

ZTEST Electronics Inc.
Unaudited Condensed Interim Consolidated Financial Statements
March 31, 2018
(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 May 28, 2018. 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)

March 31, 2018

	Mar. 31 2018	June 30 2017
Assets		
Current assets		
Cash and cash equivalents (note 3)	\$ 41,596	\$ 186,994
Accounts receivable	359,435	643,966
Inventories (note 4)	565,839	512,026
Prepaid expenses	57,026	15,102
	1,023,896	1,358,088
Lease deposit (note 9)	35,000	35,000
Equipment (note 5)	340,661	390,424
Investments (note 6)	825,256	-
	\$ 2,224,813	\$ 1,783,512
Liabilities		
Current liabilities		
Bank operating loan (note 7)	\$ 60,000	\$ -
Customer deposits	45,866	83,151
Accounts payable and accrued liabilities (note 11)	594,485	697,260
Current portion of long-term debt (note 8)	39,493	39,493
	739,844	819,904
Long-term debt (note 8)	13,164	42,784
	753,008	862,688
Commitment (note 9)		
Shareholders' equity		
Share capital (note 10)	23,215,877	22,418,782
Warrants (note 10)	137,470	105,376
Contributed surplus (note 10)	1,531,134	955,168
Deficit	(23,412,676)	(22,558,502)
	1,471,805	920,824
	\$ 2,224,813	\$ 1,783,512

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

Approved by the Board:

Signed: "William J. Brown"

Director

Signed: "Wojciech Drzazga"

Director

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

(Stated in Canadian Dollars)

March 31, 2018

	Share Capital	Warrants	Contributed Surplus	Deficit	Total
Balance, June 30, 2016	\$ 22,151,406	\$ 4,219	\$ 952,327	\$ (22,060,622)	\$ 1,047,330
Stock options exercised	45,226	-	(20,226)	-	25,000
Private placement	116,343	101,157	-	-	217,500
Shares issued as consideration for investment	69,562	-	-	-	69,562
Share-based payments	-	-	39,312	-	39,312
Net loss for the period	-	-	-	(263,767)	(263,767)
Balance, March 31, 2017	22,382,537	105,376	971,413	(22,324,389)	1,134,937
Stock options exercised	36,245	-	(16,245)	-	20,000
Net loss for the period	-	-	-	(234,113)	(234,113)
Balance, June 30, 2017	22,418,782	105,376	955,168	(22,558,502)	920,824
Stock options exercised	37,085	-	(17,085)	-	20,000
Warrants exercised	165,131	(39,131)	-	-	126,000
Warrants expired	-	(1,055)	1,055	-	-
Private placement	405,679	72,280	-	-	477,959
Shares issued as consideration for investment	189,200	-	-	-	189,200
Share-based payments	-	-	591,996	-	591,996
Net loss for the period	-	-	-	(854,174)	(854,174)
Balance, March 31, 2018	\$ 23,215,877	\$ 137,470	\$ 1,531,134	\$ (23,412,676)	\$ 1,471,805

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)

March 31, 2018

	Three months ended		Nine months ended	
	2018	2017	2018	2017
Product sales	\$ 729,743	\$ 1,099,568	\$ 2,675,280	\$ 2,596,071
Cost of product sales (note 4)	546,301	755,754	1,887,747	1,849,277
	183,442	343,814	787,533	746,794
Expenses				
Selling, general and administrative (note 12)	330,353	308,898	1,041,473	963,697
Share based payments (notes 10 and 11)	591,996	-	591,996	39,312
Interest expense - long term	723	1,048	2,481	3,544
Interest expense - other	511	226	1,120	503
Depreciation of equipment	1,316	1,476	3,894	4,346
Foreign exchange gain	(436)	(1,402)	(9,192)	(682)
	924,463	310,246	1,631,772	1,010,720
(Loss) income before interest income, equity in loss of Conversance Inc., and provision for income taxes	(741,021)	33,568	(844,239)	(263,926)
Interest income	8	1	9	159
Equity in loss of Conversance Inc. (note 6)	(9,944)	-	(9,944)	-
(Loss) income before provision for income taxes	(750,957)	33,569	(854,174)	(263,767)
Provision for income taxes	-	-	-	-
Comprehensive (loss) income for the period	\$ (750,957)	\$ 33,569	\$ (854,174)	\$ (263,767)
Comprehensive (loss) income per share				
Basic	\$ (0.04)	\$ 0.00	\$ (0.05)	\$ (0.02)
Fully diluted	\$ (0.04)	\$ 0.00	\$ (0.05)	\$ (0.02)
Weighted average shares outstanding				
Basic	19,675,085	16,832,585	18,092,948	13,178,167
Fully diluted	19,675,085	17,902,339	18,092,948	13,178,167

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)

March 31, 2018

	Three months ended		Nine months ended	
	2018	2017	2018	2017
Cash flow from operating activities				
Net (loss) income for the period	\$ (750,957)	\$ 33,569	\$ (854,174)	\$ (263,767)
Items not involving cash				
Depreciation of equipment	19,825	23,425	58,539	70,164
Share based payments	591,996	-	591,996	39,312
Equity in loss of Conversance Inc.	9,944	-	9,944	-
Changes in non-cash working capital items:				
Accounts receivable	139,621	(285,269)	284,531	(80,223)
Inventories	(128,329)	(86,900)	(53,813)	(105,441)
Prepaid expenses	(48,785)	(3,333)	(41,924)	(5,440)
Customer deposits	38,953	(1,397)	(37,285)	-
Accounts payable and accrued liabilities	119,686	243,819	(102,775)	152,968
	(8,046)	(76,086)	(144,961)	(192,427)
Cash flow from investing activities				
Purchase of equipment	(7,073)	(697)	(8,776)	(20,779)
Acquisition of investment	(646,000)	-	(646,000)	(225,000)
	(653,073)	(697)	(654,776)	(245,779)
Cash flow from financing activities				
Proceeds of operating loan - net	60,000	35,000	60,000	35,000
Repayment of long-term debt	(9,873)	(9,874)	(29,620)	(29,620)
Issuance of common shares	586,459	5,000	623,959	242,500
	636,586	30,126	654,339	247,880
Decrease in cash and cash equivalents	(24,533)	(46,657)	(145,398)	(190,326)
Cash and cash equivalents, beginning of period	66,129	149,974	186,994	293,643
Cash and cash equivalents, end of period	\$ 41,596	\$ 103,317	\$ 41,596	\$ 103,317

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	\$ 1,256	\$ 1,546	\$ 3,637	\$ 4,358
Cash paid for income taxes	\$ -	\$ -	\$ -	\$ -

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

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2018

1. Business of the Company

ZTEST Electronics Inc. (ZTEST or 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 (CSE) 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, 2017.

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 of the changes in the Company's financial position and performance since June 30, 2017. 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, 2017.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 28, 2018.

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.

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, the inputs used in applying the Black-Scholes valuation model, and the recognition and valuation of deferred tax amounts.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2018

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 March 31, 2018, and June 30, 2017 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.

Income (loss) per share

The Company presents basic and diluted income (loss) per share data for its common shares, calculated by dividing the income (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is determined by adjusting the income (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

Stock options and warrants outstanding are excluded in the computation of diluted earnings per share if their inclusion would increase the income per share, or decrease the loss per share, or if their exercise price exceeds the average market price for the period of the Company's shares.

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. Cash and cash equivalents

Cash equivalents consist of fully cashable short-term, interest bearing, deposits held at the Company's financial institution. No cash equivalents were held at March 31, 2018 or June 30, 2017.

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2018

4. Inventories

The carrying value of inventory is comprised of:

	Mar. 31 2018	June 30 2017
Raw materials and supplies ⁽¹⁾	\$ 517,448	\$ 496,707
Work in process	21,205	9,155
Finished goods	27,186	6,164
	\$ 565,839	\$ 512,026

⁽¹⁾ Raw materials and supplies is presented net of provisions for obsolete and/or slow moving items in the amount of \$27,587 (June 30, 2017 - \$11,236).

Inventory utilization during the period was as follows:

	Mar. 31 2018	Mar. 31 2017
Raw materials and supplies used	\$ 1,254,733	\$ 1,197,128
Labour costs	535,410	499,866
Depreciation	54,646	65,818
Other costs	76,029	99,260
Net change in finished goods and work in process	(33,071)	(12,795)
Cost of product sales	\$ 1,887,747	\$ 1,849,277

5. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Cost:					
Balance, June 30, 2016	\$ 180,705	\$ 71,277	\$ 2,567,090	\$ 84,143	\$ 2,903,215
Additions	697	-	20,082	-	20,779
Balance, March 31, 2017	181,402	71,277	2,587,172	84,143	2,923,994
Additions	-	-	-	-	-
Balance, June 30, 2017	181,402	71,277	2,587,172	84,143	2,923,994
Additions	1,704	-	7,072	-	8,776
Balance, March 31, 2018	\$ 183,106	\$ 71,277	\$ 2,594,244	\$ 84,143	\$ 2,932,770
Accumulated Depreciation:					
Balance, June 30, 2016	\$ (171,403)	\$ (69,256)	\$ (2,137,140)	\$ (62,160)	\$ (2,439,959)
Depreciation	(2,134)	(303)	(65,991)	(1,736)	(70,164)
Balance, March 31, 2017	(173,537)	(69,559)	(2,203,131)	(63,896)	(2,510,123)
Depreciation	(761)	(101)	(22,007)	(578)	(23,447)
Balance, June 30, 2017	(174,298)	(69,660)	(2,225,138)	(64,474)	(2,533,570)
Depreciation	(1,777)	(242)	(54,784)	(1,736)	(58,539)
Balance, March 31, 2018	\$ (176,075)	\$ (69,902)	\$ (2,279,922)	\$ (66,210)	\$ (2,592,110)
Carrying Amounts:					
June 30, 2016	\$ 9,302	\$ 2,021	\$ 429,950	\$ 21,983	\$ 463,256
March 31, 2017	\$ 7,865	\$ 1,718	\$ 384,041	\$ 20,247	\$ 413,871
June 30, 2017	\$ 7,104	\$ 1,617	\$ 362,034	\$ 19,669	\$ 390,424
March 31, 2018	\$ 7,031	\$ 1,375	\$ 314,322	\$ 17,933	\$ 340,661

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2018

6. Investments

The Company holds a non-controlling interest in Conversance Inc., a private Canadian technology company. 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. Non-controlling interests of less than 20% are recorded at fair value plus any directly attributable transaction costs. Non-controlling interests equal to or exceeding 20% are initially recorded at cost, inclusive of any directly attributable transaction costs, and are adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets.

	Mar. 31 2018	June 30 2017
155,000 Class A common shares representing a 15.05% interest ⁽¹⁾	\$ 294,562	\$ 294,562
62,500 Class A common shares representing a 4.86% interest ⁽²⁾	330,450	-
78,750 Class A common shares representing a 5.38% interest ⁽³⁾	504,750	-
Investment representing a 25.29% interest (June 30, 2017 ó 15.05%)	1,129,762	294,562
Impairment provision	(294,562)	(294,562)
Equity in post-acquisition loss	(9,944)	-
Aggregate investment	\$ 825,256	\$ -

⁽¹⁾ 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.

⁽²⁾ The Company paid \$140,000, issued 275,000 common shares at a value of \$0.6880 per share, and incurred costs of \$1,250 to acquire this investment.

⁽³⁾ The Company paid \$500,000 and incurred costs of \$4,750 to acquire this investment.

7. Bank operating loan

	Mar. 31 2018	June 30 2017
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.	\$ 60,000	\$ -

8. Long-Term Debt

	Mar. 31 2018	June 30 2017
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.	\$ 52,657	\$ 82,277
Less: Current portion	39,493	39,493
	\$ 13,164	\$ 42,784
The minimum annual future principal repayments are as follows:		
2019		\$ 39,493
2020		13,164
		\$ 52,657

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2018

9. 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 \$8,752 to \$8,979 are required over the remaining term of the lease as follows:

2019	\$	105,705
2020		107,743
2021		107,743
	\$	<u>321,191</u>

10. Share Capital

Authorized:

Unlimited Common shares

Unlimited Preferred shares in one or more series.

Issued:

	Mar. 31 2018	June 30 2017
Common shares	\$ 23,215,877	\$ 22,418,782
Common shares	Number of Shares ⁽¹⁾	Amount
Balance June 30, 2016	10,648,696	\$ 22,151,406
Exercise of stock options	400,000	45,226
Private placement	4,500,000	116,343
Investment	1,325,000	69,562
Balance March 31, 2017	16,873,696	22,382,537
Exercise of stock options	300,000	36,245
Balance June 30, 2017	17,173,696	22,418,782
Exercise of stock options	200,000	37,085
Exercise of warrants	1,900,000	165,131
Private placement ⁽²⁾	625,000	405,679
Investment	275,000	189,200
Balance March 31, 2018	20,173,696	\$ 23,215,877

⁽¹⁾ Following the 2013 conversion of Class A Special Shares to common shares, 8,246 common shares remain reserved to be issued if and when the remaining Class A shareholders identify themselves to the Company.

⁽²⁾ The Company completed a private placement transaction whereby it issued 625,000 working capital units for gross proceeds of \$531,250. Each unit consisted of 1 common share and ½ common share purchase warrant. Each full common share purchase warrant entitles the holder to acquire 1 additional common share of the Company at a price of \$1.10 until January 31, 2019. The Company paid finders' fees of \$37,188, incurred other costs of \$16,140, attributed a value of \$57,615 to the common share purchase warrants, and issued 43,750 broker warrants valued at \$14,665. Each broker warrant entitles the holder to acquire 1 common share of the Company for \$0.85 until January 30, 2019. The securities issued pursuant to this closing are subject to a statutory hold period expiring on May 31, 2018.

Details of warrants outstanding:

	Number of Warrants	Amount
Balance June 30, 2016	400,000	\$ 4,219
Warrants issued via private placement	4,500,000	101,157
Balance March 31, 2017 and June 30, 2017	4,900,000	\$ 105,376

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2018

10. Share Capital - continued

Details of warrants outstanding - continued:

	Number of Warrants	Amount
Balance March 31, 2017 and June 30, 2017	4,900,000	\$ 105,376
Warrants issued via private placement	312,500	57,615
Broker warrants issued via private placement	43,750	14,665
Warrants exercised	(1,900,000)	(39,131)
Warrants expired	(100,000)	(1,055)
Balance March 31, 2018	3,256,250	\$ 137,470

	Number of Warrants	Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning of the period	4,900,000	\$ 0.06	Aug. 14, 2021
Issued during the period	356,250	\$ 1.07	Jan. 30, 2019
Exercised during the period	(1,900,000)	\$ 0.07	Apr. 21, 2021
Expired during the period	(100,000)	\$ 0.10	Oct. 31, 2017
End of the period	3,256,250	\$ 0.17	Aug. 22, 2021

	Number of Warrants	Exercise Price	Expiry Date
Issued Dec. 15, 2016	2,900,000	\$ 0.06	Dec. 15, 2021
Issued Jan. 30, 2018	43,750	\$ 0.85	Jan. 30, 2019
Issued Jan. 30, 2018	312,500	\$ 1.10	Jan. 31, 2019

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

	Mar. 31 2018	June 30 2017
Dividend yield	Nil	Nil
Risk free interest rate (%)	1.61	1.20
Expected stock volatility (%)	70.49	130.19
Expected life (years)	1	5

Details of options outstanding:

	Common Shares Under Option	Weighted Average Price per Option	Weighted Average Expiry Date
Beginning of the period	1,230,000	\$ 0.09	June 20, 2020
Granted during the period	1,040,000	\$ 0.95	Aug. 27, 2021
Exercised during the period	(200,000)	\$ 0.10	Jul. 27, 2021
Expired during the period	(570,000)	\$ 0.76	Sept. 14, 2017
End of the period	1,500,000	\$ 0.43	Aug. 2, 2021

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted December 31, 2013	300,000 ⁽¹⁾	300,000	\$ 0.10	Dec. 31, 2018
Granted Mar. 3, 2016	400,000 ⁽¹⁾	400,000	\$ 0.05	Mar. 3, 2021
Granted December 21, 2016	150,000 ⁽¹⁾	150,000	\$ 0.15	Dec. 21, 2021
Granted December 21, 2016	50,000	50,000	\$ 0.15	Dec. 21, 2021
Granted January 12, 2018	600,000 ⁽¹⁾	600,000	\$ 0.95	Jan. 12, 2023

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

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2018

10. Share Capital - continued

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

	Mar. 31 2018	June 30 2017
Dividend yield	Nil	Nil
Risk free interest rate (%)	1.62 – 1.98	1.19
Expected stock volatility (%)	99.36 – 154.07	135.35
Expected life (years)	1 - 5	5

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:

	Mar. 31 2018	June 30 2017
Contributed surplus, beginning of period	\$ 955,168	\$ 952,327
Stock options granted	591,996	39,312
Stock options exercised	(17,085)	(36,471)
Warrants expired	1,055	-
Contributed surplus, end of period	\$ 1,531,134	\$ 955,168

11. 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:

	Mar. 31 2018	Mar. 31 2017
Employee and consultant compensation	\$ 311,625	\$ 272,986
Professional fees	51,409	22,958
Legal fees included as share issuance costs	15,000	7,500
Legal fees included as investment acquisition costs	6,000	15,000
	\$ 384,034	\$ 318,444
Stock-based compensation	\$ 493,017	\$ 26,208

As at March 31, 2018 \$140,766 (June 30, 2017 - \$154,136) was payable to key management personnel and included in accounts payable and accrued liabilities.

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Notes to Unaudited Condensed Interim Consolidated Financial Statements

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12. Selling, general and administrative expenses

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

	Mar. 31 2018	Mar. 31 2017
Employee and consultant compensation (<i>note 11</i>)	\$ 678,651	\$ 628,959
Occupancy costs	197,531	198,562
Professional fees (<i>note 11</i>)	73,943	50,037
Shareholder services	22,899	19,399
Insurance	23,016	22,293
Other	45,433	44,447
	\$ 1,041,473	\$ 963,697

13. Income Taxes

Deferred Tax

The following table summarizes the components of deferred tax:

	Mar. 31 2018	June 30 2017
Deferred tax assets:		
Non-capital losses carried forward	\$ 5,700	\$ 5,675
Deferred tax liabilities:		
Property, plant and equipment	(5,700)	(5,675)
Net deferred tax liabilities	\$ -	\$ -

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:

	Mar. 31 2018	June 30 2017
Inventory	\$ 27,587	\$ 11,236
Share issuance costs	59,291	6,000
Intangible assets	32,376	32,376
Property, plant and equipment	35,284	35,146
Resource related expenditures	349,050	349,050
Scientific research and experimental development	1,050,618	1,050,618
Non-capital loss carry forwards	1,562,117	1,503,663
Net capital loss carry forwards	15,592,989	15,592,989

Share issue costs expire from 2018 to 2023. 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.

14. 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 associated with the long-term debt instruments, as may exist from time to time, there are no externally imposed capital requirements.

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March 31, 2018

14. Capital disclosures - continued

Management includes the following items in its definition of capital:

	Mar. 31 2018	June 30 2017
Long-term debt	\$ 52,657	\$ 82,277
Share Capital	23,215,877	22,418,782
Warrants	137,470	105,376
Contributed surplus	1,531,134	955,168
Deficit	(23,412,676)	(22,558,502)
Net capital under management	\$ 1,524,462	\$ 1,003,101

15. 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. No bad debts were recognized during the period ended March 31, 2018 (March 31, 2017 - \$1,286).

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 nine-month period ended March 31, 2018 the Company had two major customers who together represented 25% of total revenues. In the comparative period, there were two major customers which together represented 24% of revenues. Amounts due from major customers represented 1% of accounts receivable at March 31, 2018 (Mar. 31, 2017 - 24%). 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 nine-month period ended March 31, 2018 the Company realized a gain on foreign exchange in the amount of \$9,192 (Mar. 31, 2017 a gain of \$682).

Sensitivity to market risks

At March 31, 2018, the Company had a term loan balance of \$52,657 (June 30, 2017 a \$82,277) 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 \$347 over the next 12-month period.

At March 31, 2018, the Company had US\$47,556 (June 30, 2017 a US\$46,339) included in cash. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of \$2,762 in carrying value.

At March 31, 2018, the Company had US\$15,064 (June 30, 2017 a US\$56,360) 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 \$875 in future cash inflow.

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15. Financial risk factors - continued

Sensitivity to market risks - continued

At March 31, 2018 the Company had US\$33,464 (June 30, 2017 ó US\$3,488) included in prepaid expenses. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in recognition of \$1,943 in additional future expenses.

At March 31, 2018 the Company had US\$35,396 (June 30, 2017 ó US\$63,707) included in customer deposits. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of \$2,055 in future revenue.

At March 31, 2018, the Company had US\$109,903 (June 30, 2017 óUS\$195,669) 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 \$6,387 in future cash outflow.

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.