

## **ZTEST Electronics Inc.**

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

**September 30, 2019**

**(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, 2019. 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, 2019

	Sept. 30 2019	June 30 2019
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 77,067	\$ 66,628
Accounts receivable	349,976	591,575
Inventories (note 4)	727,663	636,894
Prepaid expenses	6,535	7,960
	<b>1,161,241</b>	<b>1,303,057</b>
Equipment (note 5)	248,790	258,976
Right-of-use asset (note 3)	189,197	-
Investments (note 6)	715,225	737,640
Lease deposit (note 3)	-	35,000
	<b>\$ 2,314,453</b>	<b>\$ 2,334,673</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank operating loan (note 7)	\$ 75,000	\$ 150,000
Accounts payable and accrued liabilities (note 10)	841,185	857,322
Customer deposits	39,570	-
Current portion of long-term debt (note 8)	-	3,291
Current portion of lease liability (note 3)	101,079	-
	<b>1,056,834</b>	<b>1,010,613</b>
Lease liability (note 3)	54,201	-
	<b>1,111,035</b>	<b>1,010,613</b>
<b>Shareholders' Equity</b>		
Share capital (note 9)	23,394,174	23,394,174
Warrants (note 9)	182,956	182,956
Contributed surplus (note 9)	1,533,373	1,533,373
Deficit	(23,907,085)	(23,786,443)
	<b>1,203,418</b>	<b>1,324,060</b>
	<b>\$ 2,314,453</b>	<b>\$ 2,334,673</b>

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

Approved by the Board:

Signed: "K. Michael Guerreiro"

Director

Signed: "Steve Smith"

Director

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

(Stated in Canadian Dollars)

September 30, 2019

	Share Capital	Warrants	Contributed Surplus	Deficit	Total
Balance, June 30, 2018	\$ 23,215,877	\$ 137,470	\$ 1,531,134	\$ (23,442,258)	\$ 1,442,223
Stock options exercised	9,142	-	(4,142)	-	5,000
Net (loss) for the period	-	-	-	(117,773)	(117,773)
Balance, September 30, 2018	22,225,019	137,470	1,526,992	(22,560,031)	1,329,450
Stock options exercised	18,284	-	(8,284)	-	10,000
Private placement	150,871	60,151	-	-	211,022
Warrants expired	-	(14,665)	14,665	-	-
Net (loss) for the period	-	-	-	(226,412)	(226,412)
Balance, June 30, 2019	23,394,174	182,956	1,533,373	(23,786,443)	1,324,060
Net (loss) for the period	-	-	-	(120,642)	(120,642)
Balance, September 30, 2019	<b>\$ 23,394,174</b>	<b>\$ 182,956</b>	<b>\$ 1,533,373</b>	<b>\$ (23,907,085)</b>	<b>\$ 1,329,450</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*

	2019	2018
<b>Product sales</b>	<b>\$ 880,703</b>	\$ 966,483
<b>Cost of product sales (note 4)</b>	<b>613,833</b>	711,707
	<b>266,870</b>	254,776
<b>Expenses</b>		
Selling, general and administrative (note 11)	354,894	353,464
Interest expense - long-term debt	5	509
Interest expense of lease liability	2,319	-
Interest expense - other	1,428	2,488
Finance fees (note 10)	3,469	3,205
Depreciation of equipment	1,121	1,191
Foreign exchange loss (gain)	1,863	(1,897)
	<b>365,099</b>	358,960
<b>Loss before other income and provisions, and income taxes</b>	<b>(98,229)</b>	(104,184)
<b>Other income and provisions</b>		
Interest income	2	-
Equity in loss of Conversance Inc. (note 6)	(22,415)	(13,589)
	<b>(22,413)</b>	(13,589)
<b>Loss before provision for income taxes</b>	<b>(120,642)</b>	(117,773)
Provision for income taxes	-	-
<b>Net loss and comprehensive loss for the period</b>	<b>\$ (120,642)</b>	\$ (117,773)
<b>Net (loss) income per share</b>		
Basic	\$ (0.01)	\$ (0.01)
Fully diluted	\$ (0.01)	\$ (0.01)
<b>Weighted average shares outstanding</b>		
Basic	21,103,696	20,195,435
Fully diluted	21,103,696	20,195,435

*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

	2019	2018
<b>Cash flow from operating activities</b>		
Net loss for the period	\$ (120,642)	\$ (117,773)
Items not involving cash		
Depreciation of equipment	12,956	15,951
Depreciation of right of use assets	25,700	-
Equity in loss of Conversance Inc.	22,415	13,589
Accreted lease interest	2,319	-
Changes in non-cash working capital items:		
Accounts receivable	241,599	66,460
Inventories	(90,769)	(150,763)
Prepaid expenses	1,425	(3,423)
Customer deposits	39,570	(36,895)
Accounts payable and accrued liabilities	(16,137)	228,530
	<b>118,436</b>	<b>15,676</b>
<b>Cash flow from investing activities</b>		
Purchase of equipment	(2,770)	(1,942)
<b>Cash flow from financing activities</b>		
Proceeds of bank operating loan, net	(75,000)	20,000
Repayment of long-term debt	(3,291)	(9,874)
Repayment of lease obligation	(26,936)	-
Issuance of common shares	-	5,000
	<b>(105,227)</b>	<b>15,126</b>
<b>Increase in cash</b>	<b>10,439</b>	<b>28,860</b>
<b>Cash (deficiency), beginning of period</b>	<b>66,628</b>	<b>(47,374)</b>
<b>Cash (deficiency), end of period</b>	<b>\$ 77,067</b>	<b>\$ (18,514)</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	\$ 1,444	\$ 2,989
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, 2019

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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 (CSE) 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, 2019 with the exception of the changes arising from the adoption of IFRS 16 Leases (note 3), with a date of initial application of July 1, 2019.

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, 2019. 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, 2019.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on November 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:

Permatech Electronics Corporation (PEC)	- 100%	owned
Twenty49 Ltd	- 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 the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2019

## 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 typically change only when there is a change in IFRS. Effective July 1, 2019 the Company adopted IFRS 16, Leases which eliminates the classification of leases as either operating leases or finance leases and provides a single lessee accounting model, specifying how leases are recognized, measured, presented, and disclosed.

The Company occupies its operating facility under a lease that, requires monthly lease payments of \$8,979 until expiry March 2021. A refundable deposit of \$35,000 was paid at the inception of the lease. This lease was previously classified as an operating lease in accordance with IAS 17, with the lease deposit reported as an asset, lease payments charged to net income as occupancy costs, and disclosure of the remaining lease payments as a commitment. The Company adopted IFRS 16 using the modified retrospective approach where comparative amounts are not restated.

Upon adoption of IFRS 16, the Company recognized a lease liability and a right-of-use asset. The lease liability was initially recorded at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate which was determined to be prime plus 1.75% or 5.7%. The lease liability was subsequently reduced by the lease payments paid and interest, imputed at the discount rate, was added to the obligation. The right-of-use asset was initially recorded at cost, determined to be equal to the present value of the remaining lease payments plus the deposit paid at the inception of the lease. Subsequent to initial recording, the right-of-use asset is measured using the cost model where cost is reduced by any accumulated depreciation and any accumulated impairment losses and is adjusted for any remeasurement of the lease liability. Depreciation is calculated on a straight-line basis over the remaining term of the lease and charged to net income as an element of occupancy costs. There have been no impairment losses and no remeasurement of the lease liability.

### Right-of-use asset

Cost:

Cost recognized upon adoption of IFRS 16	\$ 214,897
Depreciation recorded as an element of occupancy costs	(25,700)
<b>Balance at September 30, 2019</b>	<b>\$ 189,197</b>

### Lease liability

Present value of lease payments remaining upon adoption of IFRS 16	\$ 179,897
Lease payments paid during period	(26,936)
Interest imputed at 5.7%	2,319
Balance at September 30, 2019	155,280
Less current portion	(101,079)
<b>Balance at September 30, 2019</b>	<b>\$ 54,201</b>

## ZTEST Electronics Inc.

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

(Stated in Canadian Dollars)

September 30, 2019

#### 4. Inventories

The carrying value of inventory is comprised of:

	<b>Sept. 30 2019</b>	June 30 2019
Raw materials and supplies <sup>(1)</sup>	\$ 672,795	\$ 609,921
Work in process	34,591	22,615
Finished goods	20,277	4,358
	<b>\$ 727,663</b>	<b>\$ 636,894</b>

<sup>(1)</sup> The raw materials and supplies is presented net of provisions for obsolete and/or slow moving items in the amount of \$28,033 (June 2019 - \$25,413).

Inventory utilization during the period was as follows:

	<b>Sept. 30 2019</b>	Sept. 30 2018
Raw materials and supplies used	\$ 405,783	\$ 453,501
Labour costs	194,211	199,736
Depreciation	11,836	14,760
Repairs and maintenance	5,879	7,946
Other costs	24,020	28,867
Net change in finished goods and work in process	(27,896)	6,897
Cost of product sales	<b>\$ 613,833</b>	<b>\$ 711,707</b>

#### 5. Equipment

	<b>Computer Equipment</b>	<b>Office Equipment</b>	<b>Manufacturing Equipment</b>	<b>Leasehold Improvements</b>	<b>Total</b>
<b>Cost:</b>					
Balance, June 30, 2018	\$ 183,106	\$ 71,277	\$ 2,594,244	\$ 84,143	\$ 2,932,770
Additions	1,942	-	-	-	1,942
Balance, Sept. 30, 2018	185,048	71,277	2,594,244	84,143	2,934,712
Additions	-	-	-	-	-
Balance, June 30, 2019	185,048	71,277	2,594,244	84,143	2,934,712
Additions	-	-	2,770	-	2,770
Balance, Sept. 30, 2019	<b>\$ 185,048</b>	<b>\$ 71,277</b>	<b>\$ 2,597,014</b>	<b>\$ 84,143</b>	<b>\$ 2,937,482</b>
<b>Accumulated Depreciation:</b>					
Balance, June 30, 2018	\$ (176,685)	\$ (69,983)	\$ (2,298,302)	\$ (66,788)	\$ (2,611,758)
Depreciation	(511)	(65)	(14,797)	(578)	(15,951)
Balance, Sept. 30, 2018	(177,196)	(70,048)	(2,313,099)	(67,366)	(2,627,709)
Depreciation	(1,706)	(194)	(44,391)	(1,736)	(48,027)
Balance, June 30, 2019	(178,902)	(70,242)	(2,357,490)	(69,102)	(2,675,736)
Depreciation	(461)	(52)	(11,865)	(578)	(12,956)
Balance, Sept. 30, 2019	<b>\$ (179,363)</b>	<b>\$ (70,294)</b>	<b>\$ (2,369,355)</b>	<b>\$ (69,680)</b>	<b>\$ (2,688,692)</b>



## ZTEST Electronics Inc.

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

(Stated in Canadian Dollars)

September 30, 2019

#### 5. Equipment - continued

##### Carrying Amounts:

June 30, 2018	\$	6,421	\$	1,294	\$	295,942	\$	17,355	\$	321,012
September 30, 2018	\$	7,852	\$	1,289	\$	281,145	\$	16,777	\$	307,004
June 30, 2019	\$	6,146	\$	1,035	\$	236,754	\$	15,041	\$	258,976
September 30, 2018	\$	<b>5,685</b>	\$	<b>983</b>	\$	<b>227,659</b>	\$	<b>14,463</b>	\$	<b>248,790</b>

#### 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, 2019, and June 30, 2019, there had been no loss event and accordingly no test for impairment was completed.

	Sept. 30 2019	June 30 2019
155,000 Class A common shares representing a 15.05% interest	\$ 294,562	\$ 294,562
Impairment provision	(294,562)	(294,562)
62,500 Class A common shares representing a 4.86% interest	330,450	330,450
78,750 Class A common shares representing a 5.38% interest	504,750	504,750
Investment representing a 25.29% interest (June 30, 2019 ó 25.29%)	835,200	835,200
Equity in post-acquisition loss	(119,975)	(97,560)
Aggregate investment	\$ 715,225	\$ 737,640

#### 7. Bank operating loan

	Sept. 30 2019	June 30 2019
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.	\$ 75,000	\$ 150,000

#### 8. Long-Term Debt

	Sept. 30 2019	June 30 2019
Term loan bearing interest at the TD Bank prime lending rate plus 1.75% matured July 2019.	\$ -	\$ 3,291
Less current portion	-	3,291
	\$ -	\$ -

## ZTEST Electronics Inc.

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

(Stated in Canadian Dollars)

September 30, 2019

## 9. Share Capital

### Authorized

Unlimited Common shares

Unlimited Preferred shares in one or more series.

### Issued

	Sept. 30 2019	June 30 2019
Common shares	\$ 23,394,174	\$ 23,394,174

Common shares	Number of Shares <sup>(1)</sup>	Amount
Balance June 30, 2018	20,173,696	\$ 23,215,877
Exercise of stock options	50,000	9,142
Balance September 30, 2018	20,223,696	\$ 23,225,019
Exercise of stock options	100,000	18,284
Private placement <sup>(2)</sup>	780,000	150,871
Balance June 30, 2019 and September 30, 2019	21,103,696	\$ 23,394,174

<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.

<sup>(2)</sup> The Company completed a private placement transaction, through two closings, whereby an aggregate of 780,000 working capital units were issued for gross proceeds of \$234,000. In the first closing 440,000 units were issued for gross proceeds of \$132,000 and in the second 340,000 units were issued for gross proceeds of \$102,000. Each unit consisted of one common share and one-half common share purchase warrant. Each full common share purchase warrant entitles the holder to acquire one additional common share of the Company at a price of \$0.40 until eighteen months following the closing date. Through the two closings the Company paid aggregate finders' fees of \$11,760, incurred other costs of \$11,218, attributed a value of \$51,176 to the common share purchase warrants, and issued 39,200 broker warrants valued at \$8,975. Each broker warrant entitles the holder to acquire one common share of the Company for \$0.30 until eighteen months following the closing date.

### Details of warrants outstanding:

	Number of Warrants	Amount
Balance June 30, 2018 and September 30, 2018	3,256,250	\$ 137,470
Warrants issued via private placement	390,000	51,176
Broker warrants issued via private placement	39,200	8,975
Warrants expired	(43,750)	(14,665)
Balance June 30, 2019 and September 30, 2019	3,641,700	\$ 182,956

	Number of Warrants	Exercise Price	Expiry Date
Issued Dec. 15, 2016	2,900,000	\$ 0.06	Dec. 15, 2021
Issued Jan. 30, 2018	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
Issued Jan. 31, 2019	170,000	\$ 0.40	July 31, 2020
Issued Jan. 31, 2019	15,400	\$ 0.30	July 31, 2020

## ZTEST Electronics Inc.

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

(Stated in Canadian Dollars)

September 30, 2019

#### 9. Share Capital - continued

##### Details of warrants outstanding - continued:

	Number of Warrants	Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning and end of period	3,641,700	\$ 0.19	Aug. 16, 2021

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

	Sept. 30 2019	June 30 2019
Dividend yield	None issued	Nil
Risk free interest rate (%)	None issued	1.76 ó 1.84
Expected stock volatility (%)	None issued	116.25 ó 116.52
Expected life (years)	None issued	1.5

##### Details of options outstanding:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted Mar. 3, 2016	400,000 <sup>(1)</sup>	400,000	\$ 0.05	Mar. 3, 2021
Granted December 21, 2016	50,000	50,000	\$ 0.15	Dec. 21, 2021
Granted January 12, 2018	550,000 <sup>(1)</sup>	550,000	\$ 0.95	Jan. 12, 2023

<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	1,200,000	\$ 0.52	Oct 12, 2021
Exercised during the period	(200,000)	\$ 0.35	Jul. 9, 2019
Balance, end of the period	1,000,000	\$ 0.50	Mar. 26, 2022

No stock options were granted during the period ended September 30, 2019 or during the year ended June 30, 2019.

##### 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 2019	June 30 2019
Contributed surplus, beginning of period	\$ 1,533,373	\$ 1,531,134
Stock options exercised	-	(12,426)
Warrants expired	-	14,655
Contributed surplus, end of period	\$ 1,533,373	\$ 1,533,373

## ZTEST Electronics Inc.

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

(Stated in Canadian Dollars)

September 30, 2019

#### 10. Related Party Transactions and Balances

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 Permatest 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.

Party	Description	Sept. 30 2019	Sept. 30 2018
Management	Employee and consultant compensation	\$ 124,025	\$ 119,872
Management	Professional fees	6,924	7,722
1114377	Financing fees	3,469	3,205
		<u>\$ 134,418</u>	<u>\$ 130,799</u>
Management	Stock-based compensation	\$ -	\$ -

As at September 30, 2019 there was a balance of \$418,429 (June 30, 2019 - \$352,759) included in accounts payable and accrued liabilities that was payable to these related parties.

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

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

	Sept. 30 2019	Sept. 30 2018
Employee and consultant compensation ( <i>note 10</i> )	\$ 250,448	\$ 246,359
Occupancy costs ( <i>note 3</i> )	70,746	68,369
Professional fees ( <i>note 10</i> )	13,174	14,659
Shareholder services	3,250	3,250
Insurance	8,072	7,928
Other	9,204	12,899
	<u>\$ 354,894</u>	<u>\$ 353,464</u>

#### 12. Income Taxes

##### Deferred Tax

The following table summarizes the components of deferred tax:

	Sept. 30 2019	Sept. 30 2018
Deferred tax assets:		
Non-capital losses carried forward	\$ 2,691	\$ 3,168
Deferred tax liabilities:		
Temporary timing differences	(2,691)	(3,168)
Net deferred tax liabilities	<u>\$ -</u>	<u>\$ -</u>

##### Unrecognized Deferred Tax Assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

## ZTEST Electronics Inc.

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

(Stated in Canadian Dollars)

September 30, 2019

#### 12. Income Taxes - continued

##### Unrecognized Deferred Tax Assets - continued

	Sept. 30 2019	June 30 2019
Inventory	\$ 28,033	\$ 25,413
Share issuance costs	53,378	53,378
Property, plant and equipment	46,439	46,409
Resource related expenditures	349,050	349,050
Scientific research and experimental development	1,050,618	1,050,618
Net capital loss carry-forwards	2,078,678	2,068,522
Non-capital loss carry-forwards	15,592,989	15,592,989

Share issue costs expire in 2022 and non-capital loss carry-forwards expire as disclosed below. The remaining deductible temporary differences may be carried forward indefinitely but net capital loss carry-forwards can only be used to reduce capital gains. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

#### 13. Capital disclosures

The Company's objective when managing capital is to ensure its ability to meet operating commitments as they become due and to provide return for shareholders. This is achieved 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 2019	June 30 2019
Long-term debt	\$ -	\$ 3,291
Share Capital	23,394,174	23,394,174
Warrants	182,956	182,956
Contributed surplus	1,533,373	1,533,373
Deficit	(23,907,085)	(23,786,443)
Net capital under management	\$ 1,203,418	\$ 1,327,351

#### 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. 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 September 30, 2019 or September 30, 2018.

##### 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 2 major customers which represented 17% and 15%, respectively, of total revenues. In the comparative period, there were 2 major customers representing 13% and 12% of revenues. Amounts due from major customers represented 6% of accounts receivable at September 30, 2019 (Sept. 30, 2018 - 19%). 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 the Unaudited Condensed Interim Consolidated Financial Statements**

(Stated in Canadian Dollars)

September 30, 2019

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**14. Financial risk factors - continued**

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**Liquidity risk**

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. At September 30, 2019 the Company had current financial assets of \$427,043 (June 30, 2019 - \$591,575) available to settle current financial liabilities of \$1,056,834 (June 30, 2019 - \$943,985). The Company manages its liquidity risk through the management of its capital (*note 13*) 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 a bank operating loan that has a floating interest rate as well as currency risk related to accounts receivable, accounts payable, customer deposits, and nominal amounts of cash and prepaid expenses, 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 period the Company has reported a foreign exchange loss of \$1,863 (Sept. 30, 2018 ó gain of \$1,897).

**Sensitivity to market risks**

At September 30, 2019, the Company had:

- A bank operating loan in the amount of \$75,000 (June 30, 2019 - \$150,000) which bears interest predicated upon the TD Bank prime lending rate. 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 óther of \$750 over the next 12 month period.
- US\$60,298 (June 30, 2019 ó US\$74,831) included in accounts receivable. A 10% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of \$1,995 in future cash inflow.
- US\$120,524 (June 30, 2019 óUS\$155,987) included in accounts payable. A 10% decrease in the value of the Canadian dollar relative to the US dollar would result in an increase of \$3,990 in future cash outflow.
- US\$12,826 (June 30, 2019 óUS\$Nil) included in customer deposits. A 10% decrease in the value of the Canadian dollar relative to the US dollar would result in an increase of \$425 in future cash outflow.

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