

## **ZTEST Electronics Inc.**

### **Unaudited Condensed Interim Consolidated Financial Statements**

**September 30, 2015**

**(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 24, 2015. 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, 2015

	Sept 30 2015	June 30 2015
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 3)	\$ 305,899	\$ 112,409
Accounts receivable	460,915	690,386
Inventories (note 4)	498,160	382,545
Prepaid expenses	5,649	10,071
	<b>1,270,623</b>	<b>1,195,411</b>
Lease deposit (note 8)	35,000	35,000
Equipment (note 5)	514,710	540,588
	<b>\$ 1,820,333</b>	<b>\$ 1,770,999</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Customer deposits	\$ 9,588	\$ 19,683
Accounts payable and accrued liabilities (note 10)	620,622	539,976
Current portion of long-term debt (note 7)	39,493	39,493
	<b>669,703</b>	<b>599,152</b>
Long-term debt (note 7)	111,895	121,769
	<b>781,598</b>	<b>720,921</b>
<b>Commitment (note 8)</b>		
<b>Shareholders' Equity</b>		
Share capital (note 9)	22,151,406	22,151,406
Warrants (note 9)	80,896	80,896
Contributed surplus (note 9)	835,845	835,845
Deficit	(22,029,412)	(22,018,069)
	<b>1,038,735</b>	<b>1,050,078</b>
	<b>\$ 1,820,333</b>	<b>\$ 1,770,999</b>

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.**

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

(Stated in Canadian Dollars)

*September 30, 2015*

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	Share Capital	Warrants	Contributed Surplus	Deficit	Total
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
Settlement of preferred shares	(191,647)	-	222,026	-	30,379
Net income for the period	-	-	-	532,906	532,906
Balance, June 30, 2015	22,151,406	80,896	835,845	(22,018,069)	1,050,078
Net loss for the period	-	-	-	(11,343)	(11,343)
Balance, September 30, 2015	<b>\$ 22,151,406</b>	<b>\$ 80,896</b>	<b>\$ 835,845</b>	<b>\$ (22,029,512)</b>	<b>\$ 1,038,735</b>

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

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

(Stated in Canadian Dollars)

*For the three month periods ended September 30*

	2015	2014
<b>Product sales</b>	<b>\$ 880,012</b>	<b>\$ 1,070,734</b>
<b>Cost of product sales (note 4)</b>	<b>563,731</b>	<b>726,183</b>
	<b>316,281</b>	<b>344,551</b>
<b>Expenses</b>		
Selling, general and administrative (note 11)	322,586	305,801
Interest expense - long-term debt	1,758	7,569
Interest expense - other	152	765
Depreciation of equipment	830	789
Foreign exchange loss	3,021	2,811
	<b>328,347</b>	<b>317,825</b>
<b>(Loss) income before miscellaneous income and income taxes</b>	<b>(12,066)</b>	<b>26,726</b>
Miscellaneous income	723	701
<b>(Loss) income before provision for income taxes</b>	<b>(11,343)</b>	<b>27,427</b>
Provision for income taxes	-	-
<b>Net (loss) income and comprehensive (loss) income for the period</b>	<b>\$ (11,343)</b>	<b>\$ 27,427</b>
<b>Net (loss) income per share</b>		
Basic	\$ (0.00)	\$ 0.00
Fully diluted	\$ (0.00)	\$ 0.00
<b>Weighted average shares outstanding</b>		
Basic	10,648,696	10,644,175
Fully diluted	10,648,696	11,847,917

*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

	2015	2014
<b>Cash flow from operating activities</b>		
Net (loss) income for the period	\$ (11,343)	\$ 27,427
Items not involving cash		
Interest accretion	-	3,761
Depreciation of equipment	27,302	33,969
Changes in non-cash working capital items:		
Accounts receivable	229,471	(99,756)
Inventories	(115,615)	213,903
Prepaid expenses	4,422	(320)
Customer deposits	(10,095)	3,632
Accounts payable and accrued liabilities	80,646	(113,774)
	<b>201,167</b>	<b>68,842</b>
<b>Cash flow from investing activities</b>		
Purchase of equipment	(1,424)	(1,208)
<b>Cash flow from financing activities</b>		
Repayment of operating loan	-	(25,000)
Restricted cash equivalents	-	250,000
Proceeds of long-term debt	-	197,463
Repayment of long-term debt	(9,874)	(220,178)
	<b>(9,874)</b>	<b>202,285</b>
<b>Increase in cash and cash equivalents</b>	<b>193,490</b>	<b>269,919</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>112,409</b>	<b>53,723</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 305,899</b>	<b>\$ 323,642</b>

#### Supplemental Disclosure of Cash Flow Information:

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

Interest	\$ 1,949	\$ 3,916
Income taxes	\$ -	\$ -

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

# ZTEST Electronics Inc.

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## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2015

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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 at 523 McNicoll Avenue, Toronto, Ontario designing, developing, and assembling printed circuit boards and other electronic equipment. The Company's shares trade on the Canadian Securities Exchange under the symbol "ZTE".

### 2. Significant Accounting Policies

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#### 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, 2015.

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, 2015. 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, 2015.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on November 24, 2015.

#### Basis of presentation

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 International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### Basis of consolidation

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

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

#### Changes in accounting policies

The Company's accounting policies will typically change only when there is a relevant change in IFRS. There were no changes in IFRS during the current period that were required to be adopted by the Company.

#### 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 consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the 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 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, 2015

#### 2. Significant Accounting Policies - continued

##### Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period.

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

##### Financial instruments recorded at fair value

Financial instruments recorded at fair value on the 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 June 30, 2015 and 2014 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 or cash generating unit (CGU) have suffered an impairment loss.

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

##### Cash equivalents

Cash equivalents consist of highly liquid short-term interest bearing securities with maturity at the date of purchase of three months or less.

##### 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, 2018, 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, 2018 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 2015	June 30 2015
Cash	\$ 255,899	\$ 112,409
Short-term interest bearing deposits	50,000	-
	<u>\$ 305,899</u>	<u>\$ 112,409</u>

## ZTEST Electronics Inc.

### Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2015

#### 4. Inventories

The carrying value of inventory is comprised of:

	<b>Sept 30 2015</b>	June 30 2015
Raw materials and supplies <sup>(1)</sup>	\$ 455,787	\$ 363,740
Work in process	36,753	10,908
Finished goods	5,620	7,897
	<b>\$ 498,160</b>	<b>\$ 382,545</b>

<sup>(1)</sup> The raw materials and supplies is presented net of provisions for obsolete and/or slow moving items in the amount of \$5,889 (June 2015 - \$30,891).

Inventory utilization during the period was as follows:

	<b>Sept 30 2015</b>	Sept 30 2014
Raw materials and supplies used	\$ 373,004	\$ 450,196
Labour costs	160,750	196,386
Depreciation	26,472	33,090
Repairs and maintenance	2,996	18,420
Other costs	24,078	25,508
Net change in finished goods and work in process	(23,569)	4,583
Cost of product sales	<b>\$ 563,731</b>	<b>\$ 726,183</b>

#### 5. Equipment

	<b>Computer Equipment</b>	<b>Office Equipment</b>	<b>Manufacturing Equipment</b>	<b>Leasehold Improvements</b>	<b>Total</b>
<b>Cost:</b>					
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
Additions	802	-	-	-	802
Balance, June 30, 2015	175,421	71,277	2,561,208	61,003	2,868,909
Additions	1,424	-	-	-	1,424
Balance, Sept 30, 2014	<b>\$ 176,845</b>	<b>\$ 71,277</b>	<b>\$ 2,561,208</b>	<b>\$ 61,003</b>	<b>\$ 2,870,333</b>
<b>Accumulated Depreciation:</b>					
Balance, June 30, 2014	\$ (165,858)	\$ (67,728)	\$ (1,897,613)	\$ (61,003)	\$ (2,192,202)
Depreciation	(612)	(177)	(33,180)	-	(33,969)
Balance, Sept 30, 2014	(166,470)	(67,905)	(1,930,793)	(61,003)	(2,226,171)
Depreciation	(2,078)	(533)	(99,549)	-	(102,150)
Balance, June 30, 2015	(168,548)	(68,438)	(2,030,332)	(61,003)	(2,328,321)
Depreciation	(553)	(205)	(26,544)	-	(27,302)
Balance, Sept 30, 2015	<b>\$ (169,101)</b>	<b>\$ (68,643)</b>	<b>\$ (2,056,876)</b>	<b>\$ (61,003)</b>	<b>\$ (2,355,623)</b>
<b>Carrying Amounts:</b>					
June 30, 2014	\$ 7,553	\$ 3,549	\$ 663,595	\$ -	\$ 674,697
September 30, 2014	\$ 8,149	\$ 3,372	\$ 630,415	\$ -	\$ 641,936
June 30, 2015	\$ 6,873	\$ 2,839	\$ 530,876	\$ -	\$ 540,588
September 30, 2015	<b>\$ 7,744</b>	<b>\$ 2,634</b>	<b>\$ 504,332</b>	<b>\$ -</b>	<b>\$ 514,710</b>



## ZTEST Electronics Inc.

### Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2015

#### 6. Bank operating loan

	Sept 30 2015	June 30 2015
The line of credit, which can be drawn to a maximum of \$250,000, bears interest at the TD Bank prime lending rate plus 2.5%, is due upon demand, and is secured by a general security agreement covering the assets of PEC.	\$ -	\$ -

#### 7. Long-Term Debt

	Sept 30 2015	June 30 2015
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.	\$ 151,388	\$ 161,262
Less: Current portion	39,493	39,493
	<u>\$ 111,895</u>	<u>\$ 121,769</u>
The minimum annual future principal repayments are as follows:		
2016		\$ 39,493
2017		39,493
2018		39,492
2019		32,910
		<u>\$ 151,388</u>

#### 8. Commitment

The Company leases its operating facility under a lease that is due to expire March 31, 2021. A lease deposit in the amount of \$35,000 has been paid and will be 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:

2016	\$ 97,783
2017	101,631
2018	104,347
2019	107,064
2020	107,743
Remaining	53,871
	<u>\$ 572,439</u>

#### 9. Share Capital

##### (a) Authorized

Unlimited Common shares

Unlimited Preferred shares in one or more series.

##### (b) Issued

	Sept 30 2015	June 30 2015
Common shares	\$ 22,151,406	\$ 22,151,406

## ZTEST Electronics Inc.

### Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2015

#### 9. Share Capital - continued

Common shares	Number of Shares	Amount
Balance June 30, 2014 and September 30, 2014 <sup>(1)</sup>	10,648,696	\$ 22,343,053
Redemption of Series A and Series C preferred shares	-	(191,647)
<b>Balance June 30, 2015 and September 30, 2015 <sup>(1)</sup></b>	<b>10,648,696</b>	<b>\$ 22,151,406</b>

<sup>(1)</sup> 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.

#### Preferred shares

Balance June 30, 2014 and September 30, 2014	\$ 473,855
Redemption of Series A and Series C preferred shares	(473,855)
<b>Balance June 30, 2015 and September 30, 2015</b>	<b>\$ -</b>

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

	Number of Warrants	Amount
Balance June 30, 2014, September 30, 2014, June 30, 2015 and September 30, 2015	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, 2015 or during the 2015 fiscal year.

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

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted Nov. 30, 2010	275,000 <sup>(1)</sup>	275,000	\$ 0.10	Nov. 30, 2015
Granted Sept. 14, 2012	130,000 <sup>(1)</sup>	130,000	\$ 0.10	Sept. 14, 2017
Granted December 31, 2013	500,000 <sup>(1)</sup>	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	905,000	\$ 0.10	Nov. 15, 2017

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

No options were granted during the period ended September 30, 2015 or during the 2015 fiscal year.

#### (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:

## ZTEST Electronics Inc.

### Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2015

#### 9. Share Capital - continued

##### (e) Share based payment transactions and contributed surplus - continued

	Sept 30 2015	June 30 2015
Contributed surplus, beginning of period	\$ 838,845	\$ 613,819
Redemption of Series A and Series C preferred shares	-	222,026
Contributed surplus, end of period	\$ 838,845	\$ 838,845

#### 10. Related Party Transactions and Balances

In addition to key management personnel, The Company had transactions during the period with 1114377 Ontario Inc., a company controlled by the spouse of a Director of the Company.

All 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	Sept 30 2015	Sept 30 2014
Employee and consultant compensation <sup>(1)</sup>	\$ 82,110	\$ 84,715
Professional fees <sup>(1)</sup>	7,701	2,305
Interest expense ó long-term	-	1,000
	\$ 89,811	\$ 88,020
Stock-based compensation	\$ -	\$ -

<sup>(1)</sup> Transactions with key management personnel. As at September 30, 2015 there was a balance of \$110,283 (June 30, 2015 - \$90,306) 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 2015	Sept 30 2014
Employee and consultant compensation ( <i>note 10</i> )	\$ 198,204	\$ 210,212
Occupancy costs	71,154	66,638
Professional fees ( <i>note 10</i> )	16,982	12,030
Shareholder services	15,894	1,033
Insurance	8,253	8,744
Other	12,099	7,144
	\$ 322,586	\$ 305,801

#### 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:

## ZTEST Electronics Inc.

### Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2015

#### 12. Income Taxes - continued

	Sept 30 2015	June 30 2015
Inventory	\$ 9,460	\$ 9,460
Share issuance costs	7,280	7,280
Intangible assets	37,430	37,430
Property, plant and equipment	28,774	2,900
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	1,358,660
Non-capital loss carry forwards	15,592,989	15,592,989

#### 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 2015	June 30 2015
Long-term debt	\$ 151,388	\$ 161,262
Share Capital	22,151,406	22,151,406
Warrants	80,896	80,896
Contributed surplus	835,845	835,845
Deficit	(22,029,512)	(22,018,069)
Net capital under management	\$ 1,190,123	\$ 1,211,340

#### 14. Financial risk factors

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

##### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The 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. It has been determined that no allowance is required, as all amounts outstanding are considered collectible, and no bad debts were recorded in the period ended September 30, 2015 or the fiscal year ended June 30, 2015.

##### Concentration of credit risk

Concentration of credit risk arises when one or more customers, defined as a major customer, individually account for 10% or more of the Company's revenues during a reporting period. During the current period the Company had 2 major customers which each represented 13% of total revenues and another that represented 11%. In the comparative period there was 1 major customer representing 19% of revenues. Amounts due from major customers represented 18% of accounts receivable at September 30, 2015 (Sept 2014 - 7%). The loss of a major customer, or significant curtailment of purchases by such customer, could have a material adverse effect on the Company's results of operations and financial condition. The Company monitors the relationship with all customers closely and ensures that every customer is subject to the same risk management criteria.

## ZTEST Electronics Inc.

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### Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2015

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#### 14. Financial risk factors - continued

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##### Market risks

The Company is exposed to interest rate risk due to obligations that have floating interest rates as well as currency risk related to cash, accounts receivable and accounts payable denominated in US dollars. Market risks give rise to the potential for future cash flows to fluctuate because of changes in interest rates or foreign exchange rates. Market risks are closely monitored and attempts are made to match foreign cash inflows and outflows. During the current fiscal period the Company has reported a foreign exchange loss of \$3,021 (Sept. 2014 ó loss of \$2,811).

##### Sensitivity to market risks

At Sept. 30, 2015 the Company had \$151,388 (June 2015 ó \$161,262) which bears interest at the TD Bank prime lending rate plus 1.75%. A 1% increase in the TD Bank prime lending rate as at the financial reporting date would result in additional interest expense of \$1,336 over the next 12 month period.

At Sept. 30, 2015 the Company had US\$23,816 (June 2015 ó US\$129,966) 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 \$406 in future cash inflow.

At Sept. 30, 2015 the Company had US\$148,734 (June 2015 ó US\$128,894) 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 \$2,537 in future cash outflow.

At Sept. 30, 2015 the Company had US\$120,199 (June 2015 ó US\$20,825) included in cash. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of \$2,050 in carrying value.

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.