

ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Financial Statements

September 30, 2014

(Stated in Canadian Dollars)

Responsibility for Financial Statements

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

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

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on November 25, 2014. 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, 2014

	Sept 30 2014	June 30 2014
Assets		
Current assets		
Cash and cash equivalents (note 3)	\$ 323,642	\$ 53,723
Restricted cash equivalents (note 6)	-	250,000
Accounts receivable	513,241	413,485
Inventories (note 4)	449,038	662,941
Prepaid expenses	8,574	8,254
	1,294,495	1,388,403
Lease deposit (note 8)	35,000	35,000
Equipment (note 5)	641,936	674,697
	\$ 1,971,431	\$ 2,098,100
Liabilities		
Current liabilities		
Bank operating loan (note 6)	\$ -	\$ 25,000
Customer deposits and deferred revenue	3,632	-
Accounts payable and accrued liabilities (note 10)	480,835	594,609
Current portion of long-term debt (note 7)	111,591	123,689
Dividends payable	263,337	263,337
Preferred shares (note 9)	473,855	473,855
	1,333,250	1,480,490
Long-term debt (note 7)	151,388	158,244
	1,484,638	1,638,734
Shareholders' Equity		
Share capital (note 9)	22,343,053	22,343,053
Warrants (note 9)	80,896	80,896
Contributed surplus (note 9)	613,819	613,819
Deficit	(22,550,975)	(22,578,402)
	486,793	459,366
	\$ 1,971,431	\$ 2,098,100

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, 2014

	Share Capital	Warrants	Contributed Surplus	Deficit	Total
Balance, June 30, 2013	\$ 22,330,215	\$ 76,677	\$ 569,452	\$ (22,559,823)	\$ 416,521
Stock options exercised	12,838	-	(5,338)		7,500
Net income for the period	-	-	-	63,858	63,858
Balance, September 30, 2013	22,343,053	76,677	564,114	(22,495,965)	487,879
Warrants granted	-	4,219	-	-	4,219
Share-based payments	-	-	49,705	-	49,705
Net loss for the period	-	-	-	(82,437)	(82,437)
Balance, June 30, 2014	22,343,053	80,896	613,819	(22,578,402)	459,366
Net income for the period	-	-	-	27,427	27,427
Balance, September 30, 2014	\$ 22,343,053	\$ 80,896	\$ 613,819	\$ (22,550,975)	\$ 486,793

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

	2014	2013
Product sales	\$ 1,070,734	\$ 1,134,250
Cost of product sales (note 4)	726,183	712,708
	344,551	421,542
Expenses		
Selling, general and administrative (note 11)	305,801	344,576
Interest expense - long-term debt (note 10)	7,569	9,592
Interest expense - other	765	211
Depreciation of equipment	789	756
Foreign exchange loss	2,811	3,337
	317,825	358,472
Income before miscellaneous income and income taxes	26,726	63,070
Miscellaneous income	701	788
Income before provision for income taxes	27,427	63,858
Provision for income taxes (note 12)	-	-
Net income and comprehensive income for the period	\$ 27,427	\$ 63,858
Net income per share - basic	\$ 0.002	\$ 0.006
- fully diluted	\$ 0.002	\$ 0.005
Weighted average shares outstanding - basic	10,648,696	10,630,761
- fully diluted	10,648,696	12,147,813

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

	2014	2013
Cash flow from operating activities		
Net income for the period	\$ 26,726	\$ 63,858
Items not involving cash		
Interest accretion	3,761	3,871
Depreciation of equipment	33,969	31,309
Changes in non-cash working capital items:		
Accounts receivable	(99,756)	(42,278)
Inventories	213,903	53,622
Prepaid expenses	(320)	(899)
Customer deposits and deferred revenue	3,632	19,199
Accounts payable and accrued liabilities	(113,774)	(60,001)
	<u>68,842</u>	<u>65,681</u>
Cash flow from investing activities		
Purchase of equipment	(1,208)	-
Cash flow from financing activities		
Repayment of operating loan	(25,000)	-
Restricted cash equivalents	250,000	-
Proceeds of long-term debt	197,463	7,500
Repayment of long-term debt	(220,178)	(108,432)
Proceeds of share issuances	-	7,500
	<u>202,285</u>	<u>(100,432)</u>
Increase (decrease) in cash and cash equivalents	269,919	(32,251)
Cash and cash equivalents, beginning of period	53,723	120,614
Cash and cash equivalents, end of period	\$ 323,642	\$ 88,363

Supplemental Disclosure of Cash Flow Information

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

Interest	\$ 3,916	\$ 6,296
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, 2014

1. Business of the Company

ZTEST Electronics Inc. (the Company) amalgamated under the laws of Ontario and carries on business at 523 McNicoll Avenue, Toronto, Ontario designing, developing, and assembling printed circuit boards and other electronic equipment. The Company's shares trade on the Canadian 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, 2014.

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, 2014. 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, 2014.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on November 25, 2014.

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. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. If the going concern assumption were not appropriate for these 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 revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. These unaudited condensed interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the unaudited condensed interim consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and also in future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant estimates and judgments include, but are not limited to, the recoverability of inventory, the carrying value of liabilities which are past due and for which the timing of future cash flows are undetermined, and the recognition and valuation of deferred tax amounts.

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2014

2. Significant Accounting Policies - continued

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 or cash generating unit (CGU) have suffered an impairment loss. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or groups of assets. Where such an indication exists, the recoverable amount of the asset or CGU is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's or CGU'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 or CGU 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 or CGU. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and the impairment loss is recognized in the income for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU 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 CGU 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.

Accounting standards effective for future periods

IFRS 9, *Financial Instruments*: effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of the financial statements for their assessment of the amounts, timing and uncertainty of future cash flows. Management anticipates that this standard will be adopted in the Company's financial statements for the year beginning July 1, 2018 and has not yet considered the potential impact of its adoption.

IFRS 15, *Revenue from Contracts with Customers*: effective for annual periods beginning on or after January 1, 2017, with early adoption permitted, replaces existing revenue standards and interpretations with a single standard and provides additional guidance on revenue recognition for contracts with customers. Management anticipates that this standard will be adopted in the Company's financial statements for the year beginning July 1, 2017 and has not yet considered the potential impact of its adoption.

3. Cash and cash equivalents

Cash and cash equivalents consist of cash and fully cashable short-term, interest bearing, deposits held at the Company's financial institution as follows:

	Sept 30 2014	June 30 2014
Cash	\$ 73,642	\$ 53,723
Short-term interest bearing deposits ⁽¹⁾	250,000	-
	<u>\$ 323,642</u>	<u>\$ 53,723</u>

⁽¹⁾ The Company previously had a term deposit in the amount of \$250,000 that had been pledged as security for its bank operating loan (*note 6*) and was designated as restricted cash equivalents. This security was released July 7, 2014.

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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4. Inventories

The carrying value of inventory is comprised of:

	Sept 30 2014	June 30 2014
Raw materials and supplies ⁽¹⁾	\$ 427,292	\$ 636,612
Work in process	13,642	12,393
Finished goods	8,104	13,936
	\$ 449,038	\$ 662,941

⁽¹⁾ The raw materials and supplies is presented net of provisions for obsolete and/or slow moving items in the amount of \$5,801 (June 2014 - \$56,045).

Inventory utilization during the period was as follows:

	Sept 30 2014	Sept 30 2013
Raw materials and supplies used	\$ 450,196	\$ 453,505
Labour costs	196,386	179,846
Depreciation	33,090	30,553
Repairs and maintenance	18,420	5,752
Other costs	25,508	24,476
Net change in finished goods and work in process	4,583	18,576
Cost of product sales	\$ 726,183	\$ 712,708

5. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Cost:					
Balance, June 30, 2013	\$ 169,152	\$ 71,277	\$ 2,369,053	\$ 61,003	\$ 2,670,485
Additions	-	-	-	-	-
Balance, Sept 30, 2013	169,152	71,277	2,369,053	61,003	2,670,485
Additions	4,259	-	192,155	-	196,414
Balance, June 30, 2014	173,411	\$ 71,277	\$ 2,561,208	\$ 61,003	\$ 2,866,899
Additions	1,208	-	-	-	1,208
Balance, Sept 30, 2014	\$ 174,619	\$ 71,277	\$ 2,561,208	\$ 61,003	\$ 2,868,107
Accumulated Depreciation:					
Balance, June 30, 2013	\$ (163,533)	\$ (66,842)	\$ (1,755,734)	\$ (61,003)	\$ (2,047,112)
Depreciation	(422)	(221)	(30,666)	-	(31,309)
Balance, Sept 30, 2013	(163,955)	(67,063)	(1,786,400)	(61,003)	(2,078,421)
Depreciation	(1,903)	(665)	(111,213)	-	(113,781)
Balance, June 30, 2014	(165,858)	(67,728)	(1,897,613)	(61,003)	(2,192,202)
Depreciation	(612)	(177)	(33,180)	-	(33,968)
Balance, Sept 30, 2014	\$ (166,470)	\$ (67,905)	\$ (1,930,793)	\$ (61,003)	\$ (2,078,421)
Carrying Amounts:					
June 30, 2013	\$ 5,619	\$ 4,435	\$ 613,319	\$ -	\$ 623,373
September 30, 2013	\$ 5,197	\$ 4,214	\$ 582,653	\$ -	\$ 592,064
June 30, 2014	\$ 7,553	\$ 3,549	\$ 663,595	\$ -	\$ 674,697
September 30, 2014	\$ 8,149	\$ 3,372	\$ 630,415	\$ -	\$ 641,936

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6. Bank operating loan

	Sept 30 2014	June 30 2014
The line of credit ⁽¹⁾ , which can be drawn to a maximum of \$250,000, bears interest at the TD Bank prime lending rate plus 2.5%, is due upon demand, and is secured by a general security agreement covering the assets of PEC.	\$ Nil	\$ 25,000

⁽¹⁾ During the period this line of credit was restructured to increase the interest rate from the prime lending rate plus 0.5% and to remove the requirement for term deposit security. The \$250,000 term deposit, previously classified as restricted cash equivalents, became available for general use on July 7, 2014.

7. Long-Term Debt

	Sept 30 2014	June 30 2014
Non interest bearing debenture has matured. ⁽¹⁾	\$ 39,600	\$ 39,600
Term loan, having a face value of \$33,210, bearing interest at 11.00%, secured by a general security agreement covering the assets of PEC, matures April 2015. Blended monthly principal and interest payments of \$4,920 are required. At the time the funds were advanced the creditor was granted an option to acquire a 24% interest in PEC for \$200,000 on or before May 1, 2015. ⁽²⁾	32,498	45,789
Term loan bearing interest at the TD Bank prime lending rate plus 1.75% matures July 2019. Monthly payments of \$3,291 plus interest are required until maturity. ⁽⁴⁾	190,881	-
Term loan with a face value of \$150,000 bore interest at 9%, was scheduled to mature October 2017, and was repaid during the period. At the time the funds were advanced the creditor was granted 300,000 warrants. ^(2, 4, 5)	-	147,408
Term loan with a face value of \$50,000 bore interest at 9%, was scheduled to mature October 2017, and was repaid during the period. At the time the funds were advanced the creditor was granted 100,000 warrants. ^(3, 4, 5)	-	49,136
Total long-term debt	262,979	281,933
Less: Current portion	111,591	123,689
	\$ 151,388	\$ 158,244

The minimum annual future principal repayments are as follows:

2015	\$ 111,591
2016	39,493
2017	39,493
2018	39,492
2019	32,910
	\$ 262,979

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

⁽²⁾ Payable to a company that is controlled by the spouse of a Director of the Company (*note 10*).

⁽³⁾ Payable to the Company's Chief Financial Officer (*note 10*).

⁽⁴⁾ The proceeds of the new term loan were used to repay the term loans per ⁽²⁾ and ⁽³⁾ above.

⁽⁵⁾ Each warrant has an exercise price of \$0.10, and an expiry date of October 31, 2017.

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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September 30, 2014

8. Commitments

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 at the end of the lease. Minimum monthly rental payments ranging from \$7,470 to \$8,979 are required over the remaining term of the lease as follows:

2015	\$	91,672
2016		97,783
2017		101,631
2018		104,347
2019		107,064
Remaining		161,614
	\$	<u>664,111</u>

9. Share Capital

(a) Authorized

Unlimited Common shares

Unlimited Non-voting, non-participating Class A special shares. All previously outstanding Class A special shares were exchanged for common shares.

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 shares may no longer be issued and none remain outstanding.

⁽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 2014	June 30 2014
Common shares	\$ <u>22,343,053</u>	\$ <u>22,343,053</u>

Common shares	Number of Shares	Amount
Balance June 30, 2013	10,573,696	\$ 22,330,215
Stock options exercised	75,000	12,838
Balance September 30, 2013, June 30, 2014, and September 30, 2014	10,648,696	\$ <u>22,343,053</u>

⁽¹⁾ In the 2013 fiscal year the Company's shareholders approved the issuance of 99,454 common shares in exchange for 100% of the Class A Special Shares outstanding. 91,208 common shares have been issued, representing the entitlement of the identifiable Class A shareholders. 8,246 common shares have been reserved to be issued if and when the remaining Class A shareholders identify themselves to the Company.

	Sept 30 2014	June 30 2014
Preferred shares	\$ <u>473,855</u>	\$ <u>473,855</u>

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2014

9. Share Capital - continued

(c) Details of warrants outstanding are as follows:

	Number of Warrants	Amount
Balance June 30, 2013 and September 30, 2013	2,000,000	76,677
Issued during the year	400,000	4,219
Balance June 30, 2014 and September 30, 2014	2,400,000	\$ 80,896

	Number of Warrants	Exercise Price	Expiry Date
Issued Mar. 24, 2011	900,000	\$ 0.10	Mar. 24, 2016
Issued Feb. 4, 2013	1,100,000	\$ 0.10	Feb. 4, 2016
Issued Jan 10, 2014	400,000	\$ 0.10	Oct. 31, 2017

	Number of Warrants	Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning and end of the period	2,400,000	\$ 0.10	June 7, 2016

No warrants were issued during the period ended September 30, 2014. The warrants issued during the 2014 fiscal year were valued at the difference between the face value and fair value of the debts for which the warrants were issued as partial compensation (*note 7*).

(d) Details of options outstanding are as follows:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted March 11, 2013	200,000 ⁽²⁾	200,000	\$ 0.15	April 27, 2015
Granted December 31, 2013	100,000 ⁽²⁾	100,000	\$ 0.10	April 27, 2015
Granted Nov. 30, 2010	275,000 ⁽¹⁾	275,000	\$ 0.10	Nov. 30, 2015
Granted Sept. 14, 2012	130,000 ⁽¹⁾	130,000	\$ 0.10	Sept. 14, 2017
Granted December 31, 2013	500,000 ⁽¹⁾	500,000	\$ 0.10	Dec. 31, 2018

	Common Shares Under Option	Weighted Average Price per Option	Weighted Average Expiry Date
Beginning and end of the period	1,205,000	\$ 0.11	Mar. 28, 2017

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

⁽²⁾ Options are held by the estate of a former Director. The expiry dates were amended to be one year following the date of death.

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

	Sept 30 2014	June 30 2014
Dividend yield	None issued	Nil
Risk free interest rate (%)	None issued	1.93
Expected stock volatility (%)	None issued	119.90
Expected life (years)	None issued	5

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2014

9. Share Capital - continued

(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 2014	June 30 2014
Contributed surplus, beginning of period	\$ 613,819	\$ 569,452
Compensation expense related to stock options granted	-	49,705
Stock options exercised	-	(5,338)
Contributed surplus, end of period	\$ 613,819	\$ 613,819

10. Related Party Transactions and Balances

In addition to key management personnel, the Company had transactions during the year and outstanding balances (*note 7*) at the end of the period with 1114377 Ontario Inc. (ö1114377ö), a company controlled by the spouse of a Director of the Company.

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

Description	Sept 30 2014	Sept 30 2013
Employee and consultant compensation ⁽¹⁾	\$ 84,715	\$ 83,474
Professional fees ⁽¹⁾	2,305	4,122
Interest expense ó long-term	1,000	2,588
	\$ 87,824	\$ 87,824
Stock-based compensation	\$ -	\$ -

⁽¹⁾ Transactions with key management personnel. As at September 30, 2014 there was a balance of \$63,042 (June 30, 2014 - \$51,722) included in accounts payable and accrued liabilities that was payable to key management personnel.

11. Selling, general and administrative expenses

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

	Sept 30 2014	Sept 30 2013
Employee and consultant compensation (<i>note 10</i>)	\$ 210,212	\$ 245,352
Occupancy costs	66,638	68,213
Professional fees (<i>note 10</i>)	12,030	12,402
Shareholder services	1,033	1,505
Insurance	8,744	8,160
Other	7,144	8,944
	\$ 305,801	\$ 344,576

ZTEST Electronics Inc.

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12. 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 because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom:

	Sept 30 2014	June 30 2014
Share issuance costs	\$ 19,640	\$ 19,640
Intangible assets	40,250	40,250
Property, plant and equipment	106,202	97,200
Resource related expenditures	349,050	349,050
Scientific research and experimental development	1,050,618	1,050,618
Net capital loss carry forwards	1,273,700	1,273,700
Non-capital loss carry forwards	15,592,989	15,592,989

Share issue costs expire from 2014 to 2017. The non-capital loss carry forwards expire from 2027 to 2034. 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.

13. 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 2014	June 30 2014
Long-term debt ⁽¹⁾	\$ 262,979	\$ 281,933
Share Capital	22,343,053	22,343,053
Warrants	80,896	80,896
Contributed surplus	613,819	613,819
Deficit	(22,550,975)	(22,578,402)
Net capital under management	\$ 749,772	\$ 741,299

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

14. 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.

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14. Financial risk factors - continued

Concentration of credit risk

Concentration of credit risk arises when a significant portion of the financial assets subject to credit risk arise from a single or limited number of sources. During the current period, no single customer accounted for more than 20% of total revenue (September 2013 61 customer at 36%). The Company monitors the relationship with all customers closely and ensures that every customer is subject to the same risk management criteria.

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company has reported a working capital deficiency of \$38,755 (June 30, 2014 - \$92,087). This includes financial liabilities (a specific long-term debt instrument plus preferred shares and dividends payable) with an aggregate carrying amount of \$776,792 (June 30, 2014 - \$776,792) 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 13*) 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 currency risk related 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. Currency risk is closely monitored but not actively managed. The Company has reported a foreign exchange loss of \$2,811 (September 2013 6 \$3,337).

Sensitivity to market risks

At September 30, 2014 the Company had US\$49,452 (June 30, 2014 6US\$99,330) included in accounts receivable. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of \$2,783 in future cash inflow.

At September 30, 2014 the Company had US\$64,128 (June 30, 2014 6 US\$233,439) 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 \$3,609 in future cash outflow.

The existence of both accounts receivable and accounts payable denominated in US\$ does 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.