Statements

June 30, 2011 and 2010

#### 8. Share Capital - continued

##### (b) Issued

	2011	2010
Common shares	\$ 21,965,037	\$ 21,873,055
Class A special shares (1,193,442 outstanding)	100,000	100,000
<b>Share capital</b>	<b>\$ 22,065,037</b>	<b>\$ 21,973,055</b>

<b>Common shares:</b>	Number of Shares	Amount
Balance June 30, 2009	63,151,804	\$ 21,873,055
Share consolidation completed April 2010 (12:1) <sup>(2)</sup>	(57,889,316)	-
Balance June 30, 2010	5,262,488	21,873,055
Private placement <sup>(1)</sup>	1,800,000	91,982
<b>Balance June 30, 2011</b>	<b>7,062,488</b>	<b>\$ 21,965,037</b>

(1) During the year the Company completed a private placement financing whereby it issued 1,800,000 units, at a price of \$0.075 per unit, for gross proceeds of \$135,000. Each unit was comprised of 1 common share and ½ share purchase warrant with each full warrant entitling the holder to acquire 1 common share of the Company at a price of \$0.10 until March 24, 2016. Related parties subscribed for 1,400,000 units and paid gross proceeds of \$105,000. The reported value is net of finders' fees of \$4,200 paid relative to this financing and the value of \$38,818 attributed to the warrants.

(2) During the 2010 fiscal year the Company undertook a share consolidation transaction whereby each 12 common shares outstanding immediately prior to the transaction were replaced by 1 post-consolidation common share. This transaction also resulted in the number of stock options outstanding being reduced on the same 1:12 basis and the exercise prices of the post-consolidation stock options are twelve times the pre-consolidation exercise price.

<b>Preferred shares:</b>	2011	2010
Balance June 30, 2011 and June 30, 2010	\$ 473,855	\$ 473,855

##### (c) Details of warrants outstanding are as follows:

	2011	2010
Warrants not yet exercised	\$ 81,564	\$ -

	Number of Warrants	Amount
Balance June 30, 2010 and June 30, 2009	-	\$ -
Value attributed to warrants issued through private placement	900,000	38,818
Value attributed to warrants issued for loan guarantee	500,000	42,746
<b>Balance June 30, 2011</b>	<b>1,400,000</b>	<b>\$ 81,564</b>

	Number of warrants	Weighted Average Price/Warrant	Weighted Average Expiry Date
Beginning of year	-	-	-
Issued during year	1,400,000	\$0.113	Mar. 18, 2015
End of year	1,400,000	\$0.113	Mar. 18, 2015

## ZTEST Electronics Inc.

### Notes to Consolidated Financial Statements

June 30, 2011 and 2010

#### 8. Share Capital - continued

##### (c) Details of warrants outstanding - continued

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

	2011	2010
Dividend yield	Nil	Nil
Risk free interest rate (%)	1.64 - 2.66	None issued
Expected stock volatility (%)	123.68 - 134.53	None issued
Expected life (years)	2 - 5	None issued

##### (d) Details of options outstanding are as follows:

Common Shares Under Option	Number of Options Vested	Price/Option	Expiry Date
900,000 <sup>(1)</sup>	900,000	\$0.10	Nov. 30, 2015

	Common Shares Under Option	Weighted Average Price/Option	Weighted Average Expiry Date
Beginning of year	79,167	\$2.031	June 8, 2011
Expired during year	(79,167)	\$2.031	June 8, 2011
Granted during year	900,000	\$0.100	Nov. 30, 2015
End of year	900,000	\$0.100	Nov. 30, 2015

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

##### (e) Stock based compensation 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:

	2011	2010
Contributed surplus, beginning of year	\$ 416,755	\$ 409,918
Compensation expense related to stock options	68,696	732
Value attributed to option on Permtech Electronics Corporation ( <i>note 6</i> )	-	6,105
Contributed surplus, end of year	\$ 485,451	\$ 416,755

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

	2011	2010
Dividend yield	Nil	Nil
Risk free interest rate (%)	2.34	None granted
Expected stock volatility (%)	127.90	None granted
Expected life (years)	5	None granted

## ZTEST Electronics Inc.

### Notes to Consolidated Financial Statements

June 30, 2011 and 2010

#### 9. Related Party Transactions

In addition to the Directors and Officers, the following related parties had transactions with the Company during the year or outstanding balances at the end of the year:

##### **1114377 Ontario Inc. ("1114377")**

A shareholder, which is controlled by the spouse of a Director of the Company.

All revenues, expenses and year end balances with the 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	Related Party	2011	2010
Interest expense - long-term	1114377	\$ 21,030	\$ 11,680
Interest expense - long-term	Directors/Officers	\$ -	\$ 11,274
Interest expense - other	Directors/Officers	\$ -	\$ 9,002

#### 10. Income Taxes

##### **Current Income Taxes**

A reconciliation of combined federal and provincial corporate income taxes at the Company's effective tax rate of 29.26% (2010 – 32.50%) is as follows:

	2011	2010
(Loss) income before income taxes	\$ (180,359)	\$ 380,613
Income taxes at statutory rates	\$ (52,766)	\$ 123,715
Expenses not deductible for income tax purposes	25,869	376,380
Capital cost allowance claimed in excess of accounting amortization	(153,406)	(755,366)
Accounting loss on disposal of equipment	1,211	(24,665)
Accounting expenses deferred for income tax purposes	10,005	-
Expenses of prior years claimed for income tax purposes	-	(82,461)
	(169,087)	(362,397)
Increase in valuation allowance	169,087	362,397
Current income tax expense	\$ -	\$ -

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

Year	
2014	\$ 114,285
2027	253,037
2029	67,017
2030	1,379,162
2031	577,958
	\$ 2,391,459

The full realization of these losses is subject to the result of audits by the Canada Revenue Agency. In addition, expenses in the amount of \$1,399,668 have been recorded in the accounts but have not yet been claimed for income tax purposes and capital losses of approximately \$15,593,000 are available indefinitely.

## ZTEST Electronics Inc.

### Notes to Consolidated Financial Statements

June 30, 2011 and 2010

#### 10. Income Taxes - continued

##### Future Income Taxes

The approximate tax effect of each type of temporary difference that gives rise to the Company's future income tax assets (liabilities) is as follows:

	2011	2010
Resource related expenditures	\$ 87,263	\$ 87,263
Scientific research and experimental development	262,655	262,867
Reserves claimed	8,828	-
Undepreciated capital cost	207,873	325,249
Non-capital losses	597,597	480,013
Capital losses	1,949,124	1,949,124
Future income tax assets, before valuation allowance	3,113,140	3,104,516
Valuation allowance	(3,113,140)	(3,104,516)
Net future tax assets	\$ -	\$ -

The timing of the utilization of the future tax assets is undeterminable. Consequently, a full valuation allowance has been provided against the future value of these assets.

#### 11. Capital Management

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

Management includes the following items in its definition of capital:

	2011	2010
Long-term debt <sup>(1)</sup>	\$ 396,894	\$ 545,434
Share Capital	22,065,037	21,973,055
Warrants	81,564	-
Contributed surplus	485,451	416,755
Deficit	(23,100,920)	(22,920,561)
Net (deficiency) capital under management	\$ (71,974)	\$ 14,683

<sup>(1)</sup> Excludes long-term debts that are both secured by specific equipment and due to unrelated parties.