

**ZTEST Electronics Inc.**  
**Unaudited Condensed Interim Consolidated Financial Statements**  
**March 31, 2012**  
**(Stated in Canadian Dollars)**

Notice To Reader

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

The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of management. They were approved by the Board of Directors on May 29, 2012

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

## ZTEST Electronics Inc.

### Unaudited Condensed Interim Consolidated Statements of Financial Position

(Stated in Canadian Dollars)

March 31, 2012

	<b>Mar. 31 2012</b>	June 30 2011 (note 12)
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 174,424	\$ 406,860
Accounts receivable	946,003	448,164
Inventories (note 3)	687,989	309,512
Prepaid expenses	384	72,079
	<b>1,808,800</b>	1,236,615
Lease deposit (note 6)	35,000	35,000
Equipment (note 4)	809,194	834,955
	<b>\$ 2,652,994</b>	<b>\$ 2,106,570</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Customer deposits	\$ -	\$ 56,119
Accounts payable and accrued liabilities	963,369	475,977
Dividends payable	268,201	268,201
Current portion of long-term debt (note 5)	282,336	250,161
Preferred shares (note 7)	473,855	473,855
	<b>1,987,761</b>	1,524,313
Long-term debt (note 5)	785,338	1,051,125
	<b>2,773,099</b>	2,575,438
<b>Deficiency in assets</b>		
Share capital (note 7)	22,065,037	22,065,037
Warrants (note 7)	81,564	81,564
Contributed surplus (note 7)	485,451	485,451
Deficit	(22,752,157)	(23,100,920)
	<b>(120,105)</b>	(468,868)
	<b>\$ 2,652,994</b>	<b>\$ 2,106,570</b>

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

Approved by the Board:

*Signed: "John Perreault"*

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Director

*Signed: "Wojciech Drzazga"*

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Director

**ZTEST Electronics Inc.**

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**Unaudited Condensed Interim Consolidated Statements of Changes in Equity**

(Stated in Canadian Dollars)

*March 31, 2012*

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	Share Capital	Warrants	Contributed Surplus	Deficit	Total
Balance, July 1, 2010	\$ 21,973,055	\$ -	\$ 416,755	\$ (22,920,561)	\$ (530,751)
Grant of stock option	-	-	68,696	-	68,696
Unit issuance, net of costs	130,800	-	-	-	130,800
Value attributed to warrants	(38,818)	38,818	-	-	-
Net loss for the period	-	-	-	(82,040)	(82,040)
Balance, March 31, 2011	22,065,037	38,818	485,451	(23,002,601)	(413,295)
Issuance of warrants	-	42,746	-	-	42,746
Net loss for the period	-	-	-	(98,319)	(98,319)
Balance, June 30, 2011	22,065,037	81,564	485,451	(23,100,920)	(468,868)
Net income for the period	-	-	-	348,763	348,763
Balance, March 31, 2012	\$ 22,065,037	\$ 81,564	\$ 485,451	\$ (22,752,157)	\$ (120,105)

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

**ZTEST Electronics Inc.****Unaudited Condensed Interim Consolidated Statements of Comprehensive Income**

(Stated in Canadian Dollars)

March 31, 2012

	Three months ended		Nine months ended	
	2012	2011	2012	2011
<b>Product sales</b>	<b>\$ 1,483,588</b>	\$ 820,976	<b>\$ 3,282,562</b>	\$ 3,052,251
<b>Cost of product sales</b> (note 3)	<b>894,719</b>	591,104	<b>1,995,312</b>	2,019,146
	<b>588,869</b>	229,872	<b>1,287,250</b>	1,033,105
<b>Expenses</b>				
Selling, general and administrative	274,442	305,237	827,297	988,291
Interest expense - long term (note 8)	29,556	36,723	93,997	111,802
Interest expense - other (note 8)	155	149	462	149
Loan guarantee fees (note 6)	2,400	-	7,200	-
Loss on foreign exchange	1,832	1,640	5,890	1,734
Depreciation of equipment	1,204	3,277	3,541	9,030
	<b>309,589</b>	347,026	<b>938,387</b>	1,111,006
<b>Income (loss) from operations</b>	<b>279,280</b>	(117,154)	<b>348,863</b>	(77,901)
Loss on disposal of equipment	-	-	(100)	(4,138)
<b>Income (loss) before provision for income taxes</b>	<b>279,280</b>	(117,154)	<b>348,763</b>	(82,039)
Provision for income taxes	-	-	-	-
<b>Comprehensive income (loss) for the period</b>	<b>\$ 279,280</b>	\$ (117,154)	<b>\$ 348,763</b>	\$ (82,039)
<b>Comprehensive income (loss) per share</b>				
Basic	\$ 0.040	\$ (0.022)	\$ 0.049	\$ (0.015)
Fully diluted	\$ 0.030	\$ (0.022)	\$ 0.037	\$ (0.015)
<b>Weighted average shares outstanding</b>				
Basic	7,062,488	5,402,488	7,062,488	5,308,473
Fully diluted	9,362,488	5,402,488	9,362,488	5,308,473

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

## ZTEST Electronics Inc.

### Unaudited Condensed Interim Consolidated Statements of Cash Flows

(Stated in Canadian Dollars)

March 31, 2012

	Three months ended		Nine months ended	
	2012	2011	2012	2011
<b>Cash flow from operating activities</b>				
Comprehensive income (loss) for the period	\$ 279,280	\$ (117,154)	\$ 348,763	\$ (82,039)
Items not involving cash				
Amortization of equipment	45,019	54,005	132,983	160,973
Loss on disposal of equipment	-	-	100	4,138
Interest accretion	5,698	4,932	15,562	14,797
Stock option compensation	-	-	-	68,696
Changes in non-cash working capital items:				
Accounts receivable	(387,311)	(655)	(497,839)	(20,896)
Inventories	(228,659)	(45,938)	(378,477)	(66,963)
Prepaid expenses and other assets	5,206	(4,876)	2,917	(64,562)
Customer deposits and deferred revenue	(48,906)	41,990	(56,119)	40,922
Accounts payable and accrued liabilities	405,398	71,115	487,392	(29,190)
	<u>75,725</u>	<u>3,419</u>	<u>55,282</u>	<u>25,876</u>
<b>Cash flow from investing activities</b>				
Proceeds from disposal of equipment	-	-	-	1,151
Purchase of equipment	(19,468)	(9,550)	(38,544)	(11,692)
	<u>(19,468)</u>	<u>(9,550)</u>	<u>(38,544)</u>	<u>(10,541)</u>
<b>Cash flow from financing activities</b>				
Proceeds of share issuance	-	130,800	-	130,800
Repayment of long-term debt	(110,965)	(45,230)	(249,174)	(100,470)
	<u>(110,965)</u>	<u>85,570</u>	<u>(249,174)</u>	<u>30,330</u>
<b>(Decrease) increase in cash</b>	<b>(54,708)</b>	<b>79,439</b>	<b>(232,436)</b>	<b>45,665</b>
<b>Cash, beginning of period</b>	<b>229,132</b>	<b>361,993</b>	<b>406,860</b>	<b>395,767</b>
<b>Cash, end of period</b>	<b>\$ 174,424</b>	<b>\$ 441,432</b>	<b>\$ 174,424</b>	<b>\$ 441,432</b>

### 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	\$ 26,949	\$ 32,372	\$ 55,763	\$ 98,197
Cash paid for income taxes	\$ -	\$ -	\$ -	\$ -

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

# ZTEST Electronics Inc.

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## Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2012

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### 1. Business of the Company

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ZTEST Electronics Inc. ("the Company") 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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#### Statement of compliance and conversion to International Financial Reporting Standards ("IFRS")

These unaudited condensed interim consolidated financial statements have been prepared by the Company in accordance with International Accounting Standard 34 (IAS 34), *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards ("IFRS") it expects to adopt in its June 30, 2012 financial statements, based on the IFRS standards issued and current as of May 29, 2012, the date the Board of Directors approved the statements.

These unaudited condensed interim consolidated financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company's annual consolidated financial statements for the year ended June 30, 2011 and the Company's unaudited condensed interim consolidated financial statements for the three months ended September 30, 2011, which were the Company's first financial statements prepared in accordance with IFRS.

The Company's annual consolidated financial statements for the year ended June 30, 2011 were prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP) until June 30, 2011. Canadian GAAP differs from IFRS in some areas. The Company has applied the policies set out below consistently to all the periods presented, and in preparing the opening statement of financial position at July 1, 2010 (note 12) for purposes of transition to IFRS, except in instances where IFRS 1 either requires or permits an exemption.

These unaudited condensed interim consolidated financial statements reflect all normal and recurring adjustments necessary, in management's opinion, to fairly present the interim periods included. The interim results are not indicative of results to be expected for the entire year.

#### Basis of presentation and going concern considerations

These unaudited condensed interim consolidated financial statements have been compiled by management on a historical cost basis using the accrual basis of accounting, except for cash flow information, and in accordance with IFRS applicable to a "going concern". This assumes that the Company will continue in operation for the foreseeable future, has neither the intention nor the need to liquidate or curtail materially the scale of its operations, 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 March 31, 2012 the Company has a deficit, to date, of \$22,752,157 and a working capital deficiency of \$178,961.

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 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:

Permotech Electronics Corporation	- 100% owned <sup>(1)</sup>
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 Permotech Electronics Corp. (note 5).

**Notes to Unaudited Condensed Interim Consolidated Financial Statements**

(Stated in Canadian Dollars)

March 31, 2012

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**2. Significant Accounting Policies - continued**

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**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 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 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.

Critical accounting estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the recoverability of amounts receivable and prepayments included in the unaudited condensed interim consolidated statements of financial position;
- the estimated useful lives of equipment included in the unaudited condensed interim consolidated statements of financial position;
- the inputs used in accounting for deferred income taxes.

Critical accounting judgments

The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.

**Financial instruments**

The Company's financial instruments are comprised of the following:

Financial assets:

Cash and cash equivalents

Accounts receivable

Classification

Held for trading

Loans and receivables

Financial liabilities:

Customer deposits

Accounts payable and accrued liabilities

Dividends payable

Preferred shares

Long-term debt

Classification

Other financial liabilities

Other financial liabilities

Other financial liabilities

Other financial liabilities

Other financial liabilities

Held for trading:

Financial assets are designated as held for trading if they were acquired principally for the purpose of selling in the short term. Held for trading assets are recognized and carried at their fair value.

Loans and receivables:

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

**Notes to Unaudited Condensed Interim Consolidated Financial Statements**

(Stated in Canadian Dollars)

March 31, 2012

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**2. Significant Accounting Policies - continued**

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**Financial instruments - continued**

Other financial liabilities:

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

Impairment of financial assets:

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

Evidence of impairment could include:

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

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

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

Financial instruments recorded at fair value:

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

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

As of March 31, 2012, June 30, 2011 and July 1, 2010, cash and cash equivalents are measured at fair value and are classified within Level 1 of the fair value hierarchy.

**Impairment of non-financial assets**

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the income for the period.



**Notes to Unaudited Condensed Interim Consolidated Financial Statements**

(Stated in Canadian Dollars)

*March 31, 2012*

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**2. Significant Accounting Policies - continued**

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**Impairment of non-financial assets - continued**

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in income for the period.

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

**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, which are readily convertible into a known amount of cash.

**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 period and any resulting write-downs, or recovery of previous write-downs, are reflected in income for the period. Current assessments have determined that net realizable values equal or exceed the corresponding costs and accordingly all inventories are currently carried at cost.

**Equipment**

Equipment is recorded at cost. Depreciation is provided over the related assets' estimated useful lives using the following methods and annual rates:

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

The Company reviews the estimated useful lives, residual values and depreciation method at the end of each reporting period, accounting for the effect of any changes in estimate on a prospective basis.

**Revenue recognition**

Revenue is recorded when the risks and rewards of ownership pass to the purchaser which is when the product is delivered and/or the service is completed and collection is reasonably assured.

**Share based payment transactions**

The fair value of share options granted to employees is recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At the end of each financial reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

**Income taxes**

Income tax on the net income (loss) for the periods presented comprises current and deferred tax. Income tax is recognized in statement of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

**Notes to Unaudited Condensed Interim Consolidated Financial Statements**

(Stated in Canadian Dollars)

March 31, 2012

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**2. Significant Accounting Policies - continued**

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**Income taxes - continued**

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable income; nor differences relating to investments in to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of each financial reporting period.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance.

**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 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 in the computation of diluted earnings (loss) per share if their inclusion would increase the income per share, decrease the loss per share, or if their exercise price exceeds the average market price for the period of the Company's shares.

**Foreign exchange**

As at the transaction date all asset, liability, revenue, and expense amounts denominated in foreign currencies are translated into Canadian dollars using the exchange rate in effect as at that date. At the year end 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 period.

**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.

**Accounting standards effective in the current period but not yet adopted**

IAS12 *Amendments Regarding Deferred Tax*, amended in December 2010, effective for annual periods beginning on or after January 1, 2012, with early adoption permitted, introduces new criteria for recognition of deferred tax assets under specific circumstances. Management anticipates that this amendment will be adopted in the Company's financial statements for the period beginning July 1, 2012 and has not yet considered the potential impact, if any, of its adoption. IFRS 9, *Financial Instruments: Classification and Measurement*, issued in December 2009, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. The IASB has proposed to change the effective date of IFRS 9 to January 1, 2015. Assuming the proposal becomes adopted, management anticipates that this standard will be adopted in the Company's financial statements for the period beginning July 1, 2015 and has not yet considered the potential impact of its adoption.

IFRS 10, 11, 12 and 13 were all issued in May 2011 and are effective for annual periods beginning January 1, 2013, with early adoption allowed. The Company has not yet considered the potential impact, if any, of the adoption of these standards.

IFRS 10, *Consolidated Financial Statements*, replaces the consolidation guidance in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation — Special Purpose Entities*, by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee.

IFRS 11, *Joint Arrangements*, introduces new accounting requirements for joint arrangements, replacing IAS 31, *Interests in Joint Ventures*. It eliminates the option of accounting for jointly controlled entities by proportionate consolidation.

## ZTEST Electronics Inc.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2012

#### 2. Significant Accounting Policies - continued

##### Accounting standards effective in the current period but not yet adopted - continued

IFRS 12, *Disclosure of Interests in Other Entities*, requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement.

IFRS 13, *Fair Value Measurement*, replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. It defines and provides guidance on determining fair value and requires disclosures about fair value measurements, but does not change the requirements regarding which items are measured or disclosed at fair value.

IAS 28, *Investments in Associates and Joint Ventures*, amended in 2011, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, prescribes the accounting for investments in associates and establishes the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Management anticipates that this amendment will be adopted in the Company's financial statements for the period beginning July 1, 2013 and has not yet considered the potential impact, if any, of its adoption.

#### 3. Inventories

The carrying value of inventory is comprised of:

	Mar. 31 2012	June 30 2011
Raw materials and supplies	\$ 661,514	\$ 272,645
Work in process	14,719	20,697
Finished goods	11,756	16,170
	<b>\$ 687,989</b>	<b>\$ 309,512</b>

Inventory utilization during the period was as follows:

	Mar. 31 2012	Mar. 31 2011
Raw materials and supplies used	\$ 1,175,531	\$ 903,717
Labour costs	588,976	833,059
Amortization	129,441	151,943
Other costs	90,972	119,247
Net change in finished goods and work in process	10,392	11,180
Cost of product sales	<b>\$ 1,995,312</b>	<b>\$ 2,019,146</b>

#### 4. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
<b>At July 1, 2010</b>					
Cost	\$ 166,880	\$ 70,287	\$ 2,259,510	\$ 61,003	\$ 2,557,680
Accumulated depreciation	(157,154)	(62,736)	(1,239,947)	(56,211)	(1,516,211)
Carrying amount	\$ 9,756	\$ 7,551	\$ 1,019,563	\$ 4,792	\$ 1,041,662
<b>Period ended March 31, 2011</b>					
Opening carrying amount	\$ 9,756	\$ 7,551	\$ 1,019,563	\$ 4,792	\$ 1,041,662
Additions, at cost	1,569	990	9,133	-	11,692
Depreciation	(2,372)	(1,206)	(152,603)	(4,792)	(160,973)
Disposals, at carrying amount	-	-	(5,289)	-	(5,289)
Closing carrying amount	\$ 8,953	\$ 7,335	\$ 870,804	\$ -	\$ 887,092

## ZTEST Electronics Inc.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2012

#### 4. Equipment - continued

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
<b>At March 31, 2011</b>					
Cost	\$ 168,449	\$ 71,277	\$ 2,250,093	\$ 61,003	\$ 2,550,822
Accumulated depreciation	(159,496)	(63,942)	(1,379,289)	(61,003)	(1,663,730)
Carrying amount	\$ 8,953	\$ 7,335	\$ 870,804	\$ -	\$ 887,092
<b>Period ended June 30, 2011</b>					
Opening carrying amount	\$ 8,953	\$ 7,335	\$ 870,804	\$ -	\$ 887,092
Depreciation	(790)	(404)	(50,943)	-	(52,137)
Closing carrying amount	\$ 8,163	\$ 6,931	\$ 819,861	\$ -	\$ 834,955
<b>At June 30, 2011</b>					
Cost	\$ 168,449	\$ 71,277	\$ 2,250,093	\$ 61,003	\$ 2,550,822
Accumulated depreciation	(160,286)	(64,346)	(1,430,232)	(61,003)	(1,715,867)
Carrying amount	\$ 8,163	\$ 6,931	\$ 819,861	\$ -	\$ 834,955
<b>Period ended March 31, 2012</b>					
Opening carrying amount	\$ 8,163	\$ 6,931	\$ 819,861	\$ -	\$ 834,955
Additions, at cost	1,368	-	105,953	-	107,321
Disposal, at carrying amount	(100)	-	-	-	(100)
Depreciation	(1,974)	(1,038)	(129,969)	-	(132,983)
Closing carrying amount	\$ 7,457	\$ 5,893	\$ 795,845	\$ -	\$ 809,194
<b>At March 31, 2012</b>					
Cost	\$ 168,136	\$ 71,277	\$ 2,356,046	\$ 61,003	\$ 2,656,462
Accumulated depreciation	(160,679)	(65,384)	(1,560,201)	(61,003)	(1,847,267)
Carrying amount	\$ 7,457	\$ 5,893	\$ 795,845	\$ -	\$ 809,194

Specific manufacturing equipment with a carrying value of \$468,153 (June 30, 2011 - \$550,768; Mar. 31, 2011 - \$585,191; July 1, 2010 - \$688,460) is pledged as security for debentures payable (note 5).

#### 5. Long-Term Debt

	Mar. 31 2012	June 30 2011
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 of \$8,432 until September 2012, followed by twelve monthly payments of \$8,253. Each of these payments is blended as to principal and interest.	140,866	230,434
Balance forward	\$ 180,466	\$ 270,034

## ZTEST Electronics Inc.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2012

#### 5. Long-Term Debt - continued

	Mar. 31 2012	June 30 2011
Balance forward	\$ 180,466	\$ 270,034
Debenture, bearing interest at 10.5%, secured on a pro-rata basis with another debenture by specific equipment having a net book value of \$468,153 (June 2011 - \$550,768), matures December 2013. The debenture has a face value of \$520,440 and may be repaid, in whole or in part, at any time. Monthly payments, blended as to principal and interest, of \$16,171 are required until maturity. The holder of this debenture was issued 233,334 common shares of the Company as additional compensation for having advanced the funds. <sup>(2)</sup>	515,027	656,935
Debenture, bearing interest at 4.5%, secured on a pro-rata basis with another debenture by specific equipment having a net book value of \$468,153 (June 2011 - \$550,768), matures December 2013. The debenture has a face value of \$284,067 and may be repaid, in whole or in part, at any time. Payments as to interest only are required until maturity. The holder of this debenture was granted an option to acquire a 24% interest in Permotech Electronics Corporation for \$200,000 on or before June 15, 2012 as additional compensation for having advanced the funds.	258,627	247,457
Term loan bearing interest at the prime lending rate plus 8%, fixed annually each April 30 and currently at 11.0%, secured by a general security agreement covering the assets of Permotech Electronics Corporation, matures April 2015. The loan has a face value of \$117,318 and may be repaid, in whole or in part, at any time. Monthly payments, blended as to principal and interest, of \$2,729 are required until April 2012, then \$2,961 until April 2013, \$3,692 until April 2014, and \$4,920 until maturity. The holder of this debenture was granted an option to acquire a 24% interest in Permotech Electronics Corporation for \$200,000 on or before May 1, 2015 as additional compensation for having advanced the funds. <sup>(3)</sup>	113,554	126,860
Total long-term debt	\$ 1,067,674	\$ 1,301,286
Less: Current portion	282,336	250,161
	<b>\$ 785,338</b>	<b>\$ 1,051,125</b>

<sup>(1)</sup> The debenture has matured but no means of settlement has yet been reached. The balance payable remains as an element of the current portion of long-term debt pending settlement.

<sup>(2)</sup> The Company opted to make an additional principal payment of \$50,000 on January 15, 2012.

<sup>(3)</sup> Payable to a corporation that is controlled by the spouse of a Director of the Company.

The minimum annual future principal repayments are as follows:

2013	\$ 282,336
2014	727,843
2015	52,721
2016	4,774
	<b>\$ 1,067,674</b>

## ZTEST Electronics Inc.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2012

#### 6. Commitments

##### Bank operating loan

The Company has access to 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 is accounted for as loan guarantee 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 towards the final month's payment or refunded at the end of the lease. Minimum monthly rental payments ranging from \$7,092 to \$8,979 are required over the remaining term of the lease as follows:

2013	\$	85,787
2014		88,277
2015		90,314
2016		94,162
2017		100,273
Remaining		424,180
		<hr/>
		\$ 882,993

#### 7. 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 shares were to be repurchased May 2004. <sup>(1)</sup>

Series B shares may no longer be issued and none remain outstanding.

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

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

<sup>(1)</sup> The right to vote at the meeting of common shareholders arises because the associated dividends are more than 12 months in arrears. Settlement of the repurchase price and the associated dividends payable has yet to be negotiated.

##### (b) Issued

	Mar. 31 2012	June 30 2011
Common shares	\$ 21,965,037	\$ 21,965,037
Class A special shares (1,193,442 outstanding)	100,000	100,000
Share capital	<hr/> <b>\$ 22,065,037</b>	<hr/> \$ 22,065,037

## ZTEST Electronics Inc.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2012

#### 7. Share Capital - continued

##### (b) Issued - continued

<b>Common Shares:</b>	Number of Shares	Amount
Balance June 30, 2010	5,262,488	\$ 21,873,055
Private placement <sup>(1)</sup>	1,800,000	91,982
Common shares March 31, 2012 and June 30, 2011	7,062,488	21,965,037
Class A special shares March 31, 2012 and June 30, 2011	1,193,442	100,000
Balance March 31, 2012 and June 30, 2011		<u>\$ 22,065,037</u>

(1) During the 2011 fiscal 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.

<b>Preferred Shares:</b>	Current	Other	Total
Balance March 31, 2012 and June 30, 2011	\$ 473,855	\$ -	\$ 473,855

##### (c) Details of warrants outstanding:

	Mar. 31 2012	June 30 2011
Warrants not yet exercised	<u>\$ 81,564</u>	<u>\$ 81,564</u>

	Number of Warrants	Amount
Balance June 30, 2010	-	\$ -
Value attributed to warrants issued through private placement	900,000	38,818
Value attributed to warrants issued for loan guarantee	500,000	42,746
Balance March 31, 2012 and June 30, 2011	<u>1,400,000</u>	<u>\$ 81,564</u>

	Number of warrants	Weighted Average Price/Warrant	Weighted Average Expiry Date
Beginning of period	1,400,000	\$0.113	Mar. 18, 2015
Changes	-		
End of period	<u>1,400,000</u>	<u>\$0.113</u>	<u>Mar. 18, 2015</u>

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

	Mar. 31 2012	June 30 2011
Dividend yield	Nil	Nil
Risk free interest rate (%)	None issued	1.64 - 2.66
Expected stock volatility (%)	None issued	123.68 - 134.53
Expected life (years)	None issued	2 - 5

## ZTEST Electronics Inc.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2012

#### 7. Share Capital - continued

##### (d) Details of options outstanding:

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 period	900,000	\$0.10	Nov. 30, 2015
Changes	-		
End of period	900,000	\$0.10	Nov. 30, 2015

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

##### (e) 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 2012	June 30 2011
Contributed surplus, beginning of period	\$ 485,451	\$ 416,755
Compensation expense related to stock options granted	-	68,696
Contributed surplus, beginning of period	\$ 485,451	\$ 485,451

#### 8. Related Party Transactions

The following related party had transactions with the Company during the period or outstanding balances at the end of the period:

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

A corporation that is controlled by the spouse of a Director of the Company.

All revenues, 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.

Description	Related Party	Mar. 31 2012	Mar. 31 2011
Interest expense - long term	1114377	\$ 11,254	\$ 16,065

#### 9. Income Taxes

##### Deferred Income Taxes

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

	Mar. 31 2012	June 30 2011
Resource related expenditures	\$ 87,263	\$ 87,263
Scientific research and experimental development	262,655	262,655
Reserve claimed	8,902	8,828
Balance forward	\$ 358,820	\$ 358,746



## ZTEST Electronics Inc.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2012

#### 9. Income Taxes - continued

Deferred Income Taxes - continued		
	Mar. 31 2012	June 30 2011
Balance forward	\$ 358,820	\$ 358,746
Undepreciated capital cost	209,849	207,873
Non-capital losses	559,767	597,597
Capital losses	1,949,124	1,949,124
Deferred income tax assets, before valuation allowance	3,077,560	3,113,140
Valuation allowance	(3,077,560)	(3,113,140)
Net deferred tax assets	\$ -	\$ -

All changes in the value of deferred tax assets arise as a result of the change in income tax rates for the periods in which it is projected that the assets may be realized. The actual timing of the realization of these deferred tax assets is not currently determinable and as a result a full valuation allowance has been provided.

#### 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
	<u>\$ 2,391,459</u>

The full realization of these losses is subject to the result of audits, if conducted, 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.

#### 10. Financial risk factors

The Company is exposed in varying degrees to a variety of 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. 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 arises through the excess of financial obligations over available financial assets due at any point in time. The Company has reported a working capital deficiency of \$178,961 (June 2011 - \$287,698). This includes financial liabilities (a specific long-term debt instrument plus preferred shares and dividends payable) with an aggregate carrying amount of \$781,656 (June 2011 - \$781,656) which are past due and for which the timing of future cash flows are undetermined. 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.

## ZTEST Electronics Inc.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2012

#### 10. Financial risk factors - continued

##### *Market risks*

The significant market risks to which the Company is exposed are interest rate risk and currency risk. Interest rate risk arises from two long-term debt instruments for which interest rates are fixed annually based upon prevailing market rates. Currency risk relates to accounts receivable and accounts payable denominated in US dollars and the potential for future cash flows to fluctuate because of changes in foreign exchange rates. Interest rate risk is minimized through the reduction of debt when cash flow permits. Currency risk is closely monitored but not actively managed. For the nine and three month periods ended March 31, 2012 the Company reported foreign exchange losses of \$5,890 and \$1,832 respectively (Mar. 31, 2011 - losses of \$1,734 and \$1,640).

##### *Sensitivity to market risks*

Had interest rates been 1% higher at March 31, 2012 then the interest payments required over the remaining term of these two debt instruments would be \$2,650 higher, including \$1,228 payable over the next twelve months.

At March 31, 2012 the Company had US\$ 215,620 included in accounts receivable and US\$113,167 included in accounts payable. A 5% rise in the value of the Canadian dollar in comparison to the US dollar would result in a reduction of net cash flow of \$5,179 through the settlement of these amounts.

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

#### 11. 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.

Management includes the following items in its definition of capital:

	Mar. 31 2012	June 30 2011
Long-term debt <sup>(1)</sup>	\$ 294,020	\$ 396,894
Share Capital	22,065,037	22,065,037
Warrants	81,564	81,564
Contributed surplus	485,451	485,451
Deficit	(22,752,157)	(23,100,920)
Net capital (deficiency) under management	\$ 174,915	\$ (71,974)

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

#### 12. Conversion to IFRS

##### (a) Overview

As stated in note 2, these condensed interim consolidated financial statements have been prepared in accordance with IAS 34, using accounting policies consistent with IFRS.

The accounting policies described in note 2 have been applied in preparing the unaudited condensed interim consolidated financial statements for the three and nine month periods ended March 31, 2012, the comparative information for the three month and nine month periods ended March 31, 2011, the financial statements for the year ended June 30, 2010 and an opening IFRS statement of financial position on the Transition Date, July 1, 2010.

##### (b) First-time adoption of IFRS

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS as effective at the end of its first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

**Notes to Unaudited Condensed Interim Consolidated Financial Statements**

(Stated in Canadian Dollars)

March 31, 2012

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**12. Conversion to IFRS**

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**(b) First-time adoption of IFRS - continued**

The Company has elected to apply the following optional exemptions in its preparation of an opening IFRS statement of financial position as at July 1, 2010, the Company's "Transition Date".

- To apply IFRS 2 Share based Payments only to equity instruments that were issued after November 7, 2002 and had not vested by the Transition Date.
- To apply IFRS 3 Business Combinations prospectively from the Transition Date, therefore not restating business combinations that took place prior to the Transition Date.

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS statement of financial position as at the Transition Date are consistent with those that were made under Canadian GAAP.

The Company's Transition Date IFRS unaudited consolidated statement of financial position is included as comparative information in the unaudited condensed interim consolidated statements of financial position in these financial statements.

**(c) Changes to accounting policies**

The Company has changed certain accounting policies to be consistent with IFRS as is expected to be effective on June 30, 2012, the Company's first annual IFRS reporting date. The changes have not resulted in any change to the recognition and measurement of assets, liabilities, equity, revenue and expenses within its financial statements. The following summarizes the significant changes to the Company's accounting policies on adoption of IFRS.

**(i) Impairment of (non-financial) assets**

IFRS requires a write down of assets if the higher of the fair market value and the value in use of a group of assets is less than its carrying value. Value in use is determined using discounted estimated future cash flows. Canadian GAAP requires a write down to estimated fair value only if the undiscounted estimated future cash flows of a group of assets are less than its carrying value.

The Company's accounting policies related to impairment of non-financial assets have been changed to reflect these differences. There is no impact on the unaudited condensed interim consolidated financial statements.

**(ii) Share-based payments**

Under Canadian GAAP, the Company recognized option expense on a straight line basis as permitted by Canadian GAAP.

IFRS 2 requires graded vesting awards to be accounted for by treating each instalment as a separate award. IFRS does not provide for an election to treat the instruments as a pool and recognize expense on a straight line basis.

There were no unvested options issued and outstanding as of the transition date and no stock options granted subsequent to the transition date for which vesting occurred at other than the date of grant therefore no adjustment was required upon transition to IFRS and there is no impact upon the unaudited condensed interim consolidated financial statements.

**(d) Reconciliation between IFRS and previously issued financial statements**

There have been no adjustments required upon transition from previous Canadian GAAP to IFRS. Accordingly, the amounts presented on the following statements remain identical to what was originally presented and have not been reproduced herein:

- (i) the statements of financial position as at July 1, 2010, March 31, 2011 and June 30, 2011, and
- (ii) the statements of comprehensive income (loss) for the year ended June 30, 2011 and for the three and nine month periods ended March 31, 2011, and
- (iii) the statements of cash flow for the year ended June 30, 2011 and for the three and nine month periods ended March 31, 2011