

## **ZTEST Electronics Inc.**

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

**September 30, 2017**

**(Stated in Canadian Dollars)**

#### Responsibility for Financial Statements

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

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

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on November 28, 2017. They have not been reviewed by the Company's auditors.

## ZTEST Electronics Inc.

### Unaudited Condensed Interim Consolidated Statements of Financial Position

(Stated in Canadian Dollars)

September 30, 2017

	Sept. 30 2017	June 30 2017
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 3)	\$ 163,467	\$ 186,894
Accounts receivable	650,417	643,966
Inventories (note 4)	432,944	512,026
Prepaid expenses	8,681	15,102
	<b>1,255,509</b>	1,358,088
Lease deposit (note 8)	35,000	35,000
Equipment (note 5)	371,995	390,424
	<b>\$ 1,662,504</b>	<b>\$ 1,783,512</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Customer deposits	\$ 8,834	\$ 83,151
Accounts payable and accrued liabilities (note 10)	605,645	697,260
Current portion of long-term debt (note 7)	39,493	39,493
	<b>653,972</b>	819,904
Long-term debt (note 7)	32,911	42,784
	<b>686,883</b>	862,688
<b>Commitment (note 8)</b>		
<b>Shareholders' Equity</b>		
Share capital (note 9)	22,429,837	22,418,782
Warrants (note 9)	104,321	105,376
Contributed surplus (note 9)	955,168	955,168
Deficit	(22,513,705)	(22,558,502)
	<b>975,621</b>	920,824
	<b>\$ 1,662,504</b>	<b>\$ 1,783,512</b>

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

Approved by the Board:

Signed: "John Perreault"

Director

Signed: "Wojciech Drzazga"

Director

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

(Stated in Canadian Dollars)

*September 30, 2017*

	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	36,245	-	(16,245)	-	20,000
Net loss for the period	-	-	-	(116,548)	(116,548)
Balance, September 30, 2016	22,187,651	4,219	936,082	(22,177,170)	950,782
Stock options exercised	45,226	-	(20,226)	-	25,000
Private placement, net	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	-	-	-	(381,332)	(381,332)
Balance, June 30, 2017	22,418,782	105,376	955,168	(22,558,502)	920,824
Warrants exercised	11,055	(1,055)	-	-	10,000
Net income for the period	-	-	-	44,797	44,797
Balance, September 30, 2017	<b>\$ 22,429,837</b>	<b>\$ 104,321</b>	<b>\$ 955,168</b>	<b>\$ (22,513,705)</b>	<b>\$ 975,621</b>

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

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

(Stated in Canadian Dollars)

*For the three month periods ended September 30*

	2017	2016
<b>Product sales</b>	<b>\$ 1,145,035</b>	<b>\$ 827,700</b>
<b>Cost of product sales (note 4)</b>	<b>778,265</b>	<b>612,133</b>
	<b>366,770</b>	<b>215,567</b>
<b>Expenses</b>		
Selling, general and administrative (note 11)	327,291	328,305
Interest expense - long-term debt	914	1,304
Interest expense - other	467	138
Depreciation of equipment	1,263	1,435
Foreign exchange (gain) loss	(7,962)	980
	<b>321,973</b>	<b>332,162</b>
<b>Income (loss) before miscellaneous income and income taxes</b>	<b>44,797</b>	<b>(116,595)</b>
Miscellaneous income	-	47
<b>Income (loss) before provision for income taxes</b>	<b>44,797</b>	<b>(116,548)</b>
Provision for income taxes	-	-
<b>Net income (loss) and comprehensive income (loss) for the period</b>	<b>\$ 44,797</b>	<b>\$ (116,548)</b>
<b>Net income (loss) per share</b>		
Basic	\$ 0.00	\$ (0.01)
Fully diluted	\$ 0.00	\$ (0.01)
<b>Weighted average shares outstanding</b>		
Basic	17,217,174	10,756,305
Fully diluted	18,457,273	10,756,305

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

## ZTEST Electronics Inc.

### Unaudited Condensed Interim Consolidated Statements of Cash Flows

(Stated in Canadian Dollars)

For the three month periods ended September 30

	2017	2016
<b>Cash flow from operating activities</b>		
Net income (loss) for the period	\$ 44,797	\$ (116,548)
Items not involving cash		
Depreciation of equipment	19,331	23,355
Changes in non-cash working capital items:		
Accounts receivable	(6,451)	95,865
Inventories	79,082	48,087
Prepaid expenses	6,421	(3,713)
Customer deposits	(74,317)	461
Accounts payable and accrued liabilities	(91,615)	(66,759)
	<u>(22,752)</u>	<u>(19,252)</u>
<b>Cash flow from investing activities</b>		
Purchase of equipment	(902)	(20,082)
<b>Cash flow from financing activities</b>		
Repayment of long-term debt	(9,873)	(9,873)
Issuance of common shares	10,000	-
	<u>127</u>	<u>(9,873)</u>
<b>Decrease in cash and cash equivalents</b>	<b>(23,527)</b>	<b>(29,207)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>186,994</b>	<b>293,643</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 163,467</b>	<b>\$ 264,436</b>

#### Supplemental Disclosure of Cash Flow Information:

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

Interest	\$ 1,385	\$ 1,468
Income taxes	\$ -	\$ -

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

# ZTEST Electronics Inc.

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## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2017

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### 1. Business of the Company

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

### 2. Significant Accounting Policies

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#### Statement of compliance

The Company has prepared these unaudited condensed interim financial statements in accordance with IAS 34, *Interim Financial Reporting*, employing all of the same accounting policies and methods of computation as disclosed in the annual financial statements as at June 30, 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 to 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 November 28, 2017.

#### 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	- 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 the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2017

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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 September 30, 2017, and June 30, 2017 cash and cash equivalents were measured at fair value and 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

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

## ZTEST Electronics Inc.

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

(Stated in Canadian Dollars)

September 30, 2017

#### 4. Inventories

The carrying value of inventory is comprised of:

	Sept. 30 2017	June 30 2017
Raw materials and supplies <sup>(1)</sup>	\$ 386,380	\$ 496,707
Work in process	40,327	9,155
Finished goods	6,237	6,164
	<u>\$ 432,944</u>	<u>\$ 512,026</u>

<sup>(1)</sup> The raw materials and supplies is presented net of provisions for obsolete and/or slow moving items in the amount of \$15,252 (June 2017 - \$11,236).

Inventory utilization during the period was as follows:

	Sept. 30 2017	Sept. 30 2016
Raw materials and supplies used	\$ 580,669	\$ 395,764
Labour costs	182,154	158,803
Depreciation	18,068	21,920
Repairs and maintenance	4,753	18,655
Other costs	23,866	23,005
Net change in finished goods and work in process	(31,245)	(6,014)
Cost of product sales	<u>\$ 778,265</u>	<u>\$ 612,133</u>

#### 5. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
<b>Cost:</b>					
Balance, June 30, 2016	\$ 180,705	\$ 71,277	\$ 2,567,090	\$ 84,143	2,903,215
Additions	-	-	20,082	-	20,082
Balance, Sept. 30, 2016	180,705	71,277	2,587,172	84,143	2,923,297
Additions	697	-	-	-	697
Balance, June 30, 2017	181,402	71,277	2,587,172	84,143	2,923,994
Additions	902	-	-	-	902
Balance, Sept. 30, 2017	<u>\$ 182,304</u>	<u>\$ 71,277</u>	<u>\$ 2,587,172</u>	<u>\$ 84,143</u>	<u>\$ 2,924,896</u>
<b>Accumulated Depreciation:</b>					
Balance, June 30, 2016	\$ (171,403)	\$ (69,256)	\$ (2,137,140)	\$ (62,160)	\$ (2,439,959)
Depreciation	(697)	(101)	(21,978)	(579)	(23,355)
Balance, Sept. 30, 2016	(172,100)	(69,357)	(2,159,118)	(62,739)	(2,463,314)
Depreciation	(2,198)	(303)	(66,020)	(1,735)	(70,256)
Balance, June 30, 2017	(174,298)	(69,660)	(2,225,138)	(64,474)	(2,533,570)
Depreciation	(557)	(81)	(18,114)	(579)	(19,331)
Balance, Sept. 30, 2017	<u>\$ (174,855)</u>	<u>\$ (69,741)</u>	<u>\$ (2,243,252)</u>	<u>\$ (65,053)</u>	<u>\$ (2,552,901)</u>
<b>Carrying Amounts:</b>					
June 30, 2016	\$ 9,302	\$ 2,021	\$ 429,950	\$ 21,983	\$ 463,256
September 30, 2016	\$ 8,605	\$ 1,920	\$ 428,054	\$ 21,404	\$ 459,983
June 30, 2017	\$ 7,104	\$ 1,617	\$ 362,034	\$ 19,669	\$ 390,424
September 30, 2017	<u>\$ 7,449</u>	<u>\$ 1,536</u>	<u>\$ 343,920</u>	<u>\$ 19,090</u>	<u>\$ 371,995</u>



## ZTEST Electronics Inc.

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

(Stated in Canadian Dollars)

September 30, 2017

#### 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 amounts were drawn upon this line of credit as at September 30, 2017 or June 30, 2017.

#### 7. Long-Term Debt

	Sept. 30 2017	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.	\$ 72,404	\$ 82,277
Less: Current portion	39,493	39,493
	<u>\$ 32,911</u>	<u>\$ 42,784</u>
The minimum annual future principal repayments are as follows:		
2018		\$ 39,493
2019		32,911
		<u>\$ 72,404</u>

#### 8. Commitment

The Company leases its operating facility under a lease that is due to expire March 31, 2021. A lease deposit in the amount of \$35,000 has been paid and will be applied at the end of the lease. Minimum monthly rental payments ranging from \$8,526 to \$8,979 are required over the remaining term of the lease as follows:

2018	\$ 104,347
2019	107,064
2020	107,743
2021	53,871
	<u>\$ 373,025</u>

#### 9. Share Capital

##### Authorized

Unlimited Common shares

Unlimited Preferred shares in one or more series.

##### Issued

	Sept. 30 2017	June 30 2017
Common shares	<u>\$ 22,429,837</u>	<u>\$ 22,418,782</u>
<b>Common shares</b>	<b>Number of Shares <sup>(1)</sup></b>	<b>Amount</b>
Balance June 30, 2016 and September 30, 2016	10,648,696	\$ 22,151,406
Exercise of stock options	700,000	81,471
Private placement	4,500,000	116,343
Investment in Conversance Inc.	1,325,000	69,562
Balance June 30, 2017	17,173,696	22,418,782
Exercise of warrants	100,000	11,055
Balance September 30, 2017	<u>17,183,696</u>	<u>\$ 22,429,837</u>

## ZTEST Electronics Inc.

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

(Stated in Canadian Dollars)

September 30, 2017

#### 9. Share Capital - continued

<sup>(1)</sup> 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.

##### Details of warrants outstanding:

	Number of Warrants	Amount
Balance June 30, 2016, and September 30, 2016	400,000	\$ 4,219
Warrants issued via private placement	4,500,000	101,157
Balance June 30, 2017	4,900,000	105,376
Warrants exercised	(100,000)	(1,055)
Balance September 30, 2017	4,800,000	\$ 104,321

  

	Number of Warrants	Exercise Price	Expiry Date
Issued Jan 10, 2014	300,000 <sup>(1)</sup>	\$ 0.10	Oct. 31, 2017
Issued Dec. 15, 2016	4,500,000	\$ 0.06	Dec. 15, 2021

<sup>(1)</sup> Subsequent to the financial reporting date 200,000 warrants were exercised and 100,000 expired.

	Number of Warrants	Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning of period	4,900,000	\$ 0.06	Aug. 14, 2021
Exercised during the period	(100,000)	\$ 0.10	Oct. 31, 2017
End of period	4,800,000	\$ 0.06	Sep. 11, 2021

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

	Sept. 30 2017	June 30 2017
Dividend yield	None issued	Nil
Risk free interest rate (%)	None issued	1.20
Expected stock volatility (%)	None issued	130.19
Expected life (years)	None issued	5

##### Details of options outstanding:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted December 31, 2013	300,000 <sup>(1)</sup>	300,000	\$ 0.10	Dec. 31, 2018
Granted Mar. 3, 2016	500,000 <sup>(1)</sup>	500,000	\$ 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.

	Common Shares Under Option	Weighted Average Price per Option	Weighted Average Expiry Date
Balance, beginning of the period	1,230,000	\$ 0.09	June 20, 2020
Expired during period	(130,000)	\$ 0.10	Sept. 14, 2017
Balance, end of the period	1,100,000	\$ 0.09	Oct. 17, 2020

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

## ZTEST Electronics Inc.

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

(Stated in Canadian Dollars)

September 30, 2017

#### 9. Share Capital - continued

##### Details of options outstanding - continued:

	Sept. 30 2017	June 30 2017
Dividend yield	None issued	Nil
Risk free interest rate (%)	None issued	1.19
Expected stock volatility (%)	None issued	135.35
Expected life (years)	None issued	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:

	Sept. 30 2017	June 30 2017
Contributed surplus, beginning of period	\$ 955,168	\$ 952,327
Stock options granted	-	39,312
Stock options exercised	-	(36,471)
Contributed surplus, end of period	\$ 955,168	\$ 955,168

#### 10. Related Party Transactions and Balances

The Company had transactions during the period with key management personnel.

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

Description	Sept. 30 2017	Sept. 30 2016
Employee and consultant compensation	\$ 99,712	\$ 98,607
Professional fees	2,278	10,247
	\$ 101,990	\$ 108,854
Stock-based compensation	\$ -	\$ -

As at September 30, 2017 there was a balance of \$157,364 (June 30, 2017 - \$154,136) included in accounts payable and accrued liabilities that was payable to key management personnel.

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

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

	Sept. 30 2017	Sept. 30 2016
Employee and consultant compensation (note 10)	\$ 222,649	\$ 219,495
Occupancy costs	74,003	67,441
Professional fees (note 10)	9,215	19,453
Shareholder services	3,072	2,661
Insurance	7,418	7,471
Other	10,934	11,784
	\$ 327,291	\$ 328,305

## ZTEST Electronics Inc.

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

(Stated in Canadian Dollars)

September 30, 2017

#### 12. Income Taxes

##### Deferred Tax

The following table summarizes the components of deferred tax:

	Sept. 30 2017	June 30 2017
Deferred tax assets:		
Non-capital losses carried forward	\$ (4,875)	\$ 5,675
Deferred tax liabilities:		
Property, plant and equipment	4,875	(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:

	Sept. 30 2017	June 30 2017
Inventory	\$ 15,252	\$ 11,236
Share issuance costs	6,000	6,000
Intangible assets	32,376	32,376
Property, plant and equipment	35,192	35,146
Resource related expenditures	349,050	349,050
Scientific research and experimental development	1,050,618	1,050,618
Net capital loss carry-forwards	1,522,046	1,503,663
Non-capital loss carry-forwards	15,592,989	15,592,989

Share issue costs expire in 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, except for non-capital loss carry-forwards, 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.

##### Non-capital Loss Carry-Forwards

The potential income tax benefits resulting from the application of income tax losses have not been recognized in these unaudited condensed interim consolidated financial statements. The following losses, which may be subject to verification by Canada Revenue Agency, include 100% of the respective losses of the subsidiary companies and will expire at the end of the taxation years as follows:

Year	
2027	\$ 209,777
2030	174,603
2031	577,958
2032	14,862
2033	76,561
2034	168,430
2035	136,504
2036	69,013
2037	184,366
	\$ 1,612,074

## ZTEST Electronics Inc.

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

(Stated in Canadian Dollars)

September 30, 2017

#### 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 by continuously monitoring actual and projected cash flows and making adjustments to capital as necessary. Except for the repayment terms associated with long-term debt instruments, there are no externally imposed capital requirements.

	Sept. 30 2017	June 30 2017
Long-term debt	\$ 72,404	\$ 82,277
Share Capital	22,429,837	22,418,782
Warrants	104,321	105,376
Contributed surplus	955,168	955,168
Deficit	(22,510,409)	(22,558,502)
Net capital under management	\$ 1,051,321	\$ 1,003,101

#### 14. Financial risk factors

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

##### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is in its accounts receivable. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. It has been determined that no allowance is required, as all amounts outstanding are considered collectible, and no bad debts were recorded in the periods ended September 30, 2017 or September 30, 2016.

##### Concentration of credit risk

Concentration of credit risk arises when one or more customers, defined as a major customer, individually account for 10% or more of the Company's revenues during a reporting period. During the current period the Company had 1 major customer which represented 22% of total revenues. In the comparative period, there were 2 major customers representing 14% and 11% of revenues. Amounts due from major customers represented 19% of accounts receivable at September 30, 2017 (September 30, 2016 - 40%). 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 an obligation that has a floating interest rate as well as currency risk related to cash, accounts receivable, prepaid expenses, customer deposits, and accounts payable denominated in US dollars. Market risks give rise to the potential for future cash flows to fluctuate because of changes in interest rates or foreign exchange rates. Market risks are closely monitored and attempts are made to match foreign cash inflows and outflows. During the current fiscal period the Company has reported a foreign exchange gain of \$7,962 (Sept. 2016 ó loss of \$980).

##### Sensitivity to market risks

At September 30, 2017, the Company had a term loan balance of \$72,404 (June 30, 2017 ó \$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 \$543 over the next 12-month period.

At September 30, 2017 the Company had US\$22,675 (June 30, 2017 ó 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 \$288 in carrying value.

## **ZTEST Electronics Inc.**

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

(Stated in Canadian Dollars)

*September 30, 2017*

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

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

At September 30, 2017 the Company had US\$2,571 (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 \$33 in additional future expenses.

At September 30, 2017, the Company had US\$107,562 (June 30, 2017 ó 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 \$1,367 in future cash inflow.

At September 30, 2017 the Company had US\$7,043 (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 \$90 in future revenue.

At September 30, 2017, the Company had US\$116,747 (June 30, 2017 ó US\$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 \$1,484 in future cash outflow.

Based upon observations of recent market trends management believes that each of these outcomes is possible.