

**ZTEST Electronics Inc.**  
**Unaudited Condensed Interim Consolidated Financial Statements**  
**December 31, 2016**  
**(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 28, 2017. 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, 2016

	<b>Dec. 31 2016</b>	June 30 2016
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 149,974	\$ 293,643
Accounts receivable	321,707	526,752
Inventories (note 3)	393,807	375,266
Prepaid expenses	16,888	14,781
	<b>882,376</b>	1,210,442
Lease deposit (note 8)	35,000	35,000
Equipment (note 4)	436,599	463,256
Investments (note 5)	294,562	-
	<b>\$ 1,648,537</b>	<b>\$ 1,708,698</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Customer deposits	\$ 1,397	\$ -
Accounts payable and accrued liabilities (note 10)	446,998	539,599
Current portion of long-term debt (note 7)	39,493	39,493
	<b>487,888</b>	579,092
Long-term debt (note 7)	62,530	82,276
	<b>550,418</b>	661,368
<b>Commitment (note 8)</b>		
<b>Shareholders' equity</b>		
Share capital (note 9)	22,373,556	22,151,406
Warrants (note 9)	105,376	4,219
Contributed surplus (note 9)	975,395	952,327
Deficit	(22,356,208)	(22,060,622)
	<b>1,098,119</b>	1,047,330
	<b>\$ 1,648,537</b>	<b>\$ 1,708,698</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.****Unaudited Condensed Interim Consolidated Statements of Changes in Equity**

(Stated in Canadian Dollars)

*December 31, 2016*

	Share Capital	Warrants	Contributed Surplus	Deficit	Total
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	22,151,406	80,896	835,845	(21,963,960)	1,104,187
Warrants expired	-	(76,677)	76,677	-	-
Share-based payments	-	-	39,805	-	39,805
Net loss for the period	-	-	-	(96,662)	(96,662)
Balance, June 30, 2016	22,151,406	4,219	952,327	(22,060,622)	1,047,330
Stock options exercised	36,245	-	(16,245)	-	20,000
Private placement	116,343	101,157	-	-	217,500
Shares issued as consideration for investment	69,562	-	-	-	69,562
Share-based payments	-	-	39,313	-	39,313
Net loss for the period	-	-	-	(295,586)	(295,586)
Balance, December 31, 2016	<b>\$ 22,373,556</b>	<b>\$ 105,376</b>	<b>\$ 975,395</b>	<b>\$ (22,356,208)</b>	<b>\$ 1,098,119</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 (Loss) Income**

(Stated in Canadian Dollars)

December 31, 2016

	Three months ended		Six months ended	
	2016	2015	2016	2015
<b>Product sales</b>	\$ 668,803	\$ 1,223,691	\$ 1,496,503	\$ 2,103,703
<b>Cost of product sales (note 3)</b>	481,390	811,194	1,093,523	1,374,925
	187,413	412,497	402,980	728,778
<b>Expenses</b>				
Selling, general and administrative (note 11)	326,493	347,252	654,798	669,838
Share based payments (notes 9 and 11)	39,313	-	39,313	-
Interest expense - long term	1,192	1,600	2,496	3,358
Interest expense - other	139	153	277	305
Depreciation of equipment	1,435	851	2,870	1,681
Foreign exchange (gain) loss	(260)	(3,492)	720	(471)
	366,562	346,364	700,474	674,711
<b>(Loss) income before miscellaneous income and income taxes</b>	(180,899)	66,133	(297,494)	54,067
Miscellaneous income (reversal)	111	(681)	158	42
<b>(Loss) income before income taxes</b>	(180,788)	65,452	(297,336)	54,109
Provision for income taxes	-	-	-	-
<b>Comprehensive (loss) income for the period</b>	\$ (180,788)	\$ 65,452	\$ (297,336)	\$ 54,109
<b>Comprehensive (loss) income per share</b>				
Basic	\$ (0.02)	\$ 0.01	\$ (0.03)	\$ 0.01
Fully diluted	\$ (0.02)	\$ 0.01	\$ (0.03)	\$ 0.01
<b>Weighted average shares outstanding</b>				
Basic	12,025,055	10,648,696	11,390,680	10,648,696
Fully diluted	12,025,055	10,648,696	11,390,680	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, 2016

	Three months ended		Six months ended	
	2016	2015	2016	2015
<b>Cash flow from operating activities</b>				
Net income for the period	\$ (180,788)	\$ 65,452	\$ (297,336)	\$ 54,109
Items not involving cash				
Depreciation of equipment	23,384	33,970	46,739	54,706
Share based payments	39,313	-	39,313	-
Debts forgiven	-	-	-	-
Gain on settlement of preferred shares	-	-	-	-
Changes in non-cash working capital items:				
Accounts receivable	109,180	(260,941)	205,045	(31,470)
Inventories	(66,628)	75,835	(18,541)	(40,230)
Prepaid expenses	1,606	(5,357)	(2,107)	(935)
Customer deposits	936	129,417	1,397	119,322
Accounts payable and accrued liabilities	(24,092)	(114,838)	(90,851)	(34,192)
	(97,089)	(83,478)	(116,341)	121,310
<b>Cash flow from investing activities</b>				
Purchase of equipment	-	(3,300)	(20,082)	(4,724)
Acquisition of investment	(225,000)	-	(225,000)	-
	(225,000)	(3,300)	(245,082)	(4,724)
<b>Cash flow from financing activities</b>				
Repayment of long-term debt	(9,873)	(9,873)	(19,746)	(19,747)
Issuance of common shares	217,500	-	237,500	-
	207,627	(9,873)	217,754	(19,747)
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(114,462)</b>	<b>(96,651)</b>	<b>(143,669)</b>	<b>96,839</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>264,436</b>	<b>305,899</b>	<b>293,643</b>	<b>112,409</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 149,974</b>	<b>\$ 209,248</b>	<b>\$ 149,974</b>	<b>\$ 209,248</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	\$ 1,344	\$ 1,795	\$ 2,812	\$ 3,744
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, 2016

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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, 2016.

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, 2016. 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, 2016.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on February 28, 2017.

#### 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 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 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, 2016

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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, 2016, and June 30, 2016 cash and cash equivalents are measured at fair value and are classified within Level 1 of the fair value hierarchy.

##### Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss.

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, 2016 or June 30, 2016.

##### Segment disclosure

The Company has a single location and operating segment accordingly, all revenues are generated in Canada and all assets are located in Canada.

##### 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.

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 these standards 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 their adoption.

#### 3. Inventories

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The carrying value of inventory is comprised of:

	<b>Dec. 31 2016</b>	June 30 2016
Raw materials and supplies <sup>(1)</sup>	\$ 367,861	\$ 354,015
Work in process	19,813	10,685
Finished goods	6,133	10,566
	<b>\$ 393,807</b>	<b>\$ 375,266</b>

## ZTEST Electronics Inc.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2016

#### 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 \$11,236 (June 2016 - \$3,654).

Inventory utilization during the period was as follows:

	<b>Dec. 31 2016</b>	Dec. 31 2015
Raw materials and supplies used	\$ <b>667,381</b>	\$ 909,341
Labour costs	<b>316,343</b>	365,366
Depreciation	<b>43,869</b>	53,026
Other costs	<b>70,625</b>	65,002
Net change in finished goods and work in process	<b>(4,695)</b>	(17,810)
Cost of product sales	<b>\$ 1,093,523</b>	\$ 1,374,925

#### 4. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
<b>Cost:</b>					
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	176,845	71,277	2,564,508	61,003	2,873,633
Additions	3,860	-	2,582	23,140	29,582
Balance, June 30, 2016	180,705	71,277	2,567,090	84,143	2,903,215
Additions	-	-	20,082	-	20,082
Balance, Dec. 31, 2016	<b>\$ 180,705</b>	<b>\$ 71,277</b>	<b>\$ 2,587,172</b>	<b>\$ 84,143</b>	<b>\$ 2,923,297</b>
<b>Accumulated Depreciation:</b>					
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	(169,675)	(68,847)	(2,083,502)	(61,003)	(2,383,027)
Depreciation	(1,728)	(409)	(53,638)	(1,157)	(56,932)
Balance, June 30, 2016	(171,403)	(69,256)	(2,137,140)	(62,160)	(2,439,959)
Depreciation	(1,395)	(202)	(43,985)	(1,157)	(46,739)
Balance, Dec. 31, 2016	<b>\$ (172,798)</b>	<b>\$ (69,458)</b>	<b>\$ (2,181,125)</b>	<b>\$ (63,317)</b>	<b>\$ (2,486,698)</b>
<b>Carrying Amounts:</b>					
June 30, 2015	\$ 6,873	\$ 2,839	\$ 530,876	\$ -	\$ 540,588
December 31, 2015	\$ 7,170	\$ 2,430	\$ 481,006	\$ -	\$ 490,606
June 30, 2016	\$ 9,302	\$ 2,021	\$ 429,950	\$ 21,983	\$ 463,256
December 31, 2016	<b>\$ 7,907</b>	<b>\$ 1,819</b>	<b>\$ 406,047</b>	<b>\$ 20,826</b>	<b>\$ 436,599</b>

## ZTEST Electronics Inc.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2016

#### 5. Investments

Investments in non-controlling interests are recorded at fair value plus any directly attributable transaction costs.

	<b>Dec. 31 2016</b>	June 30 2016
155,000 founders' shares representing a 15.05% interest in Conversance Inc., a private Canadian technology company. The Company has the right to increase its interest to 19.91% by making a cash payment of \$140,000 and issuing 275,000 common shares on or before April 14, 2017.	<b>\$ 294,562</b>	<b>\$ -</b>

During the period the Company paid \$210,000, issued 1,325,000 common shares at a value of \$0.0525 per share, and incurred costs of \$15,000 to acquire this investment. The Company also has the pre-emptive right to maintain its equity interest by participating in further funding of Conversance Inc. The shares of Conversance Inc. are subject to a hold period and, unless permitted under securities legislation, the shares may not be traded before the date that is four months and a day after the issuer becomes a reporting issuer in any province or territory.

#### 6. 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, 2016 or June 30, 2016.

#### 7. Long-Term Debt

	<b>Dec. 31 2016</b>	June 30 2016
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.	<b>\$ 102,023</b>	<b>\$ 121,769</b>
Less: Current portion	<b>39,493</b>	39,493
	<b>\$ 62,530</b>	<b>\$ 82,276</b>
The minimum annual future principal repayments are as follows:		
2017		\$ 39,493
2018		39,493
2019		23,037
		<b>\$ 102,023</b>

#### 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 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:

2017	\$ 102,310
2018	105,026
2019	107,743
2020	107,743
Remaining	26,936
	<b>\$ 449,758</b>

## ZTEST Electronics Inc.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2016

#### 9. Share Capital

##### Authorized:

Unlimited Common shares

Unlimited Preferred shares in one or more series.

##### Issued:

	<b>Dec. 31 2016</b>	June 30 2016
Common shares	<b>\$ 22,373,556</b>	\$ 22,151,406

Common shares	Number of Shares <sup>(1)</sup>	Amount
Balance June 30, 2015, December 31, 2015, and June 30, 2016	10,648,696	\$ 22,151,406
Exercise of stock options	300,000	36,245
Private placement	4,500,000	116,343
Investment	1,325,000	69,562
Balance December 31, 2016	16,773,696	<b>\$ 22,373,556</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. 91,208 common shares were issued, representing the entitlement of the identifiable Class A shareholders, and 8,246 common shares are reserved to be issued if and when the remaining Class A shareholders identify themselves to the Company.

##### Details of warrants outstanding:

	Number of Warrants	Amount
Balance June 30, 2015 and December 31, 2015	2,400,000	\$ 80,896
Warrants expired	(2,000,000)	(76,677)
Balance June 30, 2016	400,000	4,219
Warrants issued	4,500,000	101,157
Balance December 31, 2016	4,900,000	<b>\$ 105,376</b>

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

	<b>Dec. 31 2016</b>	June 30 2015
Dividend yield	Nil	None issued
Risk free interest rate (%)	1.20	None issued
Expected stock volatility (%)	130.19	None issued
Expected life (years)	5	None issued

	Number of Warrants	Exercise Price	Expiry Date
Issued Jan. 10, 2014	400,000	\$ 0.10	Oct. 31, 2017
Issued Dec. 15, 2016	4,500,000	\$ 0.06	Dec. 15, 2021

	Number of Warrants	Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning of period	400,000	\$ 0.10	Oct. 31, 2017
Issued during year	4,500,000	\$ 0.06	Dec. 15, 2021
End of year	4,900,000	\$ 0.06	Aug. 14, 2021

## ZTEST Electronics Inc.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2016

#### 9. Share Capital - continued

##### 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	400,000 <sup>(1)</sup>	400,000	\$ 0.10	Dec. 31, 2018
Granted Mar. 3, 2016	800,000 <sup>(1,2)</sup>	800,000	\$ 0.05	Mar. 3, 2021
Granted December 21, 2016	200,000 <sup>(1)</sup>	200,000	\$ 0.15	Dec. 21, 2021
Granted December 21, 2016	100,000	100,000	\$ 0.15	Dec. 21, 2021

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

<sup>(2)</sup> 100,000 of these options were exercised subsequent to the financial reporting date.

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

	Dec. 31 2016	June 30 2015
Dividend yield	Nil	None issued
Risk free interest rate (%)	1.19	None issued
Expected stock volatility (%)	135.35	None issued
Expected life (years)	5	None issued

	Common Shares Under Option	Weighted Average Price per Option	Weighted Average Expiry Date
Balance, beginning of the period	1,630,000	\$ 0.07	Mar. 23, 2020
Exercised during period	(300,000)	\$ 0.07	June 11, 2020
Granted during the period	300,000	\$ 0.15	Dec. 21, 2021
Balance, end of the period	1,630,000	\$ 0.08	July 4, 2020

##### 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:

	Dec. 31 2016	June 30 2016
Contributed surplus, beginning of period	\$ 952,327	\$ 835,845
Stock options exercised	(16,245)	-
Compensation expense related to stock options granted	39,313	39,805
Warrants expired during the year	-	76,677
Contributed surplus, end of period	\$ 975,395	\$ 952,327

#### 10. Related Party Transactions

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.

The Company had the following transactions during the period with key management personnel:

## ZTEST Electronics Inc.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2016

#### 10. Related Party Transactions - continued

	Dec. 31 2016	Dec. 31 2015
Employee and consultant compensation	\$ 183,652	\$ 164,241
Professional fees	18,966	31,882
Legal fees included as share issuance costs	7,500	-
Legal fees included as investment acquisition costs	15,000	-
	<u>\$ 225,118</u>	<u>\$ 196,123</u>
Stock-based compensation	\$ 26,208	\$ -

As at December 31, 2016 \$155,049 (June 30, 2016 - \$131,816) was payable to key management personnel and included in accounts payable and accrued liabilities.

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

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

	Dec. 31 2016	Dec. 31 2015
Employee and consultant compensation ( <i>note 9</i> )	\$ 421,454	\$ 405,088
Occupancy costs	132,959	136,640
Professional fees ( <i>note 12</i> )	37,098	50,163
Shareholder services	15,816	27,958
Insurance	14,943	16,372
Other	32,528	33,978
	<u>\$ 654,798</u>	<u>\$ 669,839</u>

#### 12. Income Taxes

##### Deferred Tax

The following table summarizes the components of deferred tax:

	Dec. 31 2016	June 30 2016
Deferred tax assets:		
Non-capital losses carried forward	\$ 16,006	\$ 23,040
Deferred tax liabilities:		
Property, plant and equipment	(16,006)	(23,040)
Net deferred tax liabilities	<u>\$ -</u>	<u>\$ -</u>

##### Unrecognized Deferred Tax Assets

Deferred 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 tax assets have not been recognized in respect of the following deductible temporary differences:

## ZTEST Electronics Inc.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2016

#### 12. Income Taxes - continued

##### Unrecognized Deferred Tax Assets - continued

	Dec. 31 2016	June 30 2016
Inventory	\$ 11,236	\$ 3,654
Share issuance costs	11,138	3,638
Intangible assets	34,813	34,813
Property, plant and equipment	35,084	34,969
Resource related expenditures	349,050	349,050
Scientific research and experimental development	1,050,618	1,050,618
Non-capital loss carry forwards	1,367,274	1,340,731
Net capital loss carry forwards	15,592,989	15,592,989

Share issue costs expire from 2017 to 2021. 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.

#### 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:

	Dec. 31 2016	June 30 2016
Long-term debt	\$ 102,023	\$ 121,769
Share Capital	22,373,566	22,151,406
Warrants	105,376	4,219
Contributed surplus	975,395	952,327
Deficit	(22,357,958)	(22,060,622)
Net capital under management	\$ 1,198,392	\$ 1,169,099

#### 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. Bad debts in the amount of \$1,286 (December 31, 2015 - \$Nil) were recognized during the period ended December 31, 2016.

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

(Stated in Canadian Dollars)

December 31, 2016

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**14. Financial risk factors - continued**

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**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, 2016 the Company had 1 major customer who represented 12% of total revenues. In the comparative period, there were 2 major customers which together represented 24% of revenues. Amounts due from major customers represented Nil% of accounts receivable at December 31, 2016 (Dec. 2015 - 18%). 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 loss on foreign exchange in the amount of \$720 (Dec. 2015 ó gain of \$471).

**Sensitivity to market risks**

At December 31, 2016, the Company had \$102,023 (June 2016 ó \$121,769) 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 \$839 over the next 12-month period.

At December 31, 2016, the Company had US\$2,701 (June 2016 ó US\$86,796) 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 \$182 in future cash inflow.

At December 31, 2016, the Company had US\$58,288 (June 2016 ó US\$114,725) 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 \$3,933 in future cash outflow.

At December 31, 2016, the Company had US\$8,332 (June 2016 ó US\$51,935) included in cash. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of \$562 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.