

**ZTEST Electronics Inc.**  
**Consolidated Financial Statements**  
**June 30, 2012 and 2011**  
**(Stated in Canadian Dollars)**

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
ZTEST Electronics Inc.

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of ZTEST Electronics Inc. which comprise the consolidated statements of financial position as at June 30, 2012, June 30, 2011 and July 1, 2010 and the consolidated statements of changes in deficiency in assets, comprehensive income (loss) and cash flows for the years ended June 30, 2012 and June 30, 2011, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ZTEST Electronics Inc. as of June 30, 2012, June 30, 2011 and July 1, 2010, and its financial performance and its cash flows for the years ended June 30, 2012 and June 30, 2011 in accordance with International Financial Reporting Standards.

Signed: "MSCM LLP"

**Chartered Accountants  
Licensed Public Accountants**

Toronto, Ontario  
October 23, 2012

**ZTEST Electronics Inc.****Consolidated Statements of Financial Position****(Stated in Canadian Dollars)***June 30, 2012, June 30, 2011, and July 1 2010*

	<b>June 30 2012</b>	June 30 2011 (note 12)	July 1 2010 (note 12)
<b>Assets</b>			
<b>Current assets</b>			
Cash	\$ 181,815	\$ 406,860	\$ 395,767
Accounts receivable	797,803	448,164	510,198
Inventories (note 3)	558,156	309,512	273,512
Prepaid expenses and other assets	3,834	72,079	34,564
	<b>1,541,608</b>	1,236,615	1,214,041
Lease deposit (note 6)	35,000	35,000	-
Equipment (note 4)	764,245	834,955	1,041,662
	<b>\$ 2,340,853</b>	<b>\$ 2,106,570</b>	<b>\$ 2,255,703</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Customer deposits and deferred revenue	\$ -	\$ 56,119	\$ 7,896
Accounts payable and accrued liabilities	685,935	475,977	546,752
Dividends payable	268,201	268,201	268,201
Current portion of long-term debt (note 5)	290,304	250,161	137,563
Preferred shares (note 7)	473,855	473,855	473,855
	<b>1,718,295</b>	1,524,313	1,434,267
Long-term debt (note 5)	698,648	1,051,125	1,352,187
	<b>2,416,943</b>	2,575,438	2,786,454
<b>Deficiency in assets</b>			
Share capital (note 7)	22,065,037	22,065,037	21,973,055
Warrants (note 7)	81,564	81,564	-
Contributed surplus (note 7)	485,451	485,451	416,755
Deficit	(22,708,142)	(23,100,920)	(22,920,561)
	<b>(76,090)</b>	<b>(468,868)</b>	<b>(530,751)</b>
	<b>\$ 2,340,853</b>	<b>\$ 2,106,570</b>	<b>\$ 2,255,703</b>

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

Approved by the Board:

"Wojciech Drzazga"

Director

"John Perreault"

Director

**ZTEST Electronics Inc.****Consolidated Statements of Changes in Deficiency in Assets**

(Stated in Canadian Dollars)

June 30, 2012

	Share Capital	Warrants	Contributed Surplus	Deficit	Total
Balance, July 1, 2010	\$ 21,973,055	\$ -	\$ 416,755	\$ (22,920,561)	\$ (530,751)
Unit issuance, net of costs	130,800	-	-	-	130,800
Value attributed to warrants	(38,818)	38,818	-	-	-
Grant of stock options	-	-	68,696	-	68,696
Issuance of warrants	-	42,746	-	-	42,746
Net loss for the year	-	-	-	(180,359)	(180,359)
Balance, June 30, 2011	22,065,037	81,564	485,451	(23,100,920)	(468,868)
Net income for the year	-	-	-	392,778	392,778
Balance, June 30, 2012	\$ 22,065,037	\$ 81,564	\$ 485,451	\$ (22,708,142)	\$ (76,090)

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

**ZTEST Electronics Inc.****Consolidated Statements of Comprehensive Income (Loss)***For the years ended June 30, 2012 and 2011*

	2012	2011 (note 12)
<b>Product sales</b>	<b>\$ 4,572,417</b>	<b>\$ 4,010,068</b>
<b>Cost of product sales (note 3)</b>	<b>2,885,846</b>	<b>2,643,484</b>
	<b>1,686,571</b>	<b>1,366,584</b>
<b>Expenses</b>		
Selling, general and administrative	1,143,802	1,340,392
Interest expense - long-term debt (note 8)	120,740	147,119
Interest expense - other (note 8)	624	299
Financing fees (note 6)	9,600	44,346
Depreciation of equipment	4,731	10,445
Foreign exchange loss	16,138	2,049
	<b>1,295,635</b>	<b>1,544,650</b>
<b>Income (loss) from operations</b>	<b>390,936</b>	<b>(178,066)</b>
Miscellaneous income	1,942	1,845
Loss on disposal of equipment	(100)	(4,138)
<b>Income (loss) before provision for income taxes</b>	<b>392,778</b>	<b>(180,359)</b>
Provision for income taxes (note 9)	-	-
<b>Net income (loss) and comprehensive income (loss) for the year</b>	<b>\$ 392,778</b>	<b>\$ (180,359)</b>
<b>Net income (loss) per share</b>		
Basic	\$ 0.06	\$ (0.03)
Fully diluted	\$ 0.04	\$ (0.03)
<b>Weighted average shares outstanding</b>		
Basic	7,062,488	5,745,776
Fully diluted	9,362,488	5,745,776

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

**ZTEST Electronics Inc.****Consolidated Statements of Cash Flows***For the years ended June 30, 2012 and 2011*

	2012	2011 (note 12)
<b>Cash flow from operating activities</b>		
Net income (loss) for the years	\$ 392,778	\$ (180,359)
Items not involving cash		
Debt forgiveness	(1,800)	-
Interest accretion	20,182	19,730
Depreciation of equipment	177,932	213,110
Loss on disposal of equipment	100	4,138
Stock based compensation	-	68,696
Warrants accounted for as financing fees	-	42,746
Changes in non-cash working capital items		
Accounts receivable	(349,639)	62,034
Inventories	(248,644)	(36,000)
Prepaid expenses and other assets	(104)	(72,515)
Customer deposits and deferred revenue	(56,119)	48,223
Accounts payable and accrued liabilities	209,959	(70,775)
	<b>144,645</b>	<b>99,028</b>
<b>Cash flow from investing activities</b>		
Purchase of equipment	(38,974)	(11,691)
Proceeds on disposal of equipment	-	1,150
	<b>(38,974)</b>	<b>(10,541)</b>
<b>Cash flow from financing activities</b>		
Proceeds of share issuance	-	135,000
Costs of share issuance	-	(4,200)
Repayment of long-term debt	(330,716)	(208,194)
	<b>(330,716)</b>	<b>(77,394)</b>
<b>(Decrease) increase in cash</b>	<b>(225,045)</b>	<b>11,093</b>
<b>Cash, beginning of year</b>	<b>406,860</b>	<b>395,767</b>
<b>Cash, end of year</b>	<b>\$ 181,815</b>	<b>\$ 406,860</b>

**Supplemental Disclosure of Cash Flow Information**

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

Interest	\$ 102,756	\$ 126,399
Income taxes	\$ -	\$ -

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

# ZTEST Electronics Inc.

---

## Notes to Consolidated Financial Statements

June 30, 2012 and 2011

---

### 1. Business of the Company

---

ZTEST Electronics Inc. ("the Company") was 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 TSX Venture Exchange under the symbol "ZTE".

### 2. Significant Accounting Policies

---

#### Statement of compliance and conversion to International Financial Reporting Standards ("IFRS")

These are the Company's first annual financial statements prepared in accordance with IFRS as issued by the International Accounting Standards Board.

The accounting policies have been selected to be consistent with IFRS. IFRS 1 First Time Adoption of International Financial Reporting Standards has been applied. Previously the Company prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

The Company has applied the policies set out below consistently to all the periods presented in these financial statements. They have also been applied in preparing the opening Statement of Financial Position at July 1, 2010, as required by IFRS 1, for purposes of transition to IFRS. The impact of the transition from Canadian GAAP to IFRS is explained in note 12 and did not result in the restatement of any amounts presented.

#### Basis of presentation and going concern considerations

These consolidated financial statements have been prepared 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 June 30, 2012 the Company has a deficit, to date, of \$22,708,142 and a working capital deficiency of \$176,687. The Company's continuance as a going concern is dependent upon its ability to continue to generate positive cash flow from operations and its ability to augment that with adequate financing. If the going concern assumption were not appropriate for these consolidated financial statements then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

#### Basis of consolidation

These 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")	-	100.0% <sup>(1)</sup>	owned
Northern Cross Minerals Inc.	-	66.7%	owned (inactive)

<sup>(1)</sup> 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 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 consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the 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 Consolidated Financial Statements

June 30, 2012 and 2011

---

#### 2. Significant Accounting Policies - continued

---

##### Financial instruments

The Company's financial instruments are comprised of the following:

##### Financial assets:

Cash and cash equivalents

Accounts receivable

##### Classification

Fair value through profit and loss

Loans and receivables

##### Financial liabilities:

Customer deposits and deferred revenue

Accounts payable and accrued liabilities

Dividends payable

Preferred shares

Long-term debt

##### Classification

Other financial liabilities

Other financial liabilities

Other financial liabilities

Other financial liabilities

Other financial liabilities

##### Fair value through profit and loss:

Financial assets are designated as fair value through profit and loss if they were acquired principally for the purpose of selling in the short term. Fair value through profit and loss assets are recognized and carried at their fair value.

##### Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

##### Other financial liabilities:

Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument to the net carrying amount on initial recognition. Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

##### Impairment of financial assets:

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the assets have been negatively impacted.

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in income for the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through income for the period to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.



## ZTEST Electronics Inc.

---

### Notes to Consolidated Financial Statements

June 30, 2012 and 2011

---

#### 2. Significant Accounting Policies - continued

---

##### Financial instruments - continued

###### *Financial instruments recorded at fair value:*

Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of June 30, 2012, June 30, 2011 and July 1, 2010, cash and cash equivalents are measured at fair value and are classified within Level 1 of the fair value hierarchy.

##### Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the income for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in income for the period.

The Company has assessed the assets of all its operating entities and has determined that there is no impairment of its non-financial assets.

##### 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.

##### 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 reporting 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.

##### Equipment

Equipment is stated at cost. Depreciation is provided over the related assets' estimated useful lives using the following methods and annual rates:

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

The Company reviews the estimated useful lives, residual values and depreciation method at the end of each reporting period, accounting for the effect of any changes in estimate on a prospective basis.

**Notes to Consolidated Financial Statements**

*June 30, 2012 and 2011*

---

**2. Significant Accounting Policies - continued**

---

**Revenue recognition**

Revenue is recorded when the risks and rewards of ownership pass to the purchaser which is when the product is delivered and/or the service is completed and collection is reasonably assured.

**Share based payment transactions**

The fair value of share options granted to employees is recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At the end of each financial reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

**Income taxes**

Income tax on the net income (loss) for the periods presented comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable income; nor differences relating to investments to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of each financial reporting period.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance.

**Income (loss) per share**

The Company presents basic and diluted income (loss) per share data for its common shares, calculated by dividing the income (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is determined by adjusting the income (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

Stock options and warrants outstanding are excluded in the computation of diluted earnings (loss) per share if their inclusion would increase the income per share, or decrease the loss per share, or if their exercise price exceeds the average market price for the period of the Company's shares.

**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 end of each financial reporting period 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 for the period.

**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.

## ZTEST Electronics Inc.

### Notes to Consolidated Financial Statements

June 30, 2012 and 2011

#### 2. Significant Accounting Policies - continued

##### Accounting standards effective in the current period but not yet adopted

IFRS 9, *Financial Instruments: Classification and Measurement*, issued in December 2009, effective for annual periods beginning on or after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's financial statements for the year beginning July 1, 2015 and has not yet considered the potential impact of its adoption.

IFRS 10, 11, 12 and 13 were all issued in May 2011 and are effective for annual periods beginning January 1, 2013, with early adoption allowed. The Company has not yet considered the potential impact, if any, of the adoption of these standards.

IFRS 10, *Consolidated Financial Statements*, replaces the consolidation guidance in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation — Special Purpose Entities*, by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee.

IFRS 11, *Joint Arrangements*, introduces new accounting requirements for joint arrangements, replacing IAS 31, *Interests in Joint Ventures*. It eliminates the option of accounting for jointly controlled entities by proportionate consolidation.

IFRS 12, *Disclosure of Interests in Other Entities*, requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement.

IFRS 13, *Fair Value Measurement*, replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. It defines and provides guidance on determining fair value and requires disclosures about fair value measurements, but does not change the requirements regarding which items are measured or disclosed at fair value.

IAS 28, *Investments in Associates and Joint Ventures*, amended in 2011, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, prescribes the accounting for investments in associates and establishes the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Management anticipates that this amendment will be adopted in the Company's financial statements for the year beginning July 1, 2013 and has not yet considered the potential impact, if any, of its adoption.

#### 3. Inventories

The carrying value of inventory is comprised of:

	2012	2011
Raw materials	\$ 552,244	\$ 272,645
Work in process	5,080	20,697
Finished goods	832	16,170
	<u>\$ 558,156</u>	<u>\$ 309,512</u>

Inventory utilization during the year was as follows:

	2012	2011
Raw materials and supplies used	\$ 1,764,787	\$ 1,202,607
Labour costs	776,883	1,083,418
Depreciation of equipment	173,201	202,665
Other costs	140,020	146,569
Net change in finished goods and work in process	30,955	8,225
Cost of product sales	<u>\$ 2,885,846</u>	<u>\$ 2,643,484</u>

## ZTEST Electronics Inc.

### Notes to Consolidated Financial Statements

June 30, 2012 and 2011

#### 4. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
<b>At July 1, 2010</b>					
Cost	\$ 166,880	\$ 70,287	\$ 2,259,510	\$ 61,003	\$ 2,557,680
Accumulated depreciation	(157,124)	(62,736)	(1,239,947)	(56,211)	(1,516,018)
Carrying amount	\$ 9,756	\$ 7,551	\$ 1,019,563	\$ 4,792	\$ 1,041,662
<b>Year ended June 30, 2011</b>					
Opening carrying amount	\$ 9,756	\$ 7,551	\$ 1,019,563	\$ 4,792	\$ 1,041,662
Additions, at cost	1,569	990	9,132	-	11,691
Depreciation	(3,162)	(1,610)	(203,546)	(4,792)	(213,110)
Disposals, at carrying amount	-	-	(5,288)	-	(5,288)
Closing carrying amount	\$ 8,163	\$ 6,931	\$ 819,861	\$ -	\$ 834,955
<b>At June 30, 2011</b>					
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
<b>Year ended June 30, 2012</b>					
Opening carrying amount	\$ 8,163	\$ 6,931	\$ 819,861	\$ -	\$ 834,955
Additions, at cost	1,369	-	105,953	-	107,322
Depreciation	(2,639)	(1,387)	(173,906)	-	(177,932)
Disposals, at carrying amount	(100)	-	-	-	(100)
Closing carrying amount	\$ 6,793	\$ 5,544	\$ 751,908	\$ -	\$ 764,245
<b>At June 30, 2012</b>					
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

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:

June 30, 2012	\$ 440,614
June 30, 2011	\$ 550,768
July 1, 2010	\$ 688,460

#### 5. Long-Term Debt

	2012	2011
Non-interest bearing debenture has matured. <sup>(1)</sup>	\$ 39,600	\$ 39,600
Term loan bearing interest at the September 30 prime lending rate plus 4.75%, adjusted annually and currently at 7.75%, secured by a general security agreement covering the assets of PEC, matures September 2013. Monthly payments, blended principal and interest, of \$8,432 are required until September 2012, followed by monthly payments of \$8,253. <sup>(2)</sup>	118,153	230,434
Balance forward	\$ 157,753	\$ 270,034

**ZTEST Electronics Inc.****Notes to Consolidated Financial Statements***June 30, 2012 and 2011***5. Long-Term Debt - continued**

	2012	2011
Balance forward	\$ 157,753	\$ 270,034
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 \$485,283 and may be repaid, in whole or in part, at any time. Monthly payments, blended principal and interest, of \$16,171 are required until maturity. As additional compensation for having advanced the funds, the holder of this debenture was issued 233,333 common shares of the Company. <sup>(3)</sup>	480,789	656,935
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 \$264,067 and may be repaid, in whole or in part, at any time. Payments as to interest only are required until maturity. As additional compensation for having advanced the funds, the debenture holder was granted an option, which expired June 15, 2012, to acquire a 24% interest in PEC for \$200,000. <sup>(4)</sup>	242,024	247,457
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 \$111,845. It may be repaid, in whole or in part, at any time. Monthly payments, blended principal and interest, of \$2,961 are required until April 2013, then \$3,692 until April 2014, then \$4,920 until maturity. As additional compensation for having advanced the funds, 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. <sup>(5)</sup>	108,386	126,860
Total long-term debt	988,952	1,301,286
Less: Current portion	290,304	250,161
	<b>\$ 698,648</b>	<b>\$ 1,051,125</b>

<sup>(1)</sup> The debenture has matured but no means of settlement has been reached. It is classified as current.

<sup>(2)</sup> During the year the Company made a pre-payment of \$30,000 (2011 - \$30,000).

<sup>(3)</sup> During the year the Company made a pre-payment of \$50,000 (2011 - \$Nil).

<sup>(4)</sup> During the year the Company made a pre-payment of \$20,000 (2011 - \$Nil) by way of a cash payment of \$18,200 plus \$1,800 in debt forgiveness. Subsequent to the reporting date the Company made a further pre-payment of \$28,000 by way of a cash payment of \$25,620 plus \$2,380 in debt forgiveness.

<sup>(5)</sup> During the year the Company made no pre-payments (2011 - \$60,000). This loan is payable to a company that is controlled by the spouse of a Director of the Company (note 8).

The minimum annual future principal repayments are as follows:

2013	\$ 290,304
2014	652,859
2015	45,789
	<b>\$ 988,952</b>

## ZTEST Electronics Inc.

### Notes to Consolidated Financial Statements

June 30, 2012 and 2011

#### 6. Commitments

##### Bank operating loan

The Company has access to a \$250,000 line of credit from its financial institution. The loan, which originated in the 2011 fiscal year and was not drawn upon at either June 30, 2012 or June 30, 2011, 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 and by the personal guarantee of an individual who is not related to the Company. The Company issued 500,000 share purchase warrants to the guarantor 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. The guarantor is also to be paid a fee of \$800 per month and will receive interest, based upon the amount drawn from time to time on this line of credit, equal to 10% less the interest paid to the Company's financial institution. The monthly fee and the value attributed to the warrants have been accounted for as financing fees.

##### 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 or refunded at the end of the lease. Minimum monthly rental payments ranging from \$7,092 to \$8,979 are required over the term of the lease as follows:

2013	\$	86,466
2014		88,729
2015		90,993
2016		95,972
2017		100,952
Remaining		398,603
	\$	<u>861,715</u>

#### 7. Share Capital

##### 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. (note 13)

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

Series A redeemable, voting <sup>(1)</sup> shares were to be repurchased May 2004. <sup>(2)</sup>

Series B shares may no longer be issued and all previously issued shares were converted into common shares.

Series C redeemable, voting <sup>(1)</sup> shares were to be repurchased May 2007. <sup>(2)</sup>

Series D redeemable, voting <sup>(1)</sup> shares were to be repurchased June 2007. <sup>(2)</sup>

<sup>(1)</sup> These preferred shares carry the right to vote at the meeting of common shareholders as the cumulative dividends previously payable thereon are more than 12 months in arrears.

<sup>(2)</sup> Negotiations as to a means of settlement are ongoing.

##### Issued

	2012	2011
Common shares	\$ 21,965,037	\$ 21,965,037
Class A special shares (1,193,442 outstanding)	100,000	100,000
Share capital	\$ 22,065,037	\$ 22,065,037

## ZTEST Electronics Inc.

### Notes to Consolidated Financial Statements

June 30, 2012 and 2011

#### 7. Share Capital - continued

##### Issued - continued

Common shares:	Number of Shares	Amount
Balance July 1, 2010	5,262,488	\$ 21,873,055
Private placement <sup>(1)</sup>	1,800,000	91,982
Balance June 30, 2012 and June 30, 2011	7,062,488	\$ 21,965,037

<sup>(1)</sup> During the 2011 fiscal year the Company completed a private placement financing whereby it issued 1,800,000 units, at a price of \$0.075 per unit, for gross proceeds of \$135,000. Each unit was comprised of 1 common share and ½ share purchase warrant with each full warrant entitling the holder to acquire 1 common share of the Company at a price of \$0.10 until March 24, 2016. Related parties subscribed for 1,400,000 units and paid gross proceeds of \$105,000. The reported value is net of finders' fees of \$4,200 paid relative to this financing and the value of \$38,818 attributed to the warrants.

	2012	2011
Preferred shares June 30, 2012 and June 30, 2011	\$ 473,855	\$ 473,855

##### Details of warrants outstanding are as follows:

	2012	2011
Warrants not yet exercised	\$ 81,564	\$ 81,564

	Number of Warrants	Amount
June 30, 2012 and June 30, 2011	1,400,000	\$ 81,564

	Number of Warrants	Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning and end of year	1,400,000	\$0.113	Mar. 18, 2015

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

	2012	2011
Dividend yield	Nil	Nil
Risk free interest rate (%)	None issued	1.64 - 2.66
Expected stock volatility (%)	None issued	123.68 - 134.53
Expected life (years)	None issued	2 - 5

##### Details of options outstanding are as follows:

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

	Common Shares Under Option	Weighted Average Price per Option	Weighted Average Expiry Date
Beginning of year	900,000	\$0.10	Nov. 30, 2015
Changes during year	-	-	-
End of year (note 13)	900,000	\$0.10	Nov. 30, 2015

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

## ZTEST Electronics Inc.

### Notes to Consolidated Financial Statements

June 30, 2012 and 2011

#### 7. Share Capital - continued

##### Details of options outstanding are as follows - continued:

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

	2012	2011
Dividend yield	Nil	Nil
Risk free interest rate (%)	None issued	2.34
Expected stock volatility (%)	None issued	127.90
Expected life (years)	None issued	5

##### Stock based compensation 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:

	2012	2011
Contributed surplus, beginning of year	\$ 485,451	\$ 416,755
Compensation expense related to stock options	-	68,696
Contributed surplus, end of year	\$ 485,451	\$ 485,451

#### 8. Related Party Transactions

The following related party had transactions with the Company during the year or outstanding balances (note 5) at the end of the year:

##### 1114377 Ontario Inc. ("1114377")

A company controlled by the spouse of a Director of the Company.

All revenues, expenses and year 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	2012	2011
Interest expense - long-term	\$ 14,433	\$ 21,030

#### 9. Income Taxes

##### Current Income Taxes

A reconciliation of combined federal and provincial corporate income taxes at the Company's effective tax rate of 27.36% (2011 - 29.26%) is as follows:

	2012	2011
Net Income (loss) before income taxes	\$ 392,778	\$ (180,359)
Income taxes (recovery) at statutory rates	\$ 107,464	\$ (52,766)
Difference in current and deferred tax rates	(3,551)	7,923
Expenses not deductible for income tax purposes	5,522	25,869
Accounting loss on disposal of equipment	-	1,211
Share issue expenses deferred for income tax purposes	-	12,506
Impact of tax rate changes on opening tax benefits not recognized	(177,542)	-
Change in tax benefits not recognized	68,107	5,257
Income tax expense (recovery)	\$ -	\$ -



## ZTEST Electronics Inc.

### Notes to Consolidated Financial Statements

June 30, 2012 and 2011

#### 9. Income Taxes - continued

##### 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:

	2012	2011
Share issuance costs	\$ 25,648	\$ 34,197
Intangible assets	46,539	50,042
Property, plant and equipment	444,321	745,807
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	2,391,459
Non-capital loss carry forwards	15,592,989	15,592,989

Share issue costs expire from 2013 to 2015. The Canadian non-capital loss carry forwards expire as noted in the table below. 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.

##### Tax Loss Carry-Forwards

The potential income tax benefits resulting from the application of income tax losses have not been recognized in these consolidated 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	
2027	\$ 253,037
2029	67,017
2030	1,379,162
2031	577,958
2032	14,862
	\$ 2,292,036

The full realization of these losses is subject to the result of audits by the Canada Revenue Agency.

#### 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 \$176,687 (June 2011 - \$287,698). This includes financial liabilities (a specific long-term debt instrument plus preferred shares and dividends payable) with an aggregate carrying amount of \$781,656 (June 2011 - \$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.

## ZTEST Electronics Inc.

### Notes to Consolidated Financial Statements

June 30, 2012 and 2011

#### 10. Financial risk factors - continued

##### Market risks

The significant market risks to which the Company is exposed are 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. During the year the Company incurred a loss on foreign exchange in the amount of \$16,138 (2011 – \$2,049).

##### Sensitivity to market risks

If interest rates are 1% higher on the next subsequent interest adjustment date than they were at June 30, 2012, the monthly payments required on long-term debt over the next twelve months will increase by \$522 representing additional interest expense.

At June 30, 2012 the Company had US\$217,295 (2011 – US\$10,014) 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 \$11,279 in future cash inflow.

At June 30, 2012 the Company had US\$151,702 (2011 – US\$73,670) 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 \$7,874 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 a return for shareholders. 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.

Management includes the following items in its definition of capital:

	2012	2011
Long-term debt <sup>(1)</sup>	\$ 266,139	\$ 396,894
Share Capital	22,065,037	22,065,037
Warrants	81,564	81,564
Contributed surplus	485,451	485,451
Deficit	(22,708,142)	(23,100,920)
Net capital (deficiency) under management	\$ 190,049	\$ (71,974)

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

#### 12. Conversion to IFRS

##### Overview

As stated in note 2, these are the Company's first annual consolidated financial statements prepared in accordance with accounting policies consistent with IFRS.

The accounting policies described in note 2 have been applied in preparing the consolidated financial statements for the year ended June 30, 2012, the comparative information for the year ended June 30, 2011 and an opening IFRS statement of financial position on the Transition Date, July 1, 2010.

**12. Conversion to IFRS - continued**

---

**First-time adoption of IFRS**

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS as effective at the end of its first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

The Company has elected to apply the following optional exemptions in its preparation of an opening IFRS statement of financial position.

- To apply IFRS 2 Share based Payments only to equity instruments that were issued after November 7, 2002 and had not vested by the Transition Date.
- To apply IFRS 3 Business Combinations prospectively from the Transition Date, therefore not restating business combinations that took place prior to the Transition Date.

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS statement of financial position as at the Transition Date are consistent with those that were made under Canadian GAAP.

The Company's Transition Date IFRS consolidated statement of financial position is included as comparative information in these financial statements.

**Changes to accounting policies**

The Company has changed certain accounting policies to be consistent with IFRS. The changes have not resulted in any change to the recognition and measurement of assets, liabilities, equity, revenue and expenses within its financial statements. The following summarizes the significant changes to the Company's accounting policies on adoption of IFRS.

*Impairment of (non-financial) assets*

IFRS requires a write down of assets if the higher of the fair market value and the value in use of a group of assets is less than its carrying value. Value in use is determined using discounted estimated future cash flows. Canadian GAAP requires a write down to estimated fair value only if the undiscounted estimated future cash flows of a group of assets are less than its carrying value.

The Company's accounting policies related to impairment of non-financial assets have been changed to reflect these differences. There is no impact on the consolidated financial statements.

*Share-based payments*

Under Canadian GAAP, the Company recognized option expense on a straight line basis as permitted by Canadian GAAP.

IFRS 2 requires graded vesting awards to be accounted for by treating each instalment as a separate award. IFRS does not provide for an election to treat the instruments as a pool and recognize expense on a straight line basis.

There were no unvested options issued and outstanding as of the transition date and no stock options granted subsequent to the transition date for which vesting occurred at other than the date of grant therefore no adjustment was required upon transition to IFRS and there is no impact upon the consolidated financial statements.

**Reconciliation between IFRS and previously issued financial statements**

There have been no adjustments required upon transition from previous Canadian GAAP to IFRS as demonstrated by the following summary financial information:

**ZTEST Electronics Inc.****Notes to Consolidated Financial Statements**

June 30, 2012 and 2011

**12. Conversion to IFRS - continued****Reconciliation between IFRS and previously issued financial statements**

	<b>July 1, 2010</b>		
	Previous Canadian GAAP	Effect of Transition to IFRS	In accordance with IFRS
<b>Assets</b>			
Current Assets	\$ 1,214,041	\$ -	\$ 1,214,041
Other assets	1,041,662	-	1,041,662
Total assets	\$ 2,255,703	\$ -	\$ 2,255,703
<b>Equity and Liabilities</b>			
Current liabilities	\$ 1,434,267	\$ -	\$ 1,434,267
Other liabilities	1,352,187	-	1,352,187
Total liabilities	2,786,454	-	2,786,454
Total equity	(530,751)	-	(530,751)
Total equity and liabilities	\$ 2,255,703	\$ -	\$ 2,255,703

	<b>June 30, 2011</b>		
	Previous Canadian GAAP	Effect of Transition to IFRS	In accordance with IFRS
<b>Assets</b>			
Current Assets	\$ 1,236,615	\$ -	\$ 1,236,615
Other assets	869,955	-	869,955
Total assets	\$ 2,106,570	\$ -	\$ 2,106,570
<b>Equity and Liabilities</b>			
Current liabilities	\$ 1,524,313	\$ -	\$ 1,524,313
Other liabilities	1,051,125	-	1,051,125
Total liabilities	2,575,438	-	2,575,438
Total equity	(468,868)	-	(468,868)
Total equity and liabilities	\$ 2,106,570	\$ -	\$ 2,106,570

	<b>Year Ended June 30, 2011</b>		
	Previous Canadian GAAP	Effect of Transition to IFRS	In accordance with IFRS
Product sales	\$ 4,010,068	\$ -	\$ 4,010,068
Cost of product sales	2,643,484	-	2,643,484
Gross margin	1,366,584	-	1,366,584
Total expenses	1,544,650	-	1,544,650
Loss from operations	(178,066)	-	(178,066)
Miscellaneous income	1,845	-	1,845
Loss on disposal of equipment	(4,138)	-	(4,138)
Provision for income taxes	-	-	-
Comprehensive loss for the year	\$ (180,359)	\$ -	\$ (180,359)

## ZTEST Electronics Inc.

---

### Notes to Consolidated Financial Statements

June 30, 2012 and 2011

---

#### 12. Conversion to IFRS - continued

---

##### Reconciliation between IFRS and previously issued financial statements - continued

	Year Ended June 30, 2011		
	Previous Canadian GAAP	Effect of Transition to IFRS	In accordance with IFRS
Comprehensive loss for the year	\$ (180,359)	\$ -	\$ (180,359)
Items not affecting cash	348,420	-	348,420
Changes in non-cash working capital items	(69,033)	-	(69,033)
Cash flow from operating activities	99,028	-	99,028
Cash flow from investing activities	(10,541)	-	(10,541)
Cash flow from financing activities	(77,394)	-	(77,394)
Increase in cash for the year	11,093	-	11,093
Cash, beginning of year	395,767	-	395,767
Cash, end of year	\$ 406,860	\$ -	\$ 406,860

#### 13. Subsequent events

---

Subsequent to the financial reporting date the following transactions have occurred:

##### Share conversion

The Company held its annual and special meeting on September 12, 2012 at which time the shareholders approved the issuance of 1 common share in exchange for each 12 special shares currently outstanding. The Company has reserved 99,454 common shares to be issued in accordance with this transaction.

##### Stock option grant

On September 14, 2012 the Board of Directors approved the issuance of 300,000 stock options to Directors and Senior Officers of the Company. These options will vest immediately upon issuance, have an exercise price of \$0.10, and may be exercised at any time until September 14, 2017.