

**ZTEST Electronics Inc.**

**Unaudited Condensed Interim Consolidated Financial Statements**

**December 31, 2015**

**(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.

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on February 23, 2016. They have not been reviewed by the Company's auditors.

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.

## ZTEST Electronics Inc.

### Unaudited Condensed Interim Consolidated Statements of Financial Position

(Stated in Canadian Dollars)

December 31, 2015

	Dec. 31 2015	June 30 2015
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 209,248	\$ 112,409
Accounts receivable	721,856	690,386
Inventories (note 3)	422,775	382,545
Prepaid expenses	11,006	10,071
	<b>1,364,885</b>	1,195,411
Lease deposit (note 7)	35,000	35,000
Equipment (note 4)	490,606	540,588
	<b>\$ 1,890,491</b>	<b>\$ 1,770,999</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Customer deposits	\$ 139,005	\$ 19,683
Accounts payable and accrued liabilities (note 9)	505,784	539,976
Current portion of long-term debt (note 6)	39,493	39,493
	<b>684,282</b>	599,152
Long-term debt (note 6)	102,022	121,769
	<b>786,304</b>	720,921
<b>Commitment (note 7)</b>		
<b>Shareholders' equity</b>		
Share capital (note 8)	22,151,406	22,151,406
Warrants (note 8)	80,896	80,896
Contributed surplus (note 8)	835,845	835,845
Deficit	(21,963,960)	(22,018,069)
	<b>1,104,187</b>	1,050,078
	<b>\$ 1,890,491</b>	<b>\$ 1,770,999</b>

The accompanying notes are an integral part of these unaudited 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 Statements of Changes in Equity**

(Stated in Canadian Dollars)

*December 31, 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
Settlement of preferred shares	(191,647)	-	222,026		30,379
Net income for the period	-	-	-	465,586	465,586
Balance, December 31, 2014	22,151,406	80,896	835,845	(22,112,816)	955,331
Net income for the period	-	-	-	94,747	94,747
Balance, June 30, 2015	22,151,406	80,896	835,845	(22,018,069)	1,050,078
Net income for the period	-	-	-	54,109	54,109
Balance, December 31, 2015	<b>\$ 22,151,406</b>	<b>\$ 80,896</b>	<b>\$ 835,845</b>	<b>\$ (21,963,960)</b>	<b>\$ 1,104,187</b>

*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)

December 31, 2015

	Three months ended		Six months ended	
	2015	2014	2015	2014
<b>Product sales</b>	\$ 1,223,691	\$ 691,622	\$ 2,103,703	\$ 1,762,356
<b>Cost of product sales (note 3)</b>	<b>811,194</b>	525,131	<b>1,374,925</b>	1,251,314
	<b>412,497</b>	166,491	<b>728,778</b>	511,042
<b>Expenses</b>				
Selling, general and administrative (note 10)	347,252	317,421	669,838	623,222
Interest expense - long term	1,600	3,310	3,358	10,879
Interest expense - other	153	412	305	1,177
Depreciation of equipment	851	880	1,681	1,759
Foreign exchange (gain) loss	(3,492)	(814)	(471)	1,997
	<b>346,364</b>	321,209	<b>674,711</b>	639,034
<b>Income (loss) before other income and income taxes</b>	<b>66,133</b>	(154,718)	<b>54,067</b>	(127,992)
<b>Other income</b>				
Interest (reversal) income	(681)	897	42	1,598
Debts forgiven	-	51,545	-	51,545
Gain on settlement of preferred shares	-	540,435	-	540,435
	<b>(681)</b>	592,877	<b>42</b>	593,435
<b>Income before provision for income taxes</b>	<b>65,452</b>	438,159	<b>54,109</b>	465,586
Provision for income taxes	-	-	-	-
<b>Comprehensive income for the period</b>	<b>\$ 65,452</b>	\$ 438,159	<b>\$ 54,109</b>	\$ 465,586
<b>Comprehensive income per share</b>				
Basic	\$ 0.01	\$ 0.04	\$ 0.01	\$ 0.04
Fully diluted	\$ 0.01	\$ 0.04	\$ 0.01	\$ 0.04
<b>Weighted average shares outstanding</b>				
Basic	<b>10,648,696</b>	10,648,696	<b>10,648,696</b>	10,648,696
Fully diluted	<b>10,648,696</b>	10,648,696	<b>10,648,696</b>	10,648,696

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)

December 31, 2015

	Three months ended		Six months ended	
	2015	2014	2015	2014
<b>Cash flow from operating activities</b>				
Net income for the period	\$ 65,452	\$ 438,159	\$ 54,109	\$ 465,586
Items not involving cash				
Depreciation of equipment	27,404	33,970	54,706	67,939
Interest accretion	-	305	-	4,066
Debts forgiven	-	(51,545)	-	(51,545)
Gain on settlement of preferred shares	-	(540,435)	-	(540,435)
Changes in non-cash working capital items:				
Accounts receivable	(260,941)	83,127	(31,470)	(16,629)
Inventories	75,385	(144,830)	(40,230)	69,073
Prepaid expenses	(5,357)	3,965	(935)	3,645
Customer deposits	129,417	(3,632)	119,322	-
Accounts payable and accrued liabilities	(114,838)	91,039	(34,192)	(22,735)
	<b>(83,478)</b>	<b>(89,877)</b>	<b>121,310</b>	<b>(21,035)</b>
<b>Cash flow from investing activities</b>				
Purchase of equipment	<b>(3,300)</b>	-	<b>(4,724)</b>	(1,208)
<b>Cash flow from financing activities</b>				
Reduction of restricted cash equivalents	-	-	-	250,000
Repayment of operating loan	-	-	-	(25,000)
Proceeds of long-term debt	-	-	-	197,463
Repayment of long-term debt	(9,873)	(23,846)	(19,747)	(244,024)
Redemption of preferred shares	-	(166,378)	-	(166,378)
	<b>(190,224)</b>	<b>(190,224)</b>	<b>(19,747)</b>	<b>12,061</b>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(96,651)</b>	<b>(280,101)</b>	<b>96,839</b>	<b>(10,182)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>305,899</b>	<b>323,642</b>	<b>112,409</b>	<b>53,723</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 209,248</b>	<b>\$ 43,541</b>	<b>\$ 209,248</b>	<b>\$ 43,541</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	\$ 1,795	\$ 3,556	\$ 3,744	\$ 7,472
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)

December 31, 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 Venture 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 February 23, 2016.

#### 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 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 (PEC)	- 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.

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### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2015

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#### 2. Significant Accounting Policies - continued

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##### 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 December 31, 2015 and June 30, 2015 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. The Company held no cash equivalents as at December 31, 2015 or June 30, 2015.

##### 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. Inventories

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The carrying value of inventory is comprised of:

	<b>Dec. 31 2015</b>	June 30 2015
Raw materials and supplies <sup>(1)</sup>	\$ 386,160	\$ 363,740
Work in process	33,938	10,908
Finished goods	2,677	7,897
	<b>\$ 422,775</b>	<b>\$ 382,545</b>

## ZTEST Electronics Inc.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2015

#### 3. Inventories - continued

<sup>(1)</sup> The raw materials and supplies is presented net of provisions for obsolete and/or slow moving items in the amount of \$19,606 (June 2015 - \$30,891).

Inventory utilization during the period was as follows:

	<b>Dec. 31 2015</b>	Dec. 31 2014
Raw materials and supplies used	\$ 909,341	\$ 753,915
Labour costs	365,366	353,890
Depreciation	53,026	66,179
Other costs	65,002	69,260
Net change in finished goods and work in process	<b>(17,810)</b>	8,070
Cost of product sales	<b>\$ 1,374,925</b>	<b>\$ 1,251,314</b>

#### 4. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
<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, Dec. 31, 2014	174,619	71,277	2,561,208	61,003	2,868,899
Additions	802	-	-	-	802
Balance, June 30, 2015	175,421	71,277	2,561,208	61,003	2,868,909
Additions	1,424	-	3,300	-	4,724
Balance, Dec. 31, 2015	<b>\$ 176,845</b>	<b>\$ 71,277</b>	<b>\$ 2,564,508</b>	<b>\$ 61,003</b>	<b>\$ 2,873,633</b>
<b>Accumulated Depreciation:</b>					
Balance, June 30, 2014	\$ (165,858)	\$ (67,728)	\$ (1,897,613)	\$ (61,003)	\$ (2,192,202)
Depreciation	(1,224)	(355)	(66,360)	-	(67,939)
Balance, Dec. 31, 2014	(167,082)	(68,083)	(1,963,973)	(61,003)	(2,260,141)
Depreciation	(1,466)	(355)	(66,359)	-	(68,180)
Balance, June 30, 2015	(168,548)	(68,438)	(2,030,332)	(61,003)	(2,328,321)
Depreciation	(1,127)	(409)	(53,170)	-	(54,706)
Balance, Dec. 31, 2015	<b>\$ (169,675)</b>	<b>\$ (68,847)</b>	<b>\$ (2,083,502)</b>	<b>\$ (61,003)</b>	<b>\$ (2,383,027)</b>
<b>Carrying Amounts:</b>					
June 30, 2014	\$ 7,553	\$ 3,549	\$ 663,595	\$ -	\$ 674,697
December 31, 2014	\$ 7,537	\$ 3,194	\$ 597,235	\$ -	\$ 607,966
June 30, 2015	\$ 6,873	\$ 2,839	\$ 530,876	\$ -	\$ 540,588
December 31, 2015	<b>\$ 7,170</b>	<b>\$ 2,430</b>	<b>\$ 481,006</b>	<b>\$ -</b>	<b>\$ 490,606</b>

#### 5. Bank operating loan

The Company has a 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. No amount was drawn as at December 31, 2015 or June 30, 2015.



## ZTEST Electronics Inc.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2015

#### 6. Long-Term Debt

	<b>Dec. 31 2015</b>	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.	\$ 141,515	\$ 161,262
Less: Current portion	<b>39,493</b>	39,493
	<b>\$ 102,022</b>	<b>\$ 121,769</b>
The minimum annual future principal repayments are as follows:		
2016		\$ 39,493
2017		39,493
2018		39,493
2019		23,036
		<b>\$ 141,515</b>

#### 7. 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 applied at the end of the lease. Minimum monthly rental payments ranging from \$8,299 to \$8,979 are required over the remaining term of the lease as follows:

2016	\$ 99,594
2017	102,310
2018	105,026
2019	107,743
2020	107,743
Remaining	26,936
	<b>\$ 549,352</b>

#### 8. Share Capital

##### Authorized:

Unlimited Common shares

Unlimited Preferred shares in one or more series.

##### Issued:

	<b>Dec. 31 2015</b>	June 30 2015
Common shares	<b>\$ 22,151,406</b>	<b>\$ 22,151,406</b>
Common shares	<b>Number of Shares</b>	<b>Amount</b>
Balance June 30, 2014 <sup>(1)</sup>	10,648,696	\$ 22,343,053
Redemption of Series A and Series C preferred shares (note 8)	-	(191,647)
Balance December 31, 2014, June 30, 2015 and December 31, 2015 <sup>(1)</sup>	10,648,696	<b>\$ 22,151,406</b>

<sup>(1)</sup> In the 2013 fiscal year the Company's shareholders approved the issuance of common shares in exchange for 100% of the Class A Special Shares then outstanding. 8,246 common shares remain reserved to be issued if and when the remaining Class A shareholders identify themselves to the Company.

## ZTEST Electronics Inc.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2015

#### 8. Share Capital - continued

##### Issued - continued:

Preferred shares	
Balance June 30, 2014	\$ 473,855
Redemption of Series A and Series C preferred shares	(473,855)
Balance December 31, 2014, June 30, 2015 and December 31, 2015	\$ -

##### Details of warrants outstanding:

	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 <sup>(1)</sup>	1,100,000	\$ 0.10	Feb. 4, 2016
Issued Jan 10, 2014	400,000	\$ 0.10	Oct. 31, 2017

No warrants were issued during the period ended December 31, 2015 or during the 2015 fiscal year.

	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

<sup>(1)</sup> These warrants expired subsequent to the end of the financial reporting period.

##### Details of options outstanding:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
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

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

	Common Shares Under Option	Weighted Average Price per Option	Weighted Average Expiry Date
Beginning of the period	905,000	\$ 0.10	Nov. 15, 2017
Expired	(275,000)	\$ 0.10	Nov. 30, 2015
End of period	630,000	\$ 0.10	Sep. 24, 2018

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

##### 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:

	<b>Dec. 31 2015</b>	June 30 2015
Contributed surplus, beginning of period	\$ 835,845	\$ 613,819
Redemption of Series A and Series C preferred shares (note 8)	-	222,026
Contributed surplus, end of period	\$ 835,845	\$ 835,845

## ZTEST Electronics Inc.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2015

#### 9. Related Party Transactions

In addition to key management personnel, the Company had transactions during the year and outstanding balances (*note 9*) 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.

	<b>Dec. 31 2015</b>	Dec. 31 2014
Employee and consultant compensation <sup>(1)</sup>	\$ 164,241	\$ 160,640
Professional fees <sup>(1)</sup>	31,882	8,508
Interest expense ó long-term	-	6,558
	<b>\$ 196,123</b>	<b>\$ 175,706</b>
Stock-based compensation <sup>(1)</sup>	\$ -	\$ -

<sup>(1)</sup> Transactions are with key management personnel. As at December 31, 2015 \$129,734 (June 30, 2015 - \$90,306) was payable to key management personnel and included in accounts payable and accrued liabilities.

#### 10. Selling, general and administrative expenses

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

	<b>Dec. 31 2015</b>	Dec. 31 2014
Employee and consultant compensation ( <i>note 12</i> )	\$ 405,088	\$ 406,620
Occupancy costs	136,640	131,900
Professional fees ( <i>note 12</i> )	50,163	28,965
Shareholder services	27,598	13,311
Insurance	16,372	17,490
Other	33,978	24,936
	<b>\$ 669,839</b>	<b>\$ 623,222</b>

#### 11. 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:

	<b>Dec. 31 2015</b>	June 30 2015
Inventory	\$ 19,606	\$ 9,460
Share issuance costs	7,280	7,280
Intangible assets	37,430	37,430
Property, plant and equipment	52,878	2,900
Resource related expenditures	349,050	349,050
Scientific research and experimental development	1,050,618	1,050,618
Non-capital loss carry forwards	1,358,660	1,358,660
Net capital loss carry forwards	15,592,989	15,592,989

## ZTEST Electronics Inc.

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### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2015

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#### 12. Capital disclosures

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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:

	<b>Dec. 31 2015</b>	June 30 2015
Long-term debt	\$ 141,515	\$ 161,262
Share Capital	22,151,406	22,151,406
Warrants	80,896	80,896
Contributed surplus	835,845	835,845
Deficit	(21,963,960)	(22,018,069)
Net capital under management	<u>\$ 1,245,702</u>	<u>\$ 1,211,340</u>

#### 13. Financial risk factors

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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 December 31, 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 six month period ended December 31, 2015 the Company had 2 major customers who together represented 24% of total revenues. In the comparative period there were 2 major customers representing 32% of revenues. Amounts due from major customers represented 18% of accounts receivable at December 31, 2015 (Dec. 2014 - 35%). 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.

##### **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 period the Company realized a gain on foreign exchange in the amount of \$471 (Dec. 2014 a loss of \$1,997).

##### **Sensitivity to market risks**

At December 31, 2015 the Company had \$141,515 (June 2015 \$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 \$1,238 over the next 12 month period.

At December 31, 2015 the Company had US\$123,012 (June 2015 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 \$8,555 in future cash inflow.

## **ZTEST Electronics Inc.**

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

(Stated in Canadian Dollars)

*December 31, 2015*

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#### **13. Financial risk factors - continued**

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##### **Sensitivity to market risks - continued**

At December 31, 2015 the Company had US\$100,171 (June 2015 6US\$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 \$6,967 in future cash outflow.

At December 31, 2015 the Company had US\$97,848 (June 2015 6US\$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 \$6,804 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.