

ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Financial Statements

September 30, 2012

(Stated in Canadian Dollars)

Responsibility for Financial Statements

The accompanying unaudited condensed interim consolidated financial statements of ZTEST Electronics Inc. “the Company”) are the first financial statements we have prepared since our transition to International Financial Reporting Standards (“IFRS”) as now required by Canadian generally accepted accounting principles (“GAAP”). They have been prepared by management in accordance with International Accounting Standard 34, Interim Financial Reporting employing the accounting principles disclosed in the notes thereto. The previous financial statements were prepared in accordance with Canadian GAAP but not in accordance with IFRS. Management has amended certain accounting policies and descriptions it applied in the previous financial statements to comply with IFRS however these changes have not had any impact on the amounts previously recorded.

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

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on November 27, 2012. They have not been reviewed by the Company’s auditors.

ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Statements of Financial Position

(Stated in Canadian Dollars)

September 30, 2012

	Sept 30 2012	June 30 2012
Assets		
Current assets		
Cash and cash equivalents	\$ 252,256	\$ 181,815
Accounts receivable	666,034	797,803
Inventories (note 3)	564,135	558,156
Prepaid expenses	7,608	3,834
	<u>1,490,033</u>	<u>1,541,608</u>
Lease deposit (note 6)	35,000	35,000
Equipment (note 4)	727,490	764,245
	<u>\$ 2,252,523</u>	<u>\$ 2,340,853</u>
Liabilities		
Current liabilities		
Customer deposits	\$ 55,504	\$ -
Accounts payable and accrued liabilities	596,953	685,935
Dividends payable	268,201	268,201
Current portion of long-term debt (note 5)	302,168	290,304
Preferred shares (note 7)	473,855	473,855
	<u>1,696,681</u>	<u>1,718,295</u>
Long-term debt (note 5)	602,565	698,648
	<u>2,299,246</u>	<u>2,416,943</u>
Deficiency in assets		
Share capital (note 7)	21,973,988	22,065,037
Warrants (note 7)	81,564	81,564
Contributed surplus (note 7)	597,078	485,451
Deficit	(22,699,353)	(22,708,142)
	<u>(46,723)</u>	<u>(76,090)</u>
	<u>\$ 2,252,523</u>	<u>\$ 2,340,853</u>

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

Approved by the Board:

Signed: "John Perreault"

Director

Signed: "Wojciech Drzazga"

Director

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

(Stated in Canadian Dollars)

September 30, 2012

	Share Capital	Warrants	Contributed Surplus	Deficit	Total
Balance, June 30, 2011	\$ 22,065,037	81,564	485,451	(23,100,920)	(468,868)
Net income for the period				86,699	86,699
Balance, September 30, 2011	22,065,037	81,564	485,451	(23,014,221)	(382,169)
Net income for the period	-	-	-	306,079	306,079
Balance, June 30, 2012	22,065,037	81,564	485,451	(22,708,142)	(76,090)
Exchange of Class A shares for common shares	(91,049)	-	91,049	-	-
Share based payments	-	-	20,578	-	20,578
Net income for the period	-	-	-	8,789	8,789
Balance, September 30, 2012	\$ 21,973,988	\$ 81,564	\$ 597,078	\$ (22,699,353)	\$ (46,723)

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

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

(Stated in Canadian Dollars)

For the three month periods ended September 30

	2012	2011
Product sales	\$ 1,072,656	\$ 959,862
Cost of product sales (note 3)	689,527	549,656
	383,129	410,206
Expenses		
Selling, general and administrative	315,993	281,223
Share based payments (note 7)	20,578	-
Interest expense - long term (note 8)	29,024	33,149
Interest expense - other	149	158
Loan guarantee fees	2,400	2,400
Depreciation of equipment	948	1,134
Foreign exchange loss	7,905	5,443
	376,997	323,507
Income from operations	6,132	86,699
Miscellaneous income	2,657	-
Income before provision for income taxes	8,789	86,699
Provision for income taxes	-	-
Net income and comprehensive income for the period	\$ 8,789	\$ 86,699
Net income per share - basic	\$ 0.004	\$ 0.012
- fully diluted	\$ 0.003	\$ 0.009
Weighted average shares outstanding- basic	7,081,946	7,062,488
- fully diluted	9,181,946	9,362,488

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

ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Statements of Cash Flows

(Stated in Canadian Dollars)

For the three month periods ended September 30

	<u>2012</u>	<u>2011</u>
Cash flow from operating activities		
Net income for the period	\$ 29,367	\$ 86,699
Items not involving cash		
Depreciation of equipment	38,445	43,948
Interest accretion	8,886	4,932
Changes in non-cash working capital items:		
Accounts receivable	131,769	(180,569)
Inventories	(5,979)	(15,347)
Prepaid expenses	(3,774)	(2,761)
Accounts payable and accrued liabilities	(88,982)	(61,951)
Customer deposits and deferred revenue	55,504	(22,723)
	<u>165,236</u>	<u>(147,772)</u>
Cash flow from investing activities		
Purchase of equipment	(1,690)	(17,708)
	<u>(1,690)</u>	<u>(17,708)</u>
Cash flow from financing activities		
Repayment of long-term debt	(93,105)	(80,431)
	<u>(93,105)</u>	<u>(80,431)</u>
Increase (decrease) in cash and cash equivalents	70,441	(245,911)
Cash and cash equivalents, beginning of period	181,815	406,860
Cash and cash equivalents, end of period	\$ 252,256	\$ 160,949

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	\$ 20,802	\$ 28,814
Income taxes	\$ -	\$ -

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

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2012

1. Business of the Company

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

Statement of compliance

The Company has prepared these unaudited condensed interim financial statements in accordance with IAS 34, *Interim Financial Reporting*, employing all of the same accounting policies and methods of computation as disclosed in the annual financial statements as at June 30, 2012.

The notes to these unaudited condensed interim consolidated financial statements are intended to provide a description of events and transactions that are significant to an understanding to the changes in the Company's financial position and performance since June 30, 2012. Certain disclosures that appear in the annual financial statements have not been reproduced in these unaudited condensed interim consolidated financial statements and, in this regard only, these unaudited condensed interim financial statements do not conform in all respects to the requirements of IFRS for annual consolidated financial statements. Accordingly, these unaudited condensed interim consolidated financial statements should only be read in conjunction with the annual financial statements as at June 30, 2012. These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on November 27, 2012.

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 and Canadian GAAP 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 September 30, 2012 the Company has a deficit, to date, of \$22,678,775 and a working capital deficiency of \$206,648. 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 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 condensed interim consolidated financial statements include the accounts of the Company as well as the following subsidiaries' assets and liabilities and the revenues and expenses arising, subsequent to the date of acquisition:

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

Significant accounting judgments and estimates

The preparation of these unaudited condensed interim consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of 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.

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2012

3. Inventories

The carrying value of inventory is comprised of:

	Sept 30 2012	June 30 2012
Raw materials and supplies	\$ 541,567	\$ 552,244
Work in process	16,002	5,080
Finished goods	6,566	832
	\$ 564,135	\$ 558,156

Inventory utilization during the period was as follows:

	Sept 30 2012	June 30 2012
Raw materials and supplies used	\$ 467,068	\$ 257,356
Labour costs	175,910	203,289
Depreciation	37,497	42,814
Other costs	25,706	39,672
Net change in finished goods and work in process	(16,655)	6,525
Cost of product sales	\$ 689,526	\$ 549,656

4. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
At June 30, 2011					
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
Period ended September 30, 2011					
Opening carrying amount	\$ 8,163	\$ 6,931	\$ 819,861	\$ -	\$ 834,955
Additions, at cost	-	-	86,485	-	86,485
Depreciation	(612)	(346)	(42,990)	-	(43,948)
Closing carrying amount	\$ 7,551	\$ 6,585	\$ 863,356	\$ -	\$ 877,492
At September 30, 2011					
Cost	\$ 168,449	\$ 71,277	\$ 2,336,578	\$ 61,003	\$ 2,637,307
Accumulated depreciation	(160,898)	(64,692)	(1,473,222)	(61,003)	(1,759,815)
Carrying amount	\$ 7,551	\$ 6,585	\$ 863,356	\$ -	\$ 877,492
Period ended June 30, 2012					
Opening carrying amount	\$ 7,551	\$ 6,589	\$ 863,356	\$ -	\$ 877,492
Additions, at cost	1,369	-	19,468	-	20,837
Depreciation	(2,027)	(1,041)	(130,916)	-	(133,984)
Disposals, at carrying amount	(100)	-	-	-	(100)
Closing carrying amount	\$ 6,793	\$ 5,544	\$ 751,908	\$ -	\$ 764,245
At June 30, 2012					
Cost	\$ 168,136	\$ 71,277	\$ 2,356,046	\$ 61,003	\$ 2,656,462
Accumulated depreciation	(161,343)	(65,733)	(1,604,138)	(61,003)	(1,892,217)
Carrying amount	\$ 6,793	\$ 5,544	\$ 751,908	\$ -	\$ 764,245

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2012

4. Equipment - continued

Period ended September 30, 2012

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Opening carrying amount	\$ 6,793	\$ 5,544	\$ 751,908	\$ -	\$ 764,245
Additions, at cost	-	-	1,690	-	1,690
Depreciation	(530)	(277)	(37,638)	-	(38,445)
Closing carrying amount	\$ 6,263	\$ 5,267	\$ 715,960	\$ -	\$ 727,490

At September 30, 2012

Cost	\$ 168,136	\$ 71,277	\$ 2,357,736	\$ 61,003	\$ 2,658,152
Accumulated depreciation	(161,873)	(66,010)	(1,641,776)	(61,003)	(1,930,662)
Carrying amount	\$ 6,263	\$ 5,267	\$ 715,960	\$ -	\$ 727,490

Specific manufacturing equipment is pledged as security for debentures payable (note 5). The carrying amount of the pledged equipment at each date is as follows:

September 30, 2012	\$ 418,584
June 30, 2012	\$ 440,614
September 30, 2011	\$ 523,230

5. Long-Term Debt

	Sept 30 2012	June 30 2012
Non interest bearing debenture has matured. ⁽¹⁾	\$ 39,600	\$ 39,600
Term loan bearing interest at the September 30 prime lending rate plus 4.75%, adjusted annually and currently at 7.75%, secured by a general security agreement covering the assets of PEC, matures September 2013. Monthly payments, blended principal and interest, of \$8,253 are required. ⁽²⁾	94,997	118,153
Debenture, bearing interest at 10.5%, secured by specific equipment (note 4) on a pro-rata basis with another debenture and matures December 2013. The debenture has a face value of \$449,196 and may be repaid, in whole or in part, at any time. Monthly payments, blended principal and interest, of \$16,171 are required until maturity. As additional compensation for having advanced the funds, the holder of this debenture was issued 233,333 common shares of the Company.	448,315	480,789
Debenture, bearing interest at 4.5%, secured by specific equipment (note 4) on a pro-rata basis with another debenture, and matures December 2013. The debenture has a face value of \$236,027 and may be repaid, in whole or in part, at any time. Payments as to interest only are required until maturity.	218,991	242,024
Term loan bearing interest at the April 30 prime lending rate plus 8%, adjusted annually and currently at 11.00%, secured by a general security agreement covering the assets of PEC, matures April 2015. The loan has a face value of \$105,983. It may be repaid, in whole or in part, at any time. Monthly payments, blended principal and interest, of \$2,961 are required until April 2013, then \$3,692 until April 2014, then \$4,920 until maturity. As additional compensation for having advanced the funds, the holder of this debenture was granted an option to acquire a 24% interest in PEC for \$200,000 on or before May 1, 2015. ⁽³⁾	102,830	108,386
Balance forward.	\$ 904,733	\$ 1,174,426

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2012

5. Long-Term Debt - continued

	Sept 30 2012	June 30 2012
Balance forward.	\$ 904,733	\$ 1,174,426
Less: Current portion	302,168	290,304
	<u>\$ 602,565</u>	<u>\$ 698,648</u>

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

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

The minimum annual future principal repayments are as follows:

2013	\$ 302,168
2014	570,068
2015	32,497
	<u>\$ 904,733</u>

6. Commitments

Bank operating loan

The Company has access to a \$250,000 line of credit from its financial institution. The loan was not drawn upon at either September 30, 2012 or June 30, 2012, 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. The guarantor is 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 paid to the Company's financial institution. The monthly fee is 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 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 term of the lease as follows:

The minimum annual payments due under these lease agreements are approximately as follows:

2013	\$ 87,145
2014	89,182
2015	91,672
2016	97,783
2017	101,631
Remaining	373,025
	<u>\$ 840,438</u>

7. Share Capital

(a) Authorized

Unlimited Common shares

Unlimited Non voting, non participating Class A special shares. All previously outstanding Class A shares were exchanged for common shares and no additional shares may be issued.

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2012

7. Share Capital - continued

(a) Authorized - continued

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. ⁽¹⁾

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

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

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

⁽¹⁾ 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

	Sept 30 2012	June 30 2012
Common shares	\$ 21,973,988	\$ 21,965,037
Class A special shares ⁽¹⁾	-	100,000
Share capital	\$ 21,973,988	\$ 22,065,037

Common shares	Number of Shares	Amount
Balance June 30, 2011, September 30, 2011 and June 30, 2012	7,062,488	\$ 21,965,037
Common shares issued in exchange for Class A shares ⁽¹⁾	99,454	8,951
Balance September 30, 2012 and June 30, 2012	7,161,942	\$ 21,973,988

⁽¹⁾ During the period the shareholders approved the issuance of 99,454 common shares in exchange for the 1,193,442 Class A Special Shares then outstanding. The common shares were recorded at their fair value at the time of issuance and the difference between the carrying value of the Class A shares and the fair value of the common shares was allocated to contributed surplus. The common shares have been issued and will be held by the Company's transfer agent pending surrender of shares by each Class A shareholder at which time they will receive their common shares.

Preferred Shares:

	Sept 30 2012	June 30 2012
Balance September 30, 2012 and June 30, 2012	\$ 473,855	\$ 473,855

(c) Details of warrants outstanding are as follows:

	Sept 30 2012	June 30 2012
Warrants not yet exercised	\$ 81,564	\$ 81,564
	Number of Warrants	Amount
Balance September 30, 2012 and June 30, 2012	1,400,000	\$ 81,564
	Number of Warrants	Weighted Average Price per Warrant
Beginning and end of period	1,400,000	\$ 0.113
		Weighted Average Expiry Date
		Mar. 18, 2015

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2012

7. Share Capital - continued

(d) Details of options outstanding are as follows:

	Common Shares Under option	Number of Options Vested	Price/Option	Expiry Date
Granted Nov. 30, 2010	900,000 ⁽¹⁾	900,000	\$ 0.10	Nov. 30, 2015
Granted Sept. 14, 2012	300,000 ⁽¹⁾	300,000	\$ 0.10	Sept. 14, 2017

	Common Shares Under Option	Weighted Average Price/Option	Weighted Average Expiry Date
Beginning of period	900,000	\$ 0.10	Nov. 30, 2015
Issued during period	300,000	\$ 0.10	Sept. 14, 2017
End of period	1,200,000	\$ 0.10	May 11, 2016

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

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

	Sept 30 2012	June 30 2012
Dividend yield	Nil	Nil
Risk free interest rate (%)	1.40%	None issued
Expected stock volatility (%)	106.53%	None issued
Expected life (years)	5	None issued

(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:

	Sept 30 2012	June 30 2012
Contributed surplus, beginning of period	\$ 485,451	\$ 485,451
Conversion of Class A shares to common shares	91,049	-
Compensation expense related to stock options granted	20,578	-
Contributed surplus, beginning of period	\$ 597,078	\$ 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 shareholder, 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	Sept 30 2012	Sept 30 2011
Interest expense - long term	1114377	\$ 3,328	\$ 3,881

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2012

9. Income Taxes

Unrecognized Deferred Tax Assets

Deferred income taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	Sept 30	June 30
	2012	2012
Share issuance costs	\$ 25,648	\$ 25,648
Intangible assets	46,539	46,539
Property, plant and equipment	482,766	444,321
Resource related expenditures	349,050	349,050
Scientific research and experimental development	1,050,618	1,050,618
Net capital loss carry forwards	2,292,036	2,292,036
Non-capital loss carry forwards	<u>15,592,989</u>	<u>15,592,989</u>

Share issue costs expire from 2013 to 2015. The non-capital loss carry forwards expire from 2027 to 2032. The net capital loss carry forwards may be carried forward indefinitely, but can only be used to reduce capital gains. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

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 \$206,648 (June 2012 - \$176,687). 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 2012 - \$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.

Market risks

The Company is exposed to interest rate risk and currency risk. The 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. Credit risk is minimized through the reduction of debt when cash flow permits. Currency risk is closely monitored but not actively managed. During the period the Company incurred a loss on foreign exchange in the amount of \$7,905 (Sept 2011 - \$5,443).

Sensitivity to market risks

If interest rates are 1% higher on the next subsequent interest adjustment date than they were at September 30, 2012, the monthly payments required on long-term debt over the next twelve months will increase by \$273 representing additional interest expense.

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2012

10. Financial risk factors - continued

Sensitivity to market risks - continued

At September 30, 2012 the Company had US\$328,094 (2011 – US\$Nil) included in accounts receivable. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of \$17,540 in future cash inflow.

At September 30, 2012 the Company had US\$138,568 (2011 – US\$59,345) included in accounts payable. A 5% decrease in the value of the Canadian dollar relative to the US dollar would result in an increase of \$6,928 in future cash outflow.

The existence of both accounts receivable and accounts payable denominated in US\$ do not serve as a hedge with respect to currency risk.

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

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 primarily 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:

	Sept 30 2012	June 30 2012
Long-term debt ⁽¹⁾	\$ 237,427	\$ 266,139
Share Capital	21,973,988	22,065,037
Warrants	81,564	81,564
Contributed surplus	597,078	485,451
Deficit	(22,699,353)	(22,708,142)
Net capital under management	\$ 190,704	\$ 190,049

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