

**ZTEST Electronics Inc.**  
**Unaudited Interim Consolidated Financial Statements**  
**December 31, 2010**

Be advised that these Unaudited Interim Consolidated Financial Statements have been compiled by the Company's management and they have not been examined, in any manner, by the Company's auditors.

**ZTEST Electronics Inc.****Unaudited Interim Consolidated Balance Sheet***December 31, 2010*

	<b>Dec. 31 2010</b>	(Audited) June 30 2010
<b>Assets</b>		
Cash	\$ 361,993	\$ 395,767
Accounts receivable	530,439	510,198
Inventories (note 4)	294,537	273,512
Prepaid expenses	94,250	34,564
	<b>1,281,219</b>	1,214,041
Equipment (note 5)	931,547	1,041,662
	<b>\$ 2,212,766</b>	<b>\$ 2,255,703</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Customer deposits and deferred revenue	\$ 6,828	\$ 7,896
Accounts payable and accrued liabilities	446,447	546,752
Dividends payable	268,201	268,201
Current portion of long-term debt (note 6)	217,087	137,563
Preferred shares (note 8)	473,855	473,855
	<b>1,412,418</b>	1,434,267
Long-term debt (note 6)	1,227,289	1,352,187
	<b>2,639,707</b>	2,786,454
<b>Deficiency in assets</b>		
Share Capital (note 8)	21,973,055	21,973,055
Contributed surplus (note 8)	485,451	416,755
Deficit	(22,885,447)	(22,920,561)
	<b>(426,941)</b>	(530,751)
	<b>\$ 2,212,766</b>	<b>\$ 2,255,703</b>

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

Approved by the Board:

*Signed: "John Perreault"*\_\_\_\_\_  
Director*Signed: "Wojciech Drzazga"*\_\_\_\_\_  
Director

**ZTEST Electronics Inc.****Unaudited Interim Consolidated Statement Income, Comprehensive Income and Deficit***For the periods ended December 31*

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Product sales</b>	<b>\$ 1,112,951</b>	<b>\$ 777,838</b>	<b>\$ 2,231,275</b>	<b>\$ 1,540,012</b>
<b>Cost of product sales (Note 4)</b>	<b>739,276</b>	<b>491,634</b>	<b>1,428,042</b>	<b>967,411</b>
	<b>373,675</b>	<b>286,204</b>	<b>803,233</b>	<b>572,601</b>
<b>Expenses</b>				
Selling, general and administrative	<b>383,842</b>	259,840	<b>683,054</b>	522,676
Interest expense - long term (Note 9)	<b>37,425</b>	39,906	<b>75,079</b>	80,544
Interest expense - other (Note 9)	-	3,446	-	7,409
Loss (gain) on foreign exchange	<b>1,295</b>	(803)	<b>94</b>	5,372
Amortization of equipment	<b>2,881</b>	2,828	<b>5,753</b>	5,657
	<b>425,443</b>	305,217	<b>763,980</b>	621,658
<b>(Loss) income from operations</b>	<b>(51,768)</b>	(19,073)	<b>39,253</b>	(49,057)
Loss on disposal of equipment	-	-	<b>(4,138)</b>	-
<b>(Loss) income before provision for income taxes</b>	<b>(51,768)</b>	(19,073)	<b>35,115</b>	(49,057)
Provision for income taxes	-	-	-	-
<b>Net (loss) income and comprehensive (loss) income for the period</b>	<b>(51,768)</b>	(19,073)	<b>35,115</b>	(49,057)
<b>Deficit, beginning of period</b>	<b>(22,833,679)</b>	(23,331,158)	<b>(22,920,562)</b>	(23,301,174)
<b>Deficit, end of period</b>	<b>\$ (22,885,447)</b>	<b>\$ (23,350,231)</b>	<b>\$ (22,885,447)</b>	<b>\$ (23,350,231)</b>
<b>Net (loss) income per share - basic</b>	<b>\$ (0.010)</b>	<b>\$ (0.000)</b>	<b>\$ 0.007</b>	<b>\$ (0.001)</b>
<b>- fully diluted</b>	<b>\$ (0.010)</b>	<b>\$ (0.000)</b>	<b>\$ 0.007</b>	<b>\$ (0.001)</b>
<b>Weighted average shares outstanding (Note 8)</b>	<b>5,262,488</b>	63,151,804	<b>5,262,488</b>	63,151,804

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

**ZTEST Electronics Inc.****Unaudited Interim Consolidated Statement of Cash Flows***For the periods ended December 31*

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Cash flow from operating activities</b>				
Net (loss) income for the period	\$ (51,768)	\$ (19,073)	\$ 35,115	\$ (49,057)
Items not involving cash				
Amortization of equipment	53,401	65,458	106,968	130,916
Loss on disposal of equipment	-	-	4,138	-
Interest accretion	4,933	4,627	9,865	9,254
Stock option compensation	68,696	186	68,696	374
Changes in non-cash working capital items:				
Accounts receivable	90,851	13,956	(20,241)	26,768
Inventories	39,231	(16,201)	(21,025)	13,644
Prepaid expenses and other assets	(59,698)	(18)	(59,686)	1,531
Customer deposits and deferred revenue	62,718	(30,694)	(1,068)	(38,450)
Accounts payable and accrued liabilities	(106,409)	(36,081)	(100,305)	(64,330)
	<b>101,955</b>	<b>54,322</b>	<b>22,457</b>	<b>30,650</b>
<b>Cash flow from investing activities</b>				
Proceeds from disposal of equipment	-	-	1,151	-
Purchase of equipment	-	-	(2,142)	-
	-	-	(991)	-
<b>Cash flow from financing activities</b>				
Proceeds of notes payable	-	89,000	-	159,000
Repayment of notes payable	-	(105,500)	-	(159,750)
Repayment of long-term debt	(16,075)	(16,021)	(55,240)	(58,640)
	(16,075)	(32,521)	(55,240)	(59,390)
<b>Increase (decrease) in cash</b>	<b>85,880</b>	<b>21,801</b>	<b>(33,774)</b>	<b>(28,740)</b>
<b>Cash, beginning of period</b>	<b>276,113</b>	<b>31,264</b>	<b>395,767</b>	<b>81,805</b>
<b>Cash, end of period</b>	<b>\$ 361,993</b>	<b>\$ 53,065</b>	<b>\$ 361,993</b>	<b>\$ 53,065</b>

**Supplemental Disclosure of Cash Flow Information**

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

Cash paid for interest	\$ 33,102	\$ 33,497	\$ 65,825	\$ 67,273
Cash paid for income taxes	\$ -	\$ -	\$ -	\$ -

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

# ZTEST Electronics Inc.

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## Notes to Unaudited Interim Consolidated Financial Statements

December 31, 2010

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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 designing, developing, and assembling printed circuit boards and other electronic equipment. The Company's shares trade on the Canadian Venture Exchange under the symbol "ZTE".

### 2. Significant Accounting Policies

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#### Going concern basis of presentation

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a "going concern". This assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. 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. As at December 31, 2010 the Company has a deficit, to date, of \$22,885,447 and working capital deficiency of \$131,199. The Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and its ability to generate positive cash flow from operations. If the going concern assumption were not appropriate for these financial statements then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

#### Basis of consolidation

These unaudited interim consolidated financial statements have been compiled by management using the same accounting policies and methods as the audited financial statements as at June 30, 2010 and should be read in conjunction with those statements.

These unaudited interim consolidated financial statements have been prepared using the consolidation method and accordingly include the following subsidiaries' assets and liabilities as well as the revenues and expenses arising, subsequent to the date of acquisition:

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

#### Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Black Scholes option valuation model, used by the Company to determine fair values, was developed for use in estimating the fair value of freely traded options and warrants. This model requires the input of highly subjective assumptions including future stock price volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing model does not necessarily provide a reliable single measure of the fair value of the Company's stock options and warrants.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with maturity at the date of purchase of three months or less. At December 31, 2010 and June 30, 2010 there were no cash equivalents on hand.

#### Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the amount, net of the estimated costs to complete assemblies and sell them, which the Company expects to realize from the sale of inventory in the ordinary course of business. An assessment of net realizable value is completed at the end of each period and any resulting write-downs, or recovery of previous write-downs, are reflected in income for the period. Current assessments have determined that net realizable values equal or exceed the corresponding costs and accordingly all inventories are currently carried at cost.

**2. Significant Accounting Policies - continued**

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**Equipment**

Equipment is stated at cost. Amortization is provided over the related assets' estimated useful lives using the following methods and annual rates with one-half of the rates noted below are used in the year of acquisition:

Computer equipment	-	30 %	declining balance
Office equipment and furniture	-	20 %	declining balance
Manufacturing equipment	-	20 %	declining balance
Leasehold improvements	-	10 yrs	straight line

**Investments**

The Company currently has investments in four inactive corporations and holds preference shares of another. The carrying value of each of these investments has been written down to their estimated net realizable value of \$NIL and any further recoveries, should any arise, will be accounted for on a cash basis.

**Future income taxes**

The Company accounts for income taxes using the asset and liability method of accounting. Under this method, future income tax assets and future income tax liabilities are recorded based on temporary differences between the financial reporting basis of the Company's assets and liabilities and their corresponding tax basis. The future benefits of each income tax asset, including unused tax losses, is recognized subject to a valuation allowance that is predicated upon the extent that it is more likely than not that such assets will be realized and losses will be utilized. These future income tax assets and liabilities are measured using substantially enacted tax rates and laws that are expected to apply when the tax assets or liabilities are to be settled or realized.

**Revenue recognition**

Revenue is recorded when the product is delivered and/or the service is completed which correspond with the transfer of title and when collection is reasonably assured.

**Earnings per share**

Basic earnings per share are calculated using the weighted average number of common shares outstanding throughout the period. Diluted (loss) earnings per share are computed using the treasury stock method. Stock options and warrants outstanding are not included in the computation of diluted earnings per share if their inclusion would be anti-dilutive.

**Foreign exchange**

As at the transaction date all asset, liability, revenue, and expense amounts denominated in foreign currencies are translated into Canadian dollars using the exchange rate in effect as at that date. At the year end date all monetary assets and liabilities are translated into Canadian dollars using the exchange rate in effect as at that date. The resulting foreign exchange gains and losses are included in income of the current period.

**Stock based compensation**

The Company has in effect a Stock Option Plan. Stock options awarded to directors, officers, consultants and employees are accounted for using the fair value-based method. Fair value is calculated using the Black Scholes model and is added to contributed surplus over the vesting period for the options. Consideration paid on the exercise of stock options is credited to share capital together with any associated contributed surplus.

**Future accounting pronouncements***International reporting standards:*

In February 2008, the Accounting Standards Board ("AcSB") confirmed that the transition to International Financial Reporting Standards from Canadian GAAP will occur on January 1, 2011 for public entities. Although early adoption is permissible the Company has determined that it will commence reporting under these new standards for its fiscal year ended June 30, 2012 in accordance with the implementation deadline. While all aspects of the implementation are not yet known with certainty it is anticipated that the financial reporting impact of the transition to IFRS will be minimal.

**2. Significant Accounting Policies - continued**

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**Segment Disclosure**

The Company has one operating segment involving the design, development, and assembly of printed circuit boards and other electronic equipment. All of the Company's assets are located in Canada

**3. Financial instruments**

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The Company has determined the most appropriate classification for its financial instruments such that cash is classified as held for trading and is measured at fair value. Accounts receivable has been classified as loans and receivables and accounts payable, accrued liabilities, customer deposits, deferred revenue, dividends payable, notes payable, long-term debt and preferred shares are classified as other financial liabilities, which are measured at amortized cost. These classifications have remained unchanged since initial recognition.

**Fair Values**

The carrying amounts of cash, accounts receivable, customer deposits and deferred revenue, accounts payable and accrued liabilities, and notes payable approximate their fair values due to the short-term maturities of these instruments. Long-term debts are recognized initially at fair value. Whenever there is a difference between face value and fair value that difference is amortized on a straight line basis over the remaining term of the debt. It is not practicable to determine the fair value of preferred shares or dividends payable since the timing of cash flows are not known.

**Risks**

The Company is exposed to credit risk, concentration of credit risk, liquidity risk, currency risk, and interest rate risk. The Company's primary risk management objective is to protect earnings and cash flow and, ultimately, shareholder value. Risk management strategies, as discussed below, are designed and implemented to ensure that the Company's risks and the related exposure are consistent with its business objectives and risk tolerance. There have been no changes to the risks to which the Company is exposed or to the corresponding risk management strategies during the current period.

*Credit risk:*

Credit risk represents the financial loss that the Company would experience if one or more of its customers failed to meet its obligations. The maximum credit exposure is represented by the carrying amount of accounts receivable as reported on the balance sheet. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. Bad debt experience has not been significant and it has been determined that no allowance is required for amounts that may be uncollectible.

*Concentration of credit risk:*

Concentration of credit risk arises when a significant portion of the financial assets subject to credit risk arise from a single or limited number of sources. During the current period, none of the Company's customers accounted for more than 20% of revenue (2009 – 1 customer at 26.1%). The loss of such a significant customer or significant curtailment of purchases by such customer could have a material adverse affect on the Company's results of operations and financial condition. The Company monitors the relationship with each customer closely and ensures that every customer is subject to the same risk management criteria.

*Liquidity risk:*

Liquidity risk represents the potential difficulties that the Company may encounter in meeting obligations associated with financial liabilities. The Company is reporting a working capital deficiency of \$131,199 (June 2010 - \$220,226). This includes a long-term debt, preferred shares and dividends payable, with an aggregate carrying value of \$781,656 (June 2010 - \$781,656), that are each past due. The Company manages its liquidity risk through the management of its capital (see note 11) 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.

## ZTEST Electronics Inc.

### Notes to Unaudited Interim Consolidated Financial Statements

December 31, 2010

#### 3. Financial instruments - continued

##### Currency risk:

Currency risk is the risk that the amount of future cash flows of cash, accounts receivable, accounts payable and accrued liabilities that are denominated in US dollars will fluctuate because of changes in foreign exchange rates. The Company purchases some inventory components and makes some of its product sales in US dollars. The Company monitors its exposure to, but does not actively manage this risk. During the current period the Company reported a net loss on foreign exchange of \$94 (Dec. 2009 – loss of \$5,372).

##### Interest rate risk:

Interest rate risk represents the possibility that future cash flows arising from financial instruments may fluctuate because of changes in the market rate of interest. The Company has certain long-term debts for which the interest rate is reset periodically in accordance with the prime lending rate of its financial institution. The future monthly payments on these debts will increase or decrease in correlation with the change, if any, in the prime lending rate. The Company manages this risk by establishing fixed interest rates whenever possible.

#### 4. Inventories

The carrying value of inventory is comprised of:

	Dec. 31 2010	June 30 2010
Raw materials and supplies	\$ 276,959	\$ 228,419
Work in process	10,290	33,110
Finished goods	7,288	11,983
	<b>\$ 294,537</b>	<b>\$ 273,512</b>

Inventory utilization during the period was as follows:

	Dec. 31 2010	Dec. 31 2009
Raw materials and supplies used	\$ 633,856	\$ 340,920
Labour costs	582,943	420,006
Amortization	101,215	125,260
Other costs	82,513	47,504
Net change in finished goods and work in process	27,515	33,721
Cost of product sales	<b>\$ 1,428,042</b>	<b>\$ 967,411</b>

#### 5. Equipment

Dec. 31, 2010	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 166,880	\$ 158,588	\$ 8,292
Office equipment and furniture	71,277	63,536	7,741
Manufacturing equipment <sup>(1)</sup>	2,242,112	1,328,340	913,772
Leasehold improvements	61,003	59,261	1,742
	<b>\$ 2,541,272</b>	<b>\$ 1,609,725</b>	<b>\$ 931,547</b>
June 30, 2010	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 166,880	\$ 157,124	\$ 9,756
Office equipment and furniture	70,287	62,736	7,551
Manufacturing equipment <sup>(1)</sup>	2,259,510	1,239,947	1,018,563
Leasehold improvements	61,003	56,211	4,792
	<b>\$ 2,557,680</b>	<b>\$ 1,516,018</b>	<b>\$ 1,041,662</b>

<sup>(1)</sup> Specific with net book value of \$619,614 (June 2010 - \$688,460) is pledged as security (note 6).



## ZTEST Electronics Inc.

### Notes to Unaudited Interim Consolidated Financial Statements

December 31, 2010

#### 6. Long-Term Debt

	Dec. 31 2010	June 30 2010
Non interest bearing debenture has matured. <sup>(1)</sup>	\$ 39,600	\$ 39,600
Term loan bearing interest at the prime lending rate plus 4.75%, fixed annually each September 30 and currently at 7.75%, secured by a general security agreement covering the assets of Permatest Electronics Corporation, matures September 2013. Repayment is to be made by way of monthly payments of \$6,601 until September 2011, followed by twelve monthly payments of \$8,626, and twelve monthly payments of \$10,859. Each of these payments is blended as to principal and interest.	260,428	312,694
Debenture, bearing interest at 10.5%, secured on a pro-rata basis with another debenture by specific equipment having a net book value of \$619,614 (June 2010 - \$688,460), matures December 2013. The debenture has a face value of \$724,256 and may be repaid, in whole or in part, at any time at the Company's discretion. Payments as to interest only are required until December 2010, followed by blended principal and interest payments of \$15,865 each month until December 2011, and then \$16,171 each month until maturity. The holder of this debenture was issued 2,800,000 pre-consolidation common shares of the Company as additional compensation for having advanced the funds.	713,559	711,751
Debenture, bearing interest at 4.5%, secured on a pro-rata basis with another debenture by specific equipment having a net book value of \$619,614 (June 2010 - \$688,460), matures December 2013. The debenture has a face value of \$284,067 and may be repaid, in whole or in part, at any time at the Company's discretion. Payments as to interest only are required until maturity. The holder of this debenture was granted an option to acquire a 24% interest in Permatest Electronics Corporation for \$200,000 on or before June 15, 2012 as additional compensation for having advanced the funds.	240,011	232,565
Term loan bearing interest at the prime lending rate plus 8%, fixed semi-annually each April 30 and October 31 and currently at 10.25%, secured by a general security agreement covering the assets of Permatest Electronics Corporation, matures April 2015. The loan has a face value of \$196,068 and may be repaid, in whole or in part, at any time at the Company's discretion. Repayment is to be made by way of monthly payments, blended as to principal and interest, of \$2,185 until April 2011, then \$2,611 until April 2012, then \$3,462 until April 2013, then \$4,211 until April 2014 and then \$10,740 until maturity. The holder of this debenture was granted an option to acquire a 24% interest in Permatest Electronics Corporation for \$200,000 on or before May 1, 2015 as additional compensation for having advanced the funds. <sup>(2)</sup>	190,778	193,140
	<b>1,444,376</b>	1,489,750
Less: Current portion	<b>217,087</b>	137,563
	<b>\$ 1,227,289</b>	\$ 1,352,187

<sup>(1)</sup> The debenture has matured but no means of settlement has yet been reached. The balance payable remains as an element of the current portion of long-term debt pending settlement.

<sup>(2)</sup> Payable to a corporate shareholder that is controlled by the spouse of a Director of the Company.

## ZTEST Electronics Inc.

### Notes to Unaudited Interim Consolidated Financial Statements

December 31, 2010

#### 6. Long-Term Debt - continued

The minimum annual future principal repayments are as follows:

2011	\$	217,087
2012		235,706
2013		858,800
2014		91,132
2015		41,651
	\$	<u>1,444,376</u>

#### 7. Commitments

##### Operating leases

The Company leases its operating facility under a lease that is due to expire February 2011 and requires minimum monthly rental payments of \$9,054. A new lease for the same facility has been negotiated that will commence January 1, 2011 and run to March 31, 2021.

The minimum annual payments due under these lease agreements are approximately as follows:

2011	\$	81,486
2012		85,108
2013		87,824
2014		89,635
2015		92,351
Remaining		549,352
	\$	<u>985,756</u>

#### 8. Share Capital

##### (a) Authorized

Unlimited Common shares

Unlimited Non voting, non participating Class A special shares redeemable by the Company or the holders, under specific conditions that have not yet been satisfied, on a one for one basis for common shares of Northern Cross Minerals Inc.

Unlimited Preferred shares in one or more series. The following four series have been authorized to date:

Series A redeemable, voting shares were to be repurchased May 2004. <sup>(1)</sup>

Series B shares may no longer be issued and none remain outstanding.

Series C redeemable, voting shares were to be repurchased May 2007. <sup>(1)</sup>

Series D redeemable, voting shares were to be repurchased June 2007. <sup>(1)</sup>

<sup>(1)</sup> The right to vote at the meeting of common shareholders arises because the associated dividends are more than 12 months in arrears. Settlement of the repurchase price and the associated dividends payable has yet to be negotiated.

##### (b) Issued

	<u>Number of Shares</u>	<u>Amount</u>
Common shares June 30, 2009	63,151,804	\$ 21,873,055
Share consolidation completed (12:1)	(57,889,316)	-
Common shares December 31, 2010 and June 30, 2010	5,262,488	21,873,055
Class A special shares December 31, 2010 and June 30, 2010	1,193,442	100,000
Balance December 31, 2010 and June 30, 2010		<u>\$ 21,973,055</u>

## ZTEST Electronics Inc.

### Notes to Unaudited Interim Consolidated Financial Statements

December 31, 2010

#### 8. Share Capital

##### (b) Issued - continued

During the 2010 fiscal year the Company undertook a share consolidation transaction whereby each 12 common shares outstanding immediately prior to the transaction were replaced by 1 post-consolidation common share. This transaction also results in the number of stock options outstanding being reduced on the same 1:12 basis and the exercise prices of the post-consolidation stock options are twelve times the pre-consolidation exercise price.

Earnings per share figures for the current period have been presented on a post-consolidation basis. The loss per share figures presented for the comparative period remains on a pre-consolidation basis as initially presented. Had the comparative amounts been computed on a post-consolidation basis then the loss would have equated to \$0.004 per share for the three month period and \$0.009 per share for the six month period, both basic and fully diluted, based upon a weighted average of 5,262,488 shares outstanding.

##### Preferred Shares:

	Current	Other	Total
Balance December 31, 2010 and June 30, 2010	\$ 473,855	\$ -	\$ 473,855

##### (c) Details of options outstanding are as follows:

Common Shares Under Option	Number of Options Vested	Price/Option	Expiry Date
75,000	75,000	\$2.04	June 27, 2011
900,000	900,000	\$0.10	Nov. 30, 2015
975,000 <sup>(1)</sup>	975,000		

	Common Shares Under Option	Weighted Average Price/Option	Weighted Average Expiry Date
Beginning of period	79,167	\$2.031	June 8, 2011
Expired during period	(4,167)	\$1.860	July 10, 2010
Granted during period	900,000	\$0.100	Nov. 30, 2015
End of period	975,000	\$0.250	July 28, 2015

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

##### (d) 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 2010	June 30 2010
Contributed surplus, beginning of period	\$ 416,755	\$ 409,918
Compensation expense related to stock options	68,696	732
Value attributed to option on Permotech Electronics Corporation	-	6,105
Contributed surplus, beginning of period	\$ 485,451	\$ 416,755

#### 9. Related Party Transactions

In addition to the Directors and Officers, the following related party had transactions with the Company during the period or outstanding balances at the end of the period:

**1114377 Ontario Inc. ("1114377")** - A shareholder, which is controlled by the spouse of a Director of the Company.

## ZTEST Electronics Inc.

### Notes to Unaudited Interim Consolidated Financial Statements

December 31, 2010

#### 9. Related Party Transactions - continued

All revenues, expenses and period end balances with the 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	Related Party	Dec. 31 2010	Dec. 31 2009
Interest expense - long term	1114377	\$ 10,749	\$ 4,379
Interest expense - long term	Directors/Officers	\$ -	\$ 6,606
Interest expense - other	Directors/Officers	\$ -	\$ 7,121

#### 10. Income Taxes

##### Future Income Taxes

The approximate tax effect of each type of temporary difference that gives rise to the Company's future income tax assets (liabilities) is as follows:

	Dec. 31 2010	June 30 2010
Resource related expenditures	\$ 87,263	\$ 87,263
Scientific research and experimental development	262,655	262,867
Undepreciated capital cost	321,980	325,249
Non-capital losses	466,498	480,013
Capital losses	1,949,124	1,949,125
Future income tax assets, before valuation allowance	3,087,520	3,104,516
Valuation allowance	(3,087,520)	(3,104,516)
Net future tax assets	\$ -	\$ -

The timing of the utilization of the future tax assets is undeterminable. Consequently, a full valuation allowance has been provided against the future value of these assets.

##### Tax Loss Carry-Forwards

The potential income tax benefits resulting from the application of income tax losses have not been recognized in the financial statements. The following losses include 100% of the respective losses of the subsidiary companies and will expire at the end of the taxation years as follows:

Year	
2014	\$ 114,285
2027	253,037
2029	67,017
2030	1,379,162
	<u>\$ 1,813,501</u>

The full realization of these losses carried forward is subject to the result of audits by Canada Revenue Agency. In addition, expenses in the amount of \$1,399,668 have been recorded in the accounts but have not yet been claimed for income tax purposes and capital losses of approximately \$15,593,000 are available indefinitely.

#### 11. Capital Management

The Company's objective when managing capital is to ensure its ability to meet operating commitments as they become due. This is achieved primarily by continuously monitoring its actual and projected cash flows and making adjustments to capital as necessary. Except for meeting the repayment terms, as may exist from time to time, associated with the long-term debt instruments, there are no externally imposed capital requirements.

## ZTEST Electronics Inc.

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### Notes to Unaudited Interim Consolidated Financial Statements

December 31, 2010

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#### 11. Capital Management - continued

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Management includes the following items in its definition of capital:

	<b>Dec. 31 2010</b>	June 30 2010
Long-term debt <sup>(1)</sup>	\$ 490,806	\$ 545,434
Share Capital	21,973,055	21,973,055
Contributed surplus	485,451	416,755
Deficit	(22,885,447)	(22,920,561)
Net capital under management	<b>\$ 63,865</b>	<b>\$ 14,683</b>

<sup>(1)</sup> Excludes long-term debts that are both secured by specific equipment and due to unrelated parties.