

ZTEST Electronics Inc.
Unaudited Condensed Interim Consolidated Financial Statements
December 31, 2025
(Stated in Canadian Dollars)

Notice To Reader

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

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on February 26, 2026. They have not been reviewed by the Company's auditors.

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

ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Statements of Financial Position

(Stated in Canadian Dollars)

December 31, 2025

	Dec. 31 2025	June 30 2025
Assets		
Current assets		
Cash	\$ 4,414,914	\$ 4,104,731
Accounts receivable	1,359,197	1,027,720
Inventories (note 3)	1,266,133	1,048,391
Prepaid expenses	46,872	63,727
	7,087,116	6,244,569
Equipment (note 4)	714,962	793,517
Right-of-use asset (note 5)	76,443	159,331
Investments (note 6)	1	1
	\$ 7,878,522	\$ 7,197,418
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	\$ 1,057,249	\$ 1,000,647
Government remittances payable	67,349	34,982
Customer deposits	21,395	6,916
Current portion of lease liability (note 8)	46,271	137,649
Current portion of long-term debt (note 9)	22,667	56,091
	1,214,931	1,236,285
Deferred taxes (note 13)	131,686	154,516
	1,346,617	1,390,801
Shareholders' equity		
Share capital (note 10)	25,143,154	25,081,033
Warrants (note 10)	-	421,385
Contributed surplus (note 10)	2,349,952	1,962,362
Deficit	(20,961,201)	(21,658,163)
	6,531,905	5,806,617
	\$ 7,878,522	\$ 7,197,418

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

Approved by the Board:

Signed: "Steve Smith"

Director

Signed: "William R. Johnstone"

Director

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

(Stated in Canadian Dollars)

December 31, 2025

	Share Capital	Warrants	Contributed, Surplus	Deficit	Total
Balance, June 30, 2024	\$ 25,186,285	\$ 444,229	\$ 1,773,957	\$ (22,907,753)	\$ 4,496,718
Stock options granted	-	-	105,029	-	105,029
Stock options exercised	65,817	-	(20,817)	-	45,000
Net income for the period	-	-	-	532,724	532,724
Balance, December 31, 2024	25,252,102	444,229	1,858,169	(22,375,029)	5,179,471
Stock options granted	-	-	104,193	-	104,193
Warrants exercised	67,844	(22,844)	-	-	45,000
Shares repurchased and cancelled	(238,913)	-	-	160,841	(78,072)
Net income for the period	-	-	-	556,025	556,025
Balance, June 30, 2025	25,081,033	421,385	1,962,362	(21,658,163)	5,806,617
Stock options granted	-	-	26,648	-	26,648
Warrants exercised	115,288	(60,443)	-	-	54,845
Warrants expired	-	(360,942)	360,942	-	-
Shares repurchased and cancelled	(53,167)	-	-	34,095	(19,072)
Net income for the period	-	-	-	662,867	662,867
Balance, December 31, 2025	\$ 25,143,154	\$ -	\$ 2,349,952	\$ (20,961,201)	\$ 6,531,905

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)

December 31, 2025

	Three months ended		Six months ended	
	2025	2024	2025	2024
Product sales	\$ 2,481,516	\$ 2,080,861	\$ 4,304,944	\$ 4,100,368
Cost of product sales (note 3)	1,401,939	1,251,028	2,447,673	2,349,091
	1,079,577	829,833	1,857,271	1,751,277
Expenses				
Selling, general and administrative (note 12)	508,875	466,533	987,820	956,573
Stock compensation (notes 10 and 11)	13,381	70,019	26,648	105,029
Interest expense - long term debt	251	815	647	1,769
Interest expense - lease liability (note 8)	520	2,045	1,426	4,464
Interest expense - other	84	76	167	152
Depreciation of equipment	2,108	2,577	4,215	5,153
Foreign exchange loss (gain)	(1,198)	13,739	807	12,257
	524,021	555,804	1,021,730	1,085,397
Income before other income and provision for income taxes	555,556	274,029	835,541	665,880
Other income				
Interest income	22,434	33,704	49,699	67,622
Gain on disposal of assets	-	-	13,274	-
	22,434	33,704	62,973	67,622
Income before provision for income taxes	577,990	307,733	898,514	733,502
(Provision for) recovery of income taxes (note 13)				
Current	(164,433)	(91,232)	(258,477)	(201,578)
Deferred	12,356	(7,897)	22,830	800
	(152,077)	(99,129)	(235,647)	(200,778)
Net income and comprehensive income for the period	\$ 425,913	\$ 208,604	\$ 662,867	\$ 532,724
Comprehensive income per share				
Basic	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.01
Fully diluted	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.01
Weighted average shares outstanding				
Basic	36,745,088	36,815,386	36,771,583	36,753,158
Fully diluted	36,960,862	37,407,693	36,994,029	37,126,474

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

ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Statements of Cash Flows

(Stated in Canadian Dollars)

December 31, 2025

	Three months ended		Six months ended	
	2025	2024	2025	2024
Cash flow from operating activities				
Net income for the period	\$ 425,913	\$ 208,604	\$ 662,867	\$ 532,724
Items not involving cash				
Depreciation of equipment	40,747	47,963	81,448	95,927
Depreciation of right of use assets	41,444	41,444	82,888	82,887
Imputed interest on lease liability	520	2,045	1,426	4,464
Stock compensation expense	13,381	70,019	26,648	105,029
Provision for income taxes - deferred	(12,356)	7,897	(22,830)	(800)
	509,649	377,972	832,447	820,231
Changes in non-cash working capital items:				
Accounts receivable	(250,453)	(2,944)	(331,477)	494,573
Inventories	136,666	88,520	(217,742)	(21,680)
Prepaid expenses	(5,670)	(4,190)	16,855	6,005
Accounts payable and accrued liabilities	(287,264)	58,590	56,603	(3,240)
Government remittances payable	51,378	4,677	32,367	(299,511)
Customer deposits	16,271	(70,769)	14,479	(13,288)
	170,577	451,856	403,532	983,090
Cash flow from investing activities				
Purchase of equipment	(2,893)	-	(2,893)	-
Cash flow from financing activities				
Repayment of long-term debt	(16,791)	(16,231)	(33,425)	(32,315)
Repayment of lease liability	(46,402)	(46,402)	(92,804)	(92,804)
Issuance of common shares	42,164	30,000	54,845	45,000
Normal course issuer bid share repurchases	-	-	(19,072)	-
	(21,029)	(32,633)	(90,456)	(80,119)
Increase in cash and cash equivalents	146,655	419,223	310,183	902,971
Cash and cash equivalents, start of period	4,268,259	3,259,432	4,104,731	2,775,684
Cash and cash equivalents, end of period	\$ 4,414,914	\$ 3,678,655	\$ 4,414,914	\$ 3,678,655

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	\$ 367	\$ 919	\$ 890	\$ 1,985
Cash paid for income taxes	\$ 113,055	\$ 86,555	\$ 226,110	\$ 501,089

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

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2025

1. Business of the Company

ZTEST Electronics Inc. (the Company) amalgamated under the laws of Ontario and carries on business at 523 McNicoll Avenue, Toronto, Ontario developing and assembling printed circuit boards. The Company's shares trade on the Canadian Securities Exchange (CSE) under the symbol "ZTE".

2. Significant Accounting Policies

Statement of compliance

The Company has prepared these unaudited condensed interim financial statements in accordance with IAS 34, *Interim Financial Reporting*, employing all the same accounting policies and methods of computation as disclosed in the annual financial statements as at June 30, 2025.

The notes to these unaudited condensed interim consolidated financial statements are intended to provide a description of events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since June 30, 2025. 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, 2025.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on February 26, 2026.

Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting, except for cash flow information.

Basis of consolidation

These unaudited condensed interim consolidated financial statements include the accounts of the Company as well as the following subsidiaries' assets and liabilities and the revenues and expenses arising, subsequent to the date of acquisition:

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

Significant accounting judgments and estimates

The preparation of these unaudited condensed interim consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. These unaudited condensed interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the unaudited condensed interim consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Financial instruments

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

<u>Financial assets:</u>	<u>Classification</u>
Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2025

2. Significant Accounting Policies - continued

Financial instruments - continued

<u>Financial liabilities:</u>	<u>Classification</u>
Accounts payable and accrued liabilities	Amortized cost
Government remittances payable	Amortized cost
Customer deposits	Amortized cost
Lease liability	Amortized cost
Long-term debt	Amortized cost

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

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

Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. The Company has assessed the assets of all its operating entities and has determined that there is no impairment of its non-financial assets.

Cash and cash equivalents

Cash equivalents consist of term deposits having a term of 90-days or less, held at the Company's financial institution. They are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Income per share

The Company presents basic and diluted income per share data for its common shares, calculated by dividing the income attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the financial reporting period. Diluted income per share is determined by adjusting the income 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 from the computation of diluted income 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 of the Company's shares for the financial reporting period.

Segment disclosure

The Company has a single location and operating segment accordingly, all revenues are generated in Canada and all assets are located in Canada.

Accounting standards effective for future periods

IFRS18, *Presentation and Disclosure in Financial Statements*: issued April 2024 and effective for annual periods beginning on or after January 1, 2027, with early adoption permitted. It supersedes IAS 1, *Presentation of Financial Statements*, and replaces presentation aspects of many existing standards, to set out requirements for the presentation and disclosure of information in general purpose financial statements. The Company intends to adopt IFRS 18 in its financial statements for the annual period beginning on July 1, 2027 and anticipates that its adoption may alter the way certain amounts and information are presented in its consolidated financial statements.

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2025

3. Inventories

The carrying value of inventory is comprised of:

	Dec. 31 2025	June 30 2025
Raw materials and supplies ⁽¹⁾	\$ 1,213,640	\$ 979,018
Work in process	25,814	47,792
Finished goods	26,679	21,581
	\$ 1,266,133	\$ 1,048,391

⁽¹⁾ Raw materials and supplies is presented net of provisions for obsolete and/or slow-moving items in the amount of \$37,535 (June 2025 - \$9,889). Management makes estimates of future demand when establishing appropriate provisions. To the extent that actual inventory losses differ from these estimates both inventories and net income (loss) will be affected.

Inventory utilization during the period was as follows:

	Dec. 31 2025	Dec. 31 2024
Raw materials and supplies used	\$ 1,789,349	\$ 1,670,086
Labour costs	468,729	479,908
Depreciation	77,233	90,774
Shipping and packaging	71,128	57,787
Stencils and tooling	17,835	13,010
Repairs and maintenance	6,519	15,812
Net change in finished goods and work in process	16,880	21,714
Cost of product sales	\$ 2,447,673	\$ 2,349,091

4. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Cost:					
Balance, June 30, 2024	\$ 220,187	\$ 71,277	\$ 3,358,177	\$ 84,143	\$ 3,733,784
Additions	-	-	-	-	-
Balance, Dec. 31, 2024	220,187	71,277	3,358,177	84,143	3,733,784
Additions	2,031	-	50,756	-	52,787
Balance, June 30, 2025	222,218	71,277	3,408,933	84,143	3,786,571
Additions	1,534	-	1,359	-	2,893
Balance, Dec. 31, 2025	\$ 223,752	\$ 71,277	\$ 3,410,292	\$ 84,143	\$ 3,789,464
Accumulated Depreciation:					
Balance, June 30, 2024	\$ (193,776)	\$ (70,938)	\$ (2,450,433)	\$ (80,672)	\$ (2,795,819)
Depreciation	(3,962)	(34)	(90,774)	(1,157)	(95,927)
Balance, Dec. 31, 2024	(197,738)	(70,972)	(2,541,207)	(81,829)	(2,891,746)
Depreciation	(4,267)	(34)	(95,850)	(1,157)	(101,308)
Balance, June 30, 2025	(202,005)	(71,006)	(2,637,057)	(82,986)	(2,993,054)
Depreciation	(3,032)	(26)	(77,233)	(1,157)	(81,448)
Balance, Dec. 31, 2025	\$ (205,037)	\$ (71,032)	\$ (2,714,290)	\$ (84,143)	\$ (3,074,502)

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2025

4. Equipment - continued

Carrying Amounts:

June 30, 2024	\$	26,411	\$	339	\$	907,744	\$	3,471	\$	937,965
December 31, 2024	\$	22,449	\$	305	\$	816,970	\$	2,314	\$	842,038
June 30, 2025	\$	20,213	\$	271	\$	771,876	\$	1,157	\$	793,517
December 31, 2025	\$	18,715	\$	245	\$	696,002	\$	-	\$	714,962

5. Right of use asset

The Company occupies its operating facility under a lease that expires March 2026. The right-of-use asset was initially recorded at cost equal to the present value of the remaining lease payments, plus a refundable deposit paid at the inception of the lease. After initial recording, the carrying-value of the right-of-use asset is equal to cost less accumulated depreciation and, if any, impairment losses and remeasurement of the lease liability. Depreciation is calculated on a straight-line basis over the term of the lease and charged as an element of occupancy costs (*note 12*). There have been no impairment losses and no remeasurement of the lease liability.

Balance, June 30, 2024	\$	325,105
Depreciation recorded as an element of occupancy costs		(82,887)
Balance, December 31, 2024		242,218
Depreciation recorded as an element of occupancy costs		(82,887)
Balance, June 30, 2025		159,331
Depreciation recorded as an element of occupancy costs		(82,888)
Balance, December 31, 2025	\$	76,443

6. Investments

The Company holds a non-controlling interest in Conversance Inc., a private Canadian technology company engaged in the development of its proprietary technology, which has not yet produced any revenues. The timing of such revenues is not currently determinable. The absence of cash flows made it infeasible for the Company to ascertain the value of Conversance Inc. as a going concern in a prior period and a provision for impairment was recognized to reduce the carrying value of the investment to \$1. Should future circumstances warrant doing so, this provision may be reversed, but only to the extent that the carrying value of the investment at the time of reversal does not exceed the carrying value that would have resulted had the provision not been recorded.

The shares of Conversance Inc. are subject to a hold period and, unless permitted under securities legislation, the shares may not be traded before the date that is four months and a day after the issuer becomes a reporting issuer in any province or territory.

ZTEST retains its right, provided it holds more than 15%, to maintain its ownership interests by subscribing for the requisite number of Class A common shares of Conversance, at the same price and payment terms applicable to any financing. During the 2024 fiscal year, ZTEST declined the opportunity to participate in a convertible promissory note financing proposed by Conversance. Under that financing the creditor has the right to convert all or a portion of the promissory notes into Class A common shares of Conversance, with the conversion rate dependent upon the timing of conversion. Had conversions arisen then the Company's interest would have been reduced however, to the best of the Company's knowledge, no conversions have taken place.

	Dec. 31	June 30
	2025	2025
296,250 Class A common shares, representing a 25.29% interest	\$ 1,129,762	\$ 1,129,762
Equity in post-acquisition losses and impairment provisions	(1,129,761)	(1,129,761)
	\$ 1	\$ 1

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2025

7. Bank operating loan

The Company has a line of credit, which can be drawn to a maximum of \$1,000,000, bears interest at the TD Bank prime lending rate plus 1.8% (June 2025 ó prime + 1.8%), is due upon demand, and is secured by a general security agreement covering the assets of PEC. No amount was drawn on this line of credit on December 31, 2025 or June 30, 2025.

8. Lease liability

The Company occupies its operating facility under a lease extension that expires March 2026. A refundable deposit of \$35,000 was paid at the inception of the lease. The lease liability was recorded at the present value of the lease payments, discounted using the Company's incremental borrowing rate at the time the lease was extended, of 3.386%. The lease liability is subsequently reduced by lease payments paid and increased by imputed interest as follows:

Balance June 30, 2024	\$	315,834
Lease payments paid during period		(92,804)
Interest imputed		4,464
Balance at December 31, 2024		227,494
Lease payments paid during period		(92,803)
Interest imputed		2,958
Balance, June 30, 2025		137,649
Lease payments paid during period		(92,804)
Interest imputed		1,426
Balance at December 31, 2025		46,271
Less current portion		(46,271)
	\$	-

The Company has signed a new five year lease extension which will become effective April 1, 2026 and will result in the recognition of a new lease liability predicated upon prevailing market conditions on April 1, 2026. If those market conditions remain unchanged then the new lease liability is expected to approximate \$1,035,000.

9. Long-Term Debt

	Dec. 31 2025	June 30 2025
Term loan bearing interest at 3.386% is secured by a general security agreement covering the assets of PEC, and matures April 2026. Monthly payments of \$5,691, blended as to principal and interest, are required until maturity.	\$ 22,667	\$ 56,091
Less: current portion	(22,667)	(56,091)
	\$ -	\$ -
The minimum annual future principal repayments as at December 31, 2025, are as follows: 2026		\$ 22,667

10. Share Capital

Authorized

Unlimited Common shares

Unlimited Preferred shares in one or more series.

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2025

10. Share Capital - continued

Issued	Dec. 31 2025	June 30 2025
Common shares	\$ 25,143,154	\$ 25,081,033
Common shares:	Number of Shares ⁽¹⁾	Amount
Balance, June 30, 2024	36,545,821	\$ 25,186,285
Stock options exercised	450,000	65,817
Balance December 31, 2024	36,995,821	25,252,102
Warrants exercised	150,000	67,844
Shares repurchased under Normal Course Issuer Bid ⁽²⁾	(350,500)	(238,913)
Balance, June 30, 2025	36,795,321	25,081,033
Broker warrants exercised	219,380	115,288
Shares repurchased under Normal Course Issuer Bid ⁽²⁾	(78,000)	(53,167)
Balance, December 31, 2025	36,936,701	\$ 25,143,154

⁽¹⁾ Following the 2013 conversion of Class A Special Shares to common shares, 8,246 common shares remain reserved to be issued in the event the remaining Class A shareholders identify themselves to the Company.

⁽²⁾ The Company initiated a Normal Course Issuer Bid (NCIB) under which it may, through a registered securities dealer, repurchase up to 2,727,923 of its common shares on the open market between April 1, 2025 and March 31, 2026. Up to December 31, 2025 the Company had repurchased and cancelled 428,500 common shares at an aggregate cost of \$131,959. The Company is not obligated to acquire any common shares and may suspend or discontinue purchases under the NCIB at any time.

Details of warrants outstanding:

	Number of Warrants	Amount
Balance, June 30, 2024 and December 31, 2024	2,739,380	\$ 444,229
Warrants exercised	(150,000)	(22,844)
Balance, June 30, 2025	2,589,380	421,385
Broker warrants exercised	(219,380)	(60,443)
Warrants expired	(2,370,000)	(360,942)
Balance, December 31, 2025	-	\$ -

	Number of Warrants	Weighted Average Price per Warrant	Weighted Average Expiry Date
Balance, June 30, 2024 and December 31, 2024	2,739,380	\$ 0.30	Nov. 8, 2025
Broker warrants exercised during the period	(219,380)	\$ 0.25	Nov. 8, 2025
Warrants expired during the period	(2,370,000)	\$ 0.30	Nov. 8, 2025
Balance, December 31, 2025	-	\$ -	-

No warrants were issued during the period ended December 31, 2025, or the year ended June 30, 2025, and no warrants were outstanding on December 31, 2025.

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2025

10. Share Capital - continued

Details of options outstanding:

	Common Shares Under Option	Weighted Average Price per Option	Weighted Average Expiry Date
Balance, June 30, 2025	1,550,000	\$ 0.26	Mar. 13, 2029
Stock options granted	900,000	\$ 0.28	Dec. 15, 2030
Balance, December 31, 2025	2,450,000	\$ 0.27	Nov. 4, 2029

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

	Dec. 31 2025	June 30 2025
Dividend yield	Nil	Nil
Risk free interest rate (%)	3.00	1.05 to 2.92
Expected stock volatility (%)	134.98	143.56 to 146.09
Expected life (years)	5	5

The following stock options were outstanding on December 31, 2025:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted September 30, 2022	300,000 ⁽¹⁾	300,000	\$ 0.10	Sep. 30, 2027
Granted March 28, 2024	250,000 ⁽¹⁾	250,000	\$ 0.27	Mar. 28, 2029
Granted March 28, 2024	100,000	100,000	\$ 0.27	Mar. 28, 2029
Granted August 15, 2024	800,000 ⁽¹⁾	800,000	\$ 0.30	Aug. 15, 2029
Granted January 17, 2025	100,000	100,000	\$ 0.40	Jan. 17, 2030
Granted December 15, 2025	800,000 ^(1,2)	-	\$ 0.28	Dec. 15, 2030
Granted December 15, 2025	100,000 ⁽²⁾	-	\$ 0.28	Dec. 15, 2030

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

⁽²⁾ These options will vest as to 50% on June 15, 2026 and 50% on December 15, 2026.

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 10% 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 a consultant and may also grant stock options to 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 2025	June 30 2025
Contributed surplus, beginning of period	\$ 1,962,362	\$ 1,773,957
Stock options granted ⁽¹⁾	26,648	209,222
Stock options exercised	-	(20,817)
Warrants expired	360,942	-
Contributed surplus, end of period	\$ 2,349,952	\$ 1,773,957

⁽¹⁾ Under the Black Scholes valuation model, \$186,717 was ascribed to the stock options granted August 15, 2024, \$35,772 to the stock options granted January 15, 2025, and \$217,491 to the stock options granted December 15, 2025. These amounts are charged to net income over the applicable vesting periods and resulted in \$26,648 being recognized in the current period. As of December 31, 2025, \$203,870 of the value ascribed to the stock options granted December 15, 2025 is yet to be charged to net income.

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11. Related Party Transactions and Balances

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

	Dec. 31 2025	Dec. 31 2024
Employee and consultant compensation (<i>note 12</i>)	\$ 297,887	\$ 284,326
Professional fees (<i>note 12</i>)	43,707	42,369
	\$ 341,954	\$ 326,695
Stock-based compensation	\$ 23,564	\$ 105,029

On December 31, 2025 there was a balance of \$181,029 (June 30, 2025 - \$309,281) included in accounts payable and accrued liabilities that was payable to these related parties.

12. Selling, general and administrative expenses

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

	Dec. 31 2025	Dec. 31 2024
Employee and consultant compensation (<i>note 11</i>)	\$ 631,542	\$ 628,263
Occupancy costs (<i>note 5</i>)	169,350	165,885
Professional fees (<i>note 11</i>)	78,394	70,959
Shareholder services	36,605	26,002
Travel and promotional activities	33,817	28,533
Insurance	20,568	19,548
Office and general expenses	17,544	17,383
	\$ 987,820	\$ 956,573

13. Income Taxes

Current Income Tax

A reconciliation of combined federal and provincial corporate income taxes at the Company's effective tax rate of 26.50% (2024 ó 26.50%) is as follows:

	Dec. 31 2025	Dec. 31 2024
Net income before income taxes	\$ 898,478	\$ 733,502
Expected income tax	\$ 238,096	\$ 194,378
Amounts not deductible for income tax purposes	4,840	8
Temporary timing differences	15,541	7,192
Income tax expense - current	\$ 258,477	\$ 201,578

Deferred Tax

Deferred taxes are provided because of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. The following table summarizes the components of deferred tax:

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13. Income Taxes - continued

Deferred Tax - continued

	Dec. 31 2025	June 30 2025
Deferred tax assets: Inventory	\$ 9,947	\$ 2,621
Deferred tax liabilities: Temporary timing differences	141,633	157,137
Net deferred tax liabilities	<u>\$ 131,686</u>	<u>\$ 154,516</u>

Unrecognized Deferred Tax Assets

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

	Dec. 31 2025	June 30 2025
Share issuance costs	\$ 13,568	\$ 16,282
Equipment	3,762	3,757
Resource related expenditures	85,463	92,498
Scientific research and experimental development	278,414	278,414
Non-capital loss carry-forwards	483,571	480,116
Net capital loss carry-forwards	4,132,142	4,132,142
Income tax expense - deferred	4,996,920	5,003,209
Unrecognized deferred tax assets	<u>(4,996,920)</u>	<u>(5,003,209)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

Share issue costs expire in 2028, and non-capital loss carry-forwards expire from 2035 to 2043. The remaining deductible temporary differences may be carried forward indefinitely, but net capital loss carry-forwards can only be used to reduce capital gains. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

14. Capital disclosures

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

	Dec. 31 2025	June 30 2025
Long-term debt	\$ 22,667	\$ 56,092
Share Capital	25,143,154	25,081,033
Warrants	-	421,385
Contributed surplus	2,349,952	1,962,362
Deficit	<u>(20,961,201)</u>	<u>(21,658,163)</u>
Net capital under management	<u>\$ 6,554,572</u>	<u>\$ 5,862,709</u>

Notes to Unaudited Condensed Interim Consolidated Financial Statements

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15. Financial risk factors

The Company is exposed in varying degrees to the following financial instrument related risks:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is in its accounts receivable. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. It has been determined that no allowance is required, as all amounts outstanding are considered collectible. The Company incurred no bad debts during the periods ended December 31, 2025 or December 31, 2024.

Concentration of credit risk

Concentration of credit risk arises when one or more customers, defined as a major customer, individually account for 10% or more of the Company's revenues during a reporting period. During the current period, the Company had 2 major customers which represented 20% and 12% of revenues (Dec. 31, 2024 - 2 customers, 25% and 15% of revenues). Amounts due from these customers represented approximately 39% of accounts receivable at December 31, 2025 (Dec. 31, 2024 - 42%). The loss of a major customer, or significant curtailment of purchases by such a customer, could have a material adverse effect on the Company's results of operations and financial condition. The Company monitors the relationship with all customers closely and ensures that every customer is subject to the same risk management criteria.

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. On December 31, 2025 the Company had current financial assets of \$5,774,111 (June 30, 2025 - \$5,132,451) available to settle current financial liabilities of \$1,214,931 (June 30, 2025 - \$1,236,285). The Company manages its liquidity risk through the management of its capital (*note 14*) which incorporates the continuous monitoring of actual and projected cash flows to ensure that it has sufficient liquidity to meet its operating commitments without incurring unacceptable losses or risking damage to the Company's reputation.

Market risks

The Company is exposed to interest rate risk due to a bank operating loan that has a floating interest rate as well as currency risk related to accounts receivable, accounts payable, and nominal amounts of cash, prepaid expenses, and customer deposits denominated in US dollars. Market risks give rise to the potential for future cash flows to fluctuate because of changes in interest rates or foreign exchange rates. Market risks are closely monitored, and attempts are made to match foreign cash inflows and outflows. During the current fiscal year, the Company has reported a foreign exchange loss in the amount of \$807 (Dec. 31, 2024 - loss of \$12,257).

Sensitivity to market risks

On December 31, 2025, the Company had:

- A bank operating loan of which \$Nil was drawn (June 30, 2025 - \$Nil) bears interest predicated upon the TD Bank prime lending rate. A change of 1% in that prime lending rate would result in no impact on cash flows over the next 12 months, based on the current loan balance.
- US\$20,702 (June 30, 2025 - US\$66,792) included in accounts receivable. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of \$1,035 in future cash inflow.
- US\$132,881 (June 30, 2025 - US\$218,283) 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 \$6,644 in future cash outflow.

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