

ZTEST Electronics Inc.
Unaudited Condensed Interim Consolidated Financial Statements
March 31, 2013
(Stated in Canadian Dollars)

Notice To Reader

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

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on May 28, 2013. They have not been reviewed by the Company's auditors.

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

ZTEST Electronics Inc.**Unaudited Condensed Interim Consolidated Statements of Financial Position**

(Stated in Canadian Dollars)

March 31, 2013

	Mar. 31 2013	June 30 2012
Assets		
Current assets		
Cash and cash equivalents	\$ 354,172	\$ 181,815
Accounts receivable	546,289	797,803
Inventories (note 3)	609,897	558,156
Prepaid expenses	20,779	3,834
	1,531,137	1,541,608
Lease deposit (note 6)	35,000	35,000
Equipment (note 4)	662,315	764,245
	\$ 2,228,452	\$ 2,340,853
Liabilities		
Current liabilities		
Customer deposits	\$ 5,113	\$ -
Accounts payable and accrued liabilities	581,885	685,935
Dividends payable	263,337	268,201
Current portion of long-term debt (note 5)	654,440	290,304
Preferred shares (note 7)	473,855	473,855
	1,978,630	1,718,295
Long-term debt (note 5)	57,496	698,648
	2,036,126	2,416,943
Shareholders' Equity		
Share capital (note 7)	22,093,059	22,065,037
Warrants (note 7)	119,423	81,564
Contributed surplus (note 7)	623,482	485,451
Deficit	(22,643,638)	(22,708,142)
	192,326	(76,090)
	\$ 2,228,452	\$ 2,340,853

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

Approved by the Board:

Signed: "John Perreault"

Director

Signed: "Wojciech Drzazga"

Director

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

(Stated in Canadian Dollars)

March 31, 2013

	Share Capital	Warrants	Contributed Surplus	Deficit	Total
Balance, June 30, 2011	\$ 22,065,037	81,564	485,451	(23,100,920)	(468,868)
Net income for the period	-	-	-	348,763	348,763
Balance, March 31, 2012	22,065,037	81,564	485,451	(22,752,157)	(120,105)
Net income for the period	-	-	-	44,015	44,015
Balance, June 30, 2012	22,065,037	81,564	485,451	(22,708,142)	(76,090)
Private placement	156,930	-	-	-	156,930
Allocated to warrants	(37,859)	37,859	-	-	-
Exchange of Class A shares for common shares	(91,049)	-	91,049	-	-
Share based payments	-	-	42,118	-	42,118
Dividends forgiven	-	-	4,864	-	4,864
Net income for the period	-	-	-	64,504	64,504
Balance, March 31, 2013	\$ 22,093,059	\$ 119,423	\$ 623,482	\$ (22,643,638)	\$ 192,326

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 Income**

(Stated in Canadian Dollars)

March 31, 2013

	Three months ended		Nine months ended	
	2013	2012	2013	2012
Product sales	\$ 1,127,445	\$ 1,483,588	\$ 3,313,324	\$ 3,282,562
Cost of product sales (note 3)	765,415	894,719	2,198,032	1,995,312
	362,030	588,869	1,115,292	1,287,250
Expenses				
Selling, general and administrative	290,536	274,442	915,795	827,297
Share based payments	21,540	-	42,118	-
Interest expense - long term (note 8)	20,068	29,556	71,198	93,997
Interest expense - other	150	155	447	462
Loan guarantee fees (note 6)	2,400	2,400	7,200	7,200
Loss on foreign exchange	5,024	1,832	16,239	5,890
Depreciation of equipment	1,001	1,204	2,897	3,541
	340,719	309,589	1,055,894	938,387
Income from operations	21,311	279,280	59,398	348,863
Miscellaneous income (note 5)	1,068	-	5,106	-
Loss on disposal of equipment	-	-	-	(100)
Income before provision for income taxes	22,379	279,280	64,504	348,763
Provision for income taxes	-	-	-	-
Comprehensive income for the period	\$ 22,379	\$ 279,280	\$ 64,504	\$ 348,763
Comprehensive income per share				
Basic	\$ 0.00	\$ 0.04	\$ 0.01	\$ 0.05
Fully diluted	\$ 0.00	\$ 0.03	\$ 0.01	\$ 0.04
Weighted average shares outstanding				
Basic	8,506,386	7,062,488	7,576,687	7,062,488
Fully diluted	11,278,608	9,362,488	9,497,490	9,362,488

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

ZTEST Electronics Inc.**Unaudited Condensed Interim Consolidated Statements of Cash Flows**

(Stated in Canadian Dollars)

March 31, 2013

	Three months ended		Nine months ended	
	2013	2012	2013	2012
Cash flow from operating activities				
Net income (loss) for the period	\$ 22,379	\$ 279,280	\$ 64,504	\$ 348,763
Items not involving cash				
Depreciation of equipment	39,064	45,019	115,953	132,983
Loss on disposal of equipment	-	-	-	100
Interest accretion	3,888	5,698	16,556	15,562
Share based payments	21,540	-	42,118	-
Debt forgiveness	(500)	-	(3,780)	-
Changes in non-cash working capital items:				
Accounts receivable	(47,621)	(387,311)	251,514	(497,839)
Inventories	(103,108)	(228,659)	(51,741)	(378,477)
Prepaid expenses	(5,341)	5,206	(16,945)	2,917
Customer deposits	(100,239)	(48,906)	5,113	(56,119)
Accounts payable and accrued liabilities	109,111	405,398	(104,050)	487,392
	(60,827)	75,725	319,242	55,282
Cash flow from investing activities				
Purchase of equipment	(12,333)	(19,468)	(14,023)	(38,544)
Cash flow from financing activities				
Proceeds from share issuance	156,930	-	156,930	-
Repayment of long-term debt	(117,659)	(110,965)	(289,792)	(249,174)
	39,271	(110,965)	(132,862)	(249,174)
Increase (decrease) in cash	(33,889)	(54,708)	172,357	(232,436)
Cash and cash equivalents, beginning of period	388,061	229,132	181,815	406,860
Cash and cash equivalents, end of period	\$ 354,172	\$ 174,424	\$ 354,172	\$ 174,424

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	\$ 19,034	\$ 24,680	\$ 55,918	\$ 80,443
Cash paid for income taxes	\$ -	\$ -	\$ -	\$ -

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

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2013

1. Business of the Company

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

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, 2012.

The notes to these unaudited condensed interim consolidated financial statements are intended to provide a description of events and transactions that are significant to an understanding to the changes in the Company's financial position and performance since June 30, 2012. 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, 2012. These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 28, 2013.

Basis of presentation and going concern considerations

These unaudited condensed interim consolidated financial statements have been compiled by management on a historical cost basis using the accrual basis of accounting, except for cash flow information, and in accordance with IFRS applicable to a going concern. This assumes that the Company will continue in operation for the foreseeable future, has neither the intention nor the need to liquidate or curtail materially the scale of its operations, 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 March 31, 2013 the Company has a deficit, to date, of \$22,643,638 and a working capital deficiency of \$447,493. 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 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 (PECO)	- 100% owned ⁽¹⁾
Northern Cross Minerals Inc.	- 66.7% owned (inactive)

⁽¹⁾ The Company has granted a creditor the right to acquire a 24% interest in PEC (note 5).

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 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 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

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3. Inventories

The carrying value of inventory is comprised of:

	Mar. 31 2013	June 30 2012
Raw materials and supplies	\$ 585,099	\$ 552,244
Work in process	24,039	5,080
Finished goods	759	832
	\$ 609,897	\$ 558,156

Inventory utilization during the period was as follows:

	Mar. 31 2013	Mar. 31 2012
Raw materials and supplies used	\$ 1,464,621	\$ 1,175,531
Labour costs	552,578	588,976
Depreciation	113,056	129,441
Other costs	86,663	90,972
Net change in finished goods and work in process	(18,886)	10,392
Cost of product sales	\$ 2,198,032	\$ 1,995,312

4. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
At June 30, 2011					
Cost	\$ 168,449	\$ 71,277	\$ 2,250,093	\$ 61,003	\$ 2,550,822
Accumulated depreciation	(160,286)	(64,346)	(1,430,232)	(61,003)	(1,715,867)
Carrying amount	\$ 8,163	\$ 6,931	\$ 819,861	\$ -	\$ 834,955
Period ended March 31, 2012					
Opening carrying amount	\$ 8,163	\$ 6,931	\$ 819,861	\$ -	\$ 834,955
Additions, at cost	1,369	-	105,953	-	107,322
Disposal, at carrying amount	(100)	-	-	-	(100)
Depreciation	(1,975)	(1,038)	(129,970)	-	(132,983)
Closing carrying amount	\$ 7,457	\$ 5,893	\$ 795,845	\$ -	\$ 809,194
At March 31, 2012					
Cost	\$ 168,136	\$ 71,277	\$ 2,356,046	\$ 61,003	\$ 2,656,462
Accumulated depreciation	(160,679)	(65,384)	(1,560,202)	(61,003)	(1,847,268)
Carrying amount	\$ 7,457	\$ 5,893	\$ 795,845	\$ -	\$ 809,194
Period ended June 30, 2012					
Opening carrying amount	\$ 7,457	\$ 5,893	\$ 795,845	\$ -	\$ 809,194
Depreciation	(664)	(349)	(43,936)	-	(44,949)
Closing carrying amount	\$ 6,793	\$ 5,544	\$ 751,908	\$ -	\$ 764,245
At June 30, 2012					
Cost	\$ 168,136	\$ 71,277	\$ 2,356,046	\$ 61,003	\$ 2,656,462
Accumulated depreciation	(161,343)	(65,733)	(1,604,138)	(61,003)	(1,892,217)
Carrying amount	\$ 6,793	\$ 5,544	\$ 751,908	\$ -	\$ 764,245

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

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4. Equipment - continued

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Period ended March 31, 2013					
Opening carrying amount	\$ 6,793	\$ 5,544	\$ 751,908	\$ -	\$ 764,245
Additions, at cost	1,016	-	13,007	-	14,023
Depreciation	(1,643)	(831)	(113,479)	-	(115,953)
Closing carrying amount	\$ 5,733	\$ 4,990	\$ 678,323	\$ -	\$ 662,315
At March 31, 2013					
Cost	\$ 169,152	\$ 71,277	\$ 2,369,053	\$ 61,003	\$ 2,670,485
Accumulated depreciation	(162,986)	(66,564)	(1,717,617)	(61,003)	(2,008,170)
Carrying amount	\$ 6,166	\$ 4,713	\$ 651,436	\$ -	\$ 662,315

Specific manufacturing equipment is pledged as security for debentures payable (note 5). The carrying amount of the pledged equipment at each date is as follows:

March 31, 2013	\$ 374,522
June 30, 2012	\$ 440,614
March 31, 2012	\$ 468,153

5. Long-Term Debt

	Mar. 31 2013	June 30 2012
Non-interest bearing debenture has matured. ⁽¹⁾	\$ 39,600	\$ 39,600
Term loan, bearing interest at 7.75%, secured by a general security agreement covering the assets of PEC and matures September 2013. Blended monthly principal and interest payments of \$8,253 are required until maturity.	48,415	118,153
Debenture, bearing interest at 10.5%, secured by specific equipment (note 4) on a pro-rata basis with another debenture and matures December 2013. The debenture has a face value of \$307,526. Blended monthly principal and interest payments of \$16,171 are required until maturity. The holder of this debenture was issued 233,334 common shares of the Company. ⁽²⁾	307,147	480,789
Debenture, bearing interest at 4.5%, secured by specific equipment (note 4) on a pro-rata basis with another debenture, and matures December 2013. The debenture has a face value of \$236,067. Monthly payments as to interest only are required until maturity. ⁽³⁾	225,550	242,024
Term loan bearing interest at the April 30 prime lending rate plus 8%, adjusted annually and currently at 11.00%, secured by a general security agreement covering the assets of PEC, matures April 2015. The loan has a face value of \$93,767. Blended monthly principal and interest payments of \$2,961 are required until April 2013, then \$3,692 until April 2014, then \$4,920 until maturity. The holder of this debenture was granted an option to acquire a 24% interest in PEC for \$200,000 on or before May 1, 2015. ⁽⁴⁾	91,224	108,386
Total long-term debt	\$ 711,936	\$ 988,952

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2013

5. Long-Term Debt - continued

	Mar. 31 2013	June 30 2012
Total long-term debt	\$ 711,936	\$ 988,952
Less: Current portion	654,440	290,304
	\$ 57,496	\$ 698,648

The minimum annual future principal repayments are as follows:

2014	\$ 654,440
2015	52,722
2016	4,774
	\$ 711,936

- (1) The debenture has matured but no means of settlement has been reached. It is classified as current.
- (2) During the period the Company made pre-payments aggregating \$66,000 by way of cash payments of \$64,500 plus \$1,500 in debt forgiveness which has been included in miscellaneous income. Subsequent to the end of the financial reporting period the Company made further pre-payments of \$132,500 by way of cash payments of \$132,000 plus \$500 in debt forgiveness, which will be included in miscellaneous income.
- (3) During the period the Company made a pre-payment of \$28,000 by way of a cash payment of \$25,620 plus \$2,380 in debt forgiveness which has been included in miscellaneous income.
- (4) Payable to a corporate shareholder that is controlled by the spouse of a Director of the Company (note 8).

6. Commitments

Bank operating loan

The Company has access to a \$250,000 line of credit from its financial institution. The loan was not drawn upon at either March 31, 2013 or June 30, 2012, bears interest at the prime lending rate plus 0.5%, is due upon demand, matures May 13, 2013, and is secured by a general security agreement covering the assets of PEC. As at the end of the financial reporting period this loan was also secured by the personal guarantee of an individual who is not related to the Company. Subsequent to the financial reporting date PEC replaced this personal guarantee by posting short-term cash-based investments valued at \$250,000 to serve as security of the loan facility and renewed the facility. The Company paid the guarantor a monthly fee of \$800 and issued them 500,000 share purchase warrants with each warrant entitling them to acquire one common share of the Company at a price of \$0.135 until the earlier of May 18, 2013 and the date when the guarantee is removed. These warrants were exercised subsequent to the end of the financial reporting period.

Operating leases

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 towards the final month's payment or refunded at the end of the lease. Minimum monthly rental payments ranging from \$7,319 to \$8,979 are required over the remaining term of the lease as follows:

2014	\$ 88,277
2015	90,314
2016	94,162
2017	100,273
2018	102,989
Remaining	321,191
	\$ 797,206

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2013

7. Share Capital

(a) Authorized

Unlimited Common shares

Unlimited Non-voting, non-participating Class A special shares. All previously outstanding Class A special shares were exchanged for common shares and no additional shares may be issued.

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. ⁽¹⁾

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

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

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

⁽¹⁾ 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:

	Mar. 31 2012	June 30 2012
Common shares	\$ 22,093,059	\$ 21,965,037
Class A special shares ⁽¹⁾	-	100,000
Share capital	\$ 22,093,059	\$ 22,065,037

Common shares	Number of Shares	Amount
Balance June 30, 2011, March 31, 2012 and June 30, 2012	7,062,488	\$ 21,965,037
Common shares issued in exchange for Class A shares ⁽¹⁾	99,454	8,951
Private placement ⁽²⁾	2,200,000	119,071
Balance March 31, 2013	9,361,942	\$ 22,093,059

⁽¹⁾ During the period the shareholders approved the issuance of 99,454 common shares in exchange for the 1,193,442 Class A Special Shares then outstanding. The common shares were recorded at their fair value at the time of issuance and the difference between the carrying value of the Class A shares and the fair value of the common shares was allocated to contributed surplus. The common shares have been issued and will be held by the Company's transfer agent pending surrender of shares by each Class A shareholder at which time they will receive their common shares.

⁽²⁾ Reported net of costs of \$19,070 associated with this offering and \$37,859 allocated to the warrants issued.

Preferred Shares:

	Mar. 31 2012	June 30 2012
Balance March 31, 2013 and June 30, 2012	\$ 473,855	\$ 473,855

(c) Details of warrants outstanding:

	Mar. 31 2012	June 30 2012
Warrants not yet exercised	\$ 120,871	\$ 81,564
	Number of Warrants	Amount
Balance June 30, 2012	1,400,000	\$ 81,564
Issued during period	1,100,000	39,307
Balance March 31, 2013	2,500,000	\$ 120,871

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

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7. Share Capital - continued

(c) Details of warrants outstanding - continued:

	Number of Warrants	Exercise Price	Expiry Date
Issued Mar. 24, 2011	900,000	\$ 0.100	Mar. 24, 2016
Issued May 18, 2011 ⁽¹⁾	500,000	\$ 0.135	May 18, 2013
Issued Feb. 4, 2013	1,100,000	\$ 0.100	Feb. 4, 2016

⁽¹⁾ These warrants were exercised subsequent to the financial reporting date.

	Number of Warrants	Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning of period	1,400,000	\$ 0.113	Mar. 18, 2015
Issued	1,100,000	\$ 0.100	Feb. 4, 2016
End of period	2,500,000	\$ 0.107	Aug. 7, 2015

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

	Mar. 31 2013	June 30 2012
Dividend yield	Nil	Nil
Risk free interest rate (%)	1.17%	None issued
Expected stock volatility (%)	107.56%	None issued
Expected life (years)	3	None issued

(d) Details of options outstanding:

	Common Shares Under option	Number of Options Vested	Exercise Price	Expiry Date
Granted Nov. 30, 2010	900,000 ⁽¹⁾	900,000	\$ 0.10	Nov. 30, 2015
Granted Sept. 14, 2012	300,000 ⁽¹⁾	300,000	\$ 0.10	Sept. 14, 2017
Granted March 11, 2013	200,000 ⁽¹⁾	200,000	\$ 0.15	Mar. 11, 2018

	Common Shares Under Option	Weighted Average Price/Option	Weighted Average Expiry Date
Beginning of period	900,000	\$ 0.10	Nov. 30, 2015
Issued during period	500,000	\$ 0.12	Nov. 24, 2017
End of period	1,400,000 ⁽²⁾	\$ 0.10	Aug. 15, 2016

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

⁽²⁾ 645,000 stock options were exercised subsequent to the financial reporting date.

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

	Mar. 31 2013	June 30 2012
Dividend yield	Nil	Nil
Risk free interest rate (%)	1.40%	None issued
Expected stock volatility (%)	106.53%	None issued
Expected life (years)	5	None issued

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

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7. Share Capital - continued

(e) Share based payment transactions and contributed surplus

The Company has a stock option plan. The aggregate number of common shares reserved for issuance under this plan cannot exceed 20% of the aggregate number of common shares of the Company that are issued and outstanding. The Company has granted options for the purchase of common shares to employees, directors, officers and other service providers. The fair values of stock options granted have been determined using the Black-Scholes model and are added to contributed surplus as follows:

	Mar. 31 2012	June 30 2012
Contributed surplus, beginning of period	\$ 485,451	\$ 485,451
Dividends of PEC not paid ⁽¹⁾	4,864	-
Conversion of Class A shares to common shares	91,049	-
Compensation expense related to stock options granted	42,118	-
Contributed surplus, end of period	\$ 623,482	\$ 485,451

⁽¹⁾ PEC declared dividends in the year 2000 of which a portion remained unpaid. The unpaid portion has been written off due to its age.

8. Related Party Transactions

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.

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

Description	Mar. 31 2013	Mar. 31 2012
Interest expense - long term	\$ 9,490	\$ 11,254

9. Income Taxes

Unrecognized Deferred Tax Assets

Deferred income 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 income tax assets have not been recognized in respect of the following deductible temporary differences:

	Mar. 31 2013	June 30 2012
Share issuance costs	\$ 25,648	\$ 25,648
Intangible assets	46,539	46,539
Property, plant and equipment	519,520	444,321
Resource related expenditures	349,050	349,050
Scientific research and experimental development	1,050,618	1,050,618
Net capital loss carry forwards	2,292,036	2,292,036
Non-capital loss carry forwards	15,592,989	15,592,989

Share issue costs expire from 2013 to 2015. The non-capital loss carry forwards expire from 2027 to 2032. The net capital loss carry forwards may be carried forward indefinitely, but can only be used to reduce capital gains. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

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10. Financial risk factors

The Company is exposed in varying degrees to a variety of financial instrument related risks:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is in its accounts receivable. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. Bad debt experience has not been significant and it has been determined that no allowance is required as all amounts outstanding are considered collectible.

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company has reported a working capital deficiency of \$447,493 (June 2012 - \$176,687). This includes financial liabilities (a specific long-term debt instrument plus preferred shares and dividends payable) with an aggregate carrying amount of \$776,792 (June 2012 - \$781,656) which are past due and for which the timing of future cash flows are undetermined. The Company manages its liquidity risk through the management of its capital (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.

Market risks

The Company is exposed to interest rate risk and currency risk. The interest rate risk arises from two long-term debt instruments for which interest rates are fixed annually based upon prevailing market rates. Currency risk relates to accounts receivable and accounts payable denominated in US dollars and the potential for future cash flows to fluctuate because of changes in foreign exchange rates. Credit risk is minimized through the reduction of debt when cash flow permits. Currency risk is closely monitored but not actively managed. For the nine and three month periods ended March 31, 2013 the Company reported foreign exchange losses of \$16,239 and \$5,024 respectively (Mar. 2012 of \$5,890 and \$1,832).

Sensitivity to market risks

If interest rates are 1% higher on the next subsequent interest adjustment date the monthly payments required on long-term debt over the next twelve months will increase by \$273 representing additional interest expense.

At March 31, 2013 the Company had US\$132,271 (2012 of US\$215,620) 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 \$6,895 in future cash inflow.

At March 31, 2013 the Company had US\$187,712 (2012 of US\$113,167) 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 \$9,765 in future cash outflow.

The existence of both accounts receivable and accounts payable denominated in US\$ do not serve as a hedge with respect to currency risk.

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.

11. 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.

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2013

11. Capital disclosures - continued

Management includes the following items in its definition of capital:

	Mar. 31 2013	June 30 2012
Long-term debt ⁽¹⁾	\$ 179,239	\$ 266,139
Share Capital	22,097,611	22,065,037
Warrants	120,871	81,564
Contributed surplus	601,942	485,451
Deficit	(22,623,770)	(22,708,142)
Net capital under management	\$ 375,893	\$ 190,049

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