

ZTEST Electronics Inc.
Unaudited Condensed Interim Consolidated Financial Statements
December 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 February 28, 2019. 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, 2018

	Dec. 31 2018	June 30 2018
Assets		
Current assets		
Cash	\$ 138,656	\$ -
Accounts receivable	495,459	479,621
Inventories (note 4)	617,675	563,237
Prepaid expenses	16,389	19,502
	1,268,179	1,062,360
Equipment (note 5)	290,994	321,012
Investments (note 6)	779,762	807,749
Lease deposit (note 9)	35,000	35,000
	\$ 2,373,935	\$ 2,226,121
Liabilities		
Current liabilities		
Bank indebtedness (note 7)	\$ 190,000	\$ 157,374
Accounts payable and accrued liabilities (note 11)	769,152	546,845
Customer deposits	21,934	36,895
Current portion of long-term debt (note 8)	23,038	39,493
	1,004,124	780,607
Long-term debt (note 8)	-	3,291
	1,004,124	783,898
Commitment (note 9)		
Shareholders' equity		
Share capital (note 10)	23,328,260	23,215,877
Warrants (note 10)	170,623	137,470
Contributed surplus (note 10)	1,518,708	1,531,134
Deficit	(23,647,780)	(23,442,258)
	1,369,811	1,442,223
	\$ 2,373,935	\$ 2,226,121

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

Approved by the Board:

Signed: "Steve Smith"

Director

Signed: "K. Michael Guerreiro"

Director

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

(Stated in Canadian Dollars)

December 31, 2018

	Share Capital	Warrants	Contributed Surplus	Deficit	Total
Balance, June 30, 2017	\$ 22,418,782	\$ 105,376	\$ 955,168	\$ (22,558,502)	\$ 920,824
Stock options exercised	14,052	-	(6,552)	-	7,500
Warrants exercised	33,165	(3,165)	-	-	30,000
Warrants expired	-	(1,055)	1,055	-	-
Net loss for the period	-	-	-	(103,217)	(103,217)
Balance, December 31, 2017	22,465,999	101,156	949,671	(22,661,719)	855,107
Stock options exercised	23,033	-	(10,533)	-	12,500
Warrants exercised	131,966	(35,966)	-	-	96,000
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	-	-	-	(780,539)	(780,539)
Balance, June 30, 2018	23,215,877	137,470	1,531,134	(23,442,258)	1,442,223
Stock options exercised	27,426	-	(12,426)	-	15,000
Private placement	84,957	33,153	-	-	118,110
Net loss for the period	-	-	-	(205,522)	(205,522)
Balance, December 31, 2018	\$ 23,328,260	\$ 170,623	\$ 1,518,708	\$ (23,647,780)	\$ 1,369,811

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**

(Stated in Canadian Dollars)

December 31, 2018

	Three months ended		Six months ended	
	2018	2017	2018	2017
Product sales	\$ 1,097,839	\$ 800,502	\$ 2,064,322	\$ 1,945,537
Cost of product sales (note 4)	788,927	563,181	1,500,634	1,341,446
	308,912	237,321	563,688	604,091
Expenses				
Selling, general and administrative (note 12)	364,699	383,829	718,163	711,120
Interest expense - long term	387	844	896	1,758
Interest expense - other	2,487	142	4,975	609
Finance fees	5,758	-	8,963	-
Depreciation of equipment	1,249	1,315	2,440	2,578
Foreign exchange (gain) loss	7,683	(795)	5,786	(8,757)
	382,263	385,335	741,223	707,308
Loss before miscellaneous income and income taxes	(73,351)	(148,014)	(177,535)	(103,218)
Equity in loss of Conversance Inc. (note 6)	(14,398)	-	(27,987)	-
Miscellaneous income	-	1	-	1
Loss before income taxes	(87,749)	(148,013)	(205,522)	(103,217)
Provision for income taxes (note 13)	-	-	-	-
Comprehensive loss for the period	\$ (87,749)	\$ (148,013)	\$ (205,522)	\$ (103,217)
Comprehensive loss per share				
Basic	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Fully diluted	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Weighted average shares outstanding				
Basic	20,251,522	17,419,892	20,223,479	17,318,533
Fully diluted	20,251,522	17,419,892	20,223,479	17,318,533

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, 2018

	Three months ended		Six months ended	
	2018	2017	2018	2017
Cash flow from operating activities				
Net loss for the period	\$ (87,749)	\$ (148,013)	\$ (205,522)	\$ (103,217)
Items not involving cash				
Depreciation of equipment	16,009	19,383	31,960	38,714
Equity in loss of Conversance Inc.	14,398	-	27,987	-
Changes in non-cash working capital items:				
Accounts receivable	(82,298)	151,361	(15,838)	144,910
Inventories	96,325	(4,566)	(54,438)	74,517
Prepaid expenses	6,536	440	3,113	6,861
Accounts payable and accrued liabilities	(6,223)	(130,847)	222,307	(222,461)
Customer deposits	21,934	(1,921)	(14,961)	(76,238)
	(21,068)	(114,163)	(5,392)	(136,914)
Cash flow from investing activities				
Purchase of equipment	-	(801)	(1,942)	(1,704)
Cash flow from financing activities				
Proceeds of bank operating loan, net	60,000	-	80,000	-
Repayment of long-term debt	(9,872)	(9,874)	(19,746)	(19,747)
Issuance of common shares	128,110	27,500	133,110	37,500
	178,238	17,626	193,364	17,753
Increase (decrease) in cash	157,170	(97,338)	186,030	(120,865)
Cash (deficiency), beginning of period	(18,514)	163,467	(47,374)	186,994
Cash (deficiency), end of period	\$ 138,656	\$ 66,129	\$ 138,656	\$ 66,129

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	\$ 2,899	\$ 996	\$ 5,888	\$ 2,381
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)

December 31, 2018

1. Business of the Company

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 (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, 2018 with the exception of the changes arising from the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue From Contracts With Customers with a date of initial application of July 1, 2018.

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, 2018. 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, 2018.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on February 28, 2019.

Basis of presentation and going concern considerations

These unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting, except for cash flow information and in accordance with IFRS applicable to a going concern. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. If the going concern assumption were not appropriate for these unaudited condensed interim consolidated financial statements then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

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:

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

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.

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2018

2. Significant Accounting Policies - continued

Significant accounting judgments and estimates - continued

Significant estimates and judgments include, but are not limited to, the assessment of the Company as a going concern, recoverability of inventory, the inputs used in applying the Black-Scholes valuation model, and the recognition and valuation of deferred tax amounts.

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.

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.

3. Changes in Accounting Policies

The Company's accounting policies will typically change only when there is a change in IFRS. Effective July 1, 2018 the Company has adopted:

- IFRS 9 Financial instruments, which uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing multiple rules in IAS 39
- IFRS 15 Revenue from contracts with customers, which replaces existing revenue standards and interpretations with a single standard and provides additional guidance on revenue recognition for contracts with customers.

IFRS 9 Financial instruments

The approach in IFRS 9 is generally based on how an entity manages its financial assets in the context of its business model and the contractual cash flow characteristics of the financial assets. Impairment of financial assets is determined using a single impairment model that requires entities to recognize expected credit losses without requiring a triggering event to occur. The new impairment model applies to financial assets measured at amortized cost. IFRS 9 largely retains the existing requirements under IAS 39 for the classification and measurement of financial liabilities.

This standard has been applied retrospectively, resulting in no changes to any amounts presented in prior periods.

We have assessed the classification and measurement of our financial instruments under IFRS 9, with reference to the former classification under IAS39, as follows:

Financial Assets	IFRS 9	IAS39
Cash	Amortized cost	Fair Value through profit and loss
Accounts receivable	Amortized cost	Loans and receivables
Financial Liabilities		
Bank indebtedness	Amortized cost	Other financial liabilities
Accounts payable and accrued liabilities	Amortized cost	Other financial liabilities
Customer deposits	Amortized cost	Other financial liabilities
Long-term debt	Amortized cost	Other financial liabilities

ZTEST Electronics Inc.

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3. Changes in Accounting Policies - continued

Amortized cost - The amount at which a financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit losses.

The effective interest method - The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to the net carrying amount on initial recognition.

IFRS 15 Revenue from contracts with customers

IFRS 15 provides a definition of what constitutes a contract with customers as well as differentiating between changes to an existing contract and the commencement of a new contract. It also requires the determination of performance criteria which then trigger the recognition, subject to additional criteria, of revenue at various times throughout a contract or at the end of a contract. Revenue is to be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services.

This standard has been applied retrospectively, resulting in no changes to any amounts presented in prior periods, but it has resulted in the modification of how the Company's revenue recognition policy is characterized. The new policy is described as follows:

Revenue recognition - Revenue is recognized when the Company has satisfied its performance obligations, the consideration to be received can be measured reliably, and the ability to collect is probable, which typically arises when the product is delivered.

4. Inventories

The carrying value of inventory is comprised of:

	Dec. 31 2018	June 30 2018
Raw materials and supplies ⁽¹⁾	\$ 579,795	\$ 529,192
Work in process	32,170	17,060
Finished goods	5,710	16,985
	\$ 617,675	\$ 563,237

⁽¹⁾ Raw materials and supplies is presented net of provisions for obsolete and/or slow-moving items in the amount of \$11,833 (June 2018 - \$10,935).

Inventory utilization during the period was as follows:

	Dec. 31 2018	Dec. 31 2017
Raw materials and supplies used	\$ 1,021,701	\$ 919,245
Labour costs	386,893	343,239
Depreciation	29,520	36,136
Other costs	66,355	50,508
Net change in finished goods and work in process	(3,835)	(7,682)
Cost of product sales	\$ 1,500,634	\$ 1,341,446

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

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December 31, 2018

5. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Cost:					
Balance, June 30, 2017	\$ 181,402	\$ 71,277	\$ 2,587,172	\$ 84,143	2,923,994
Additions	1,704	-	-	-	1,704
Balance, Dec. 31, 2017	183,106	71,277	2,587,172	84,143	2,925,698
Additions	-	-	7,072	-	7,072
Balance, June 30, 2018	183,106	71,277	2,594,244	84,143	2,932,770
Additions	1,942	-	-	-	1,942
Balance, Dec. 31, 2018	\$ 185,048	\$ 71,277	\$ 2,594,244	\$ 84,143	\$ 2,934,712
Accumulated Depreciation:					
Balance, June 30, 2017	\$ (174,298)	\$ (69,660)	\$ (2,225,138)	\$ (64,474)	\$ (2,533,570)
Depreciation	(1,167)	(162)	(36,228)	(1,157)	(38,714)
Balance, Dec. 31, 2017	(175,465)	(69,822)	(2,261,366)	(65,631)	(2,572,284)
Depreciation	(1,220)	(161)	(36,936)	(1,157)	(39,474)
Balance, June 30, 2018	(176,685)	(69,983)	(2,298,302)	(66,788)	(2,611,758)
Depreciation	(1,079)	(130)	(29,594)	(1,157)	(31,960)
Balance, Dec. 31, 2018	\$ (177,764)	\$ (70,123)	\$ (2,327,896)	\$ (67,945)	\$ (2,643,718)
Carrying Amounts:					
June 30, 2017	\$ 7,104	\$ 1,617	\$ 362,034	\$ 19,669	\$ 390,424
December 31, 2017	\$ 7,641	\$ 1,455	\$ 325,806	\$ 18,512	\$ 353,414
June 30, 2018	\$ 6,421	\$ 1,294	\$ 295,942	\$ 17,355	\$ 321,012
December 31, 2018	\$ 7,284	\$ 1,164	\$ 266,348	\$ 16,198	\$ 290,994

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.

Conversance Inc. is engaged in the development of its proprietary technology and has not yet produced any revenues. The timing of such revenues, if any, is not currently determinable.

The Company has determined that as at September 30, 2018, and June 30, 2018, there had been no loss event and accordingly no test for impairment was completed.

	Dec. 31 2018	June 30 2018
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	330,450
78,750 Class A common shares representing a 5.38% interest ⁽³⁾	504,750	504,750
Investment representing a 25.29% interest (June 30, 2018 ó 25.29%)	1,129,762	1,129,762
Impairment provision	(294,562)	(294,562)
Equity in post-acquisition loss	(55,438)	(27,451)
Aggregate investment	\$ 779,762	\$ 807,749

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2018

6. Investments - continued

- (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 indebtedness

	Dec. 31 2018	June 30 2018
Cash deficiency, inclusive of outstanding payments	\$ -	\$ 47,374
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.	190,000	110,000
	\$ 190,000	\$ 157,374

8. Long-Term Debt

	Dec. 31 2018	June 30 2018
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.	\$ 23,038	\$ 42,724
Less: Current portion	23,038	39,493
	\$ -	\$ 3,281
The minimum annual future principal repayments are as follows: 2019		\$ 23,038

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

2019	\$ 107,743
2020	107,743
Remaining	26,936
	\$ 242,422

10. Share Capital

Authorized:

Unlimited Common shares

Unlimited Preferred shares in one or more series.

Issued:

	Dec. 31 2018	June 30 2018
Common shares	\$ 23,328,260	\$ 23,215,877

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2018

10. Share Capital - continued

Common shares	Number of Shares ⁽¹⁾	Amount
Balance June 30, 2017	17,173,696	\$ 22,418,782
Exercise of stock options	50,000	14,052
Exercise of warrants	300,000	33,165
Balance December 31, 2017	17,523,696	22,465,999
Exercise of stock options	150,000	23,033
Exercise of warrants	1,600,000	131,966
Private placement ⁽²⁾	625,000	405,679
Investment	275,000	189,200
Balance June 30, 2018	20,173,696	23,215,877
Exercise of stock options	150,000	27,426
Private placement ⁽³⁾	440,000	84,957
Balance December 31, 2018	20,763,696	\$ 23,328,260

⁽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.

⁽³⁾ The Company completed the first closing of a private placement transaction whereby it issued 440,000 working capital units for gross proceeds of \$132,000. 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 \$0.40 until June 28, 2020. The Company paid finders' fees of \$7,140, incurred other costs of \$6,750, attributed a value of \$27,859 to the common share purchase warrants, and issued 23,800 broker warrants valued at \$5,294. Each broker warrant entitles the holder to acquire 1 common share of the Company for \$0.30 until June 28, 2020. The financing remained open as at the financial reporting date and concluded January 31, 2019 with the issuance of an additional 340,000 units for gross proceeds of \$102,000.

Details of warrants outstanding:

	Number of Warrants	Amount
Balance June 30, 2017	4,900,000	\$ 105,376
Warrants exercised	(300,000)	(3,165)
Warrants expired	(100,000)	(1,055)
Balance December 31, 2017	4,500,000	101,156
Warrants issued via private placement	312,500	57,615
Broker warrants issued via private placement	43,750	14,665
Warrants exercised	(1,600,000)	(35,966)
Balance June 30, 2018	3,256,250	137,470
Warrants issued via private placement	220,000	27,859
Broker warrants issued via private placement	23,800	5,294
Balance December 31, 2018	3,500,050 ⁽¹⁾	\$ 170,623

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2018

10. Share Capital - continued

Details of warrants outstanding - continued:

	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 ⁽¹⁾	312,500	\$ 1.10	Jan. 31, 2020
Issued Dec. 28, 2018	220,000	\$ 0.40	June 28, 2020
Issued Dec. 28, 2018	23,800	\$ 0.30	June 28, 2020

⁽¹⁾ Prior to the financial reporting date, the Company made application, and obtained approval, for the expiry date of these warrants to be extended by 1 year to January 31, 2020.

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

	Dec. 31 2018	June 30 2018
Dividend yield	Nil	Nil
Risk free interest rate (%)	1.84	1.61
Expected stock volatility (%)	116.25	70.49
Expected life (years)	1.5	1

	Number of Warrants	Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning of period	3,256,250	\$ 0.17	Aug. 22, 2021
Granted during the period	243,800	\$ 0.39	June 28, 2020
Expiry date extended during the period	(312,500)	\$ 1.10	Jan. 31, 2019
Expiry date extended during the period	312,500	\$ 1.10	Jan. 31, 2020
End of period	3,500,050	\$ 0.19	Aug. 25, 2021

Details of options outstanding:

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

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

	Dec. 31 2018	June 30 2018
Dividend yield	None issued	Nil
Risk free interest rate (%)	None issued	1.62 to 1.98
Expected stock volatility (%)	None issued	99.36 to 154.07
Expected life (years)	None issued	1 - 5

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2018

10. Share Capital - continued

Details of options outstanding - continued:

	Common Shares Under Option	Weighted Average Price per Option	Weighted Average Expiry Date
Balance, beginning of the period	1,500,000	\$ 0.43	Aug. 2, 2021
Exercised during the period	(150,000)	\$ 0.10	Dec. 31, 2018
Expired during the period	(150,000)	\$ 0.10	Dec. 31, 2018
Balance, end of the period	1,200,000	\$ 0.52	Mar. 26, 2022

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 2018	June 30 2018
Contributed surplus, beginning of period	\$ 1,531,134	\$ 955,168
Stock options granted	-	591,966
Stock options exercised	(12,426)	(17,085)
Warrants expired	-	1,055
Contributed surplus, end of period	\$ 1,518,708	\$ 1,531,134

11. Related Party Transactions

The Company had transactions during the period with key management personnel and with 1114377 Ontario Inc., a company controlled by the spouse of a Director of Permotech Electronics Corporation.

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.

	Dec. 31 2018	Dec. 31 2016
Employee and consultant compensation	\$ 248,170	\$ 211,695
Professional fees	19,785	38,361
Financing fees	8,395	-
Legal fees included as share issuance costs	6,000	-
	\$ 282,350	\$ 250,056
Stock-based compensation	\$ -	\$ -

As at December 31, 2018 \$303,962 (June 30, 2018 - \$169,370) was payable to key management personnel and included in accounts payable and accrued liabilities.

ZTEST Electronics Inc.

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12. Selling, general and administrative expenses

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

	Dec. 31 2018	Dec. 31 2017
Employee and consultant compensation (note 11)	\$ 499,991	\$ 455,391
Occupancy costs	128,334	138,557
Professional fees (note 11)	30,535	52,957
Shareholder services	16,494	17,181
Insurance	15,727	15,088
Other	27,082	31,946
	<u>\$ 718,163</u>	<u>\$ 711,120</u>

13. Income Taxes

Deferred Tax

The following table summarizes the components of deferred tax:

	Dec. 31 2018	June 30 2018
Deferred tax assets:		
Non-capital losses carried forward	\$ 8,450	\$ 4,875
Deferred tax liabilities:		
Property, plant and equipment	(8,450)	(4,875)
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:

	Dec. 31 2018	June 30 2018
Inventory	\$ 11,833	\$ 10,935
Share issuance costs	61,052	47,162
Intangible assets	30,110	30,110
Property, plant and equipment	25,468	25,394
Resource related expenditures	349,050	349,050
Scientific research and experimental development	1,050,618	1,050,618
Net capital loss carry-forwards	1,821,911	1,790,025
Non-capital loss carry-forwards	<u>15,592,989</u>	<u>15,592,989</u>

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:

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13. Income Taxes - continued

Non-capital Loss Carry-Forwards - continued

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
	<u>\$ 1,612,074</u>

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 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.

Management includes the following items in its definition of capital:

	Dec. 31 2018	June 30 2018
Long-term debt	\$ 23,038	\$ 42,774
Share Capital	23,328,260	23,215,877
Warrants	170,623	137,470
Contributed surplus	1,518,708	1,531,134
Deficit	(23,647,780)	(23,414,807)
Net capital under management	<u>\$ 1,392,849</u>	<u>\$ 1,512,448</u>

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. To help mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. It has been determined that all outstanding amounts are collectible. No bad debts were recorded in the periods ended December 31, 2018 or December 31, 2017.

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, 2018 the Company had 2 major customers who represented 13% and 10% of total revenues. In the comparative period, there were 2 major customer which represented 15% and 12% of revenues. Amounts due from major customers represented Nil% of accounts receivable at December 31, 2018 (Dec. 2017 - 8%). 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.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

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15. Financial risk factors - continued

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. At December 31, 2018 the Company had current financial assets of \$634,115 (June 30, 2018 - \$479,621) available to settle current financial liabilities of \$1,004,125 (June 30, 2018 - \$780,607). The Company manages its liquidity risk through the management of its capital (*note 14*) which incorporates the continuous monitoring of actual and projected cash flows to ensure that it has sufficient liquidity to meet its operating commitments without incurring unacceptable losses or risking damage to the Company's reputation.

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, 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 six month period the Company realized a loss on foreign exchange in the amount of \$5,786 (Dec. 2017 ó gain of \$8,757).

Sensitivity to market risks

At December 31, 2018, the Company had:

- \$23,037 (June 30, 2018 - \$42,784) in long term debt and a bank operating loan in the amount of \$190,000 (June 30, 2018 - \$110,000) each of which bears interest predicated upon the TD Bank prime lending rate. The bank operating loan is revolving, meaning it may increase or decrease based on daily cash requirements. Based upon the current amount due on the operating loan, a 1% increase in the TD Bank prime lending rate, as at the financial reporting date, would result in additional interest expense ó long-term debt of \$95 and interest expense ó other of \$1,900 over the next 12 month period.
- US\$102,502 (June 30, 2018 ó US\$63,433) 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 \$1,901 in future cash inflow.
- US\$3,830 (June 30, 2018 ó US\$4,634) included in prepaid expenses. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in recognition of \$71 in additional future expenses.
- US\$9,584 (June 30, 2018 ó US\$16,417 overdraft) included in cash or bank indebtedness. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of \$178 in carrying value.
- US\$136,028 (June 30, 2018 ó US\$119,219) included in accounts payable. A 5% decrease in the value of the Canadian dollar relative to the US dollar would result in an increase of \$2,523 in future cash outflow.
- US\$15,998 (June 30, 2018 ó US\$27,879) included in customer deposits. A 5% decrease in the value of the Canadian dollar relative to the US dollar would result in an increase of \$297 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.