

ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Financial Statements

September 30, 2022

(Stated in Canadian Dollars)

Responsibility for Financial Statements

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

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

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on November 28, 2022. They have not been reviewed by the Company's auditors.

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

(Stated in Canadian Dollars)

September 30, 2022

	Sept. 30 2022	June 30 2022
Assets		
Current assets		
Cash	\$ 491,416	\$ 267,640
Accounts receivable	587,293	783,150
Inventories (note 3)	1,107,833	857,045
Prepaid expenses	44,289	12,535
	2,230,831	1,920,370
Equipment (note 4)	479,403	504,898
Right-of-use asset (note 5)	615,211	656,655
Investments (note 6)	1	1
	\$ 3,325,446	\$ 3,081,924
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	\$ 1,329,428	\$ 1,249,976
Customer deposits	268,904	-
Current portion of lease liability (note 8)	161,317	158,830
Current portion of long-term debt (note 9)	61,451	60,929
	1,821,100	1,469,735
Lease liability (note 8)	443,326	484,737
Long-term debt (note 9)	228,749	244,295
	2,493,175	2,198,767
Shareholders' Equity		
Share capital (note 10)	24,064,236	24,064,236
Contributed surplus (note 10)	1,681,068	1,645,217
Deficit	(24,913,033)	(24,826,296)
	832,271	883,157
	\$ 3,325,446	\$ 3,081,924

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

Approved by the Board:

Signed: "K. Michael Guerreiro"

Director

Signed: "Steve Smith"

Director

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

(Stated in Canadian Dollars)

September 30, 2022

	Share Capital	Warrants	Contributed Surplus	Deficit	Total
Balance, June 30, 2021	\$ 23,859,872	\$ 53,052	\$ 1,650,929	\$ (24,559,418)	\$ 1,004,435
Stock options exercised	17,960	-	(7,960)	-	10,000
Warrants exercised	44,539	(12,139)	-	-	32,400
Preferred shares issued	1	-	-	-	1
Net loss for the period	-	-	-	(169,612)	(169,612)
Balance, September 30, 2021	23,922,372	40,913	1,642,969	(24,729,030)	877,224
Warrants exercised	141,865	(38,665)	-	-	103,200
Warrants expired	-	(2,248)	2,248	-	-
Preferred shares redeemed	(1)	-	-	-	(1)
Net loss for the period	-	-	-	(97,266)	(97,266)
Balance, June 30, 2022	24,064,236	-	1,645,217	(24,826,296)	883,157
Stock options granted	-	-	35,851	-	35,851
Net loss for the period	-	-	-	(86,737)	(86,737)
Balance, September 30, 2022	\$ 24,064,236	\$ -	\$ 1,681,068	\$ (24,913,033)	\$ 832,271

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

ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Statements of Comprehensive Loss

(Stated in Canadian Dollars)

For the three month periods ended September 30

	2022	2021
Product sales	\$ 1,168,956	\$ 630,121
Cost of product sales (note 3)	856,722	481,985
	312,234	148,136
Expenses		
Selling, general and administrative (note 12)	364,257	308,190
Stock compensation (notes 10 and 12)	35,851	-
Interest expense - long-term debt	2,017	2,521
Interest expense ó lease liability (note 8)	5,214	6,486
Interest expense - other	627	133
Depreciation of equipment	1,139	1,375
Foreign exchange gain	(10,134)	(957)
	398,971	317,748
Loss before provision for income taxes	(86,737)	(169,612)
Provision for income taxes	-	-
Net loss and comprehensive loss for the period	\$ (86,737)	\$ (169,612)
Net loss per share		
Basic	\$ (0.00)	\$ (0.01)
Fully diluted	\$ (0.00)	\$ (0.01)
Weighted average shares outstanding		
Basic	26,687,196	24,435,239
Fully diluted	26,687,196	24,435,239

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

ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Statements of Cash Flows

(Stated in Canadian Dollars)

For the three month periods ended September 30

	2022	2021
Cash flow from operating activities		
Net (loss) income for the period	\$ (86,737)	\$ (169,612)
Items not involving cash		
Depreciation of equipment	25,495	26,993
Depreciation of right of use assets	41,444	41,444
Accreted lease interest	5,214	6,486
Stock compensation expense	35,851	-
Changes in non-cash working capital items:		
Accounts receivable	195,857	259,813
Inventories	(250,788)	(204,619)
Prepaid expenses	(31,754)	(4,189)
Customer deposits	268,904	(1)
Accounts payable and accrued liabilities	79,452	(33,292))
	282,938	(10,393)
Cash flow from investing activities		
Purchase of equipment	-	(3,079)
Cash flow from financing activities		
Repayment of long-term debt	(15,024)	(14,548)
Repayment of lease obligation	(44,138)	(43,007)
Share issuance	-	42,400
	(59,162)	(15,155)
Increase (decrease) in cash	223,776	(28,627)
Cash, beginning of period	267,640	557,013
Cash, end of period	\$ 491,416	\$ 528,386

Supplemental Disclosure of Cash Flow Information:

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

Interest	\$ 2,678	\$ 2,658
Income taxes	\$ -	\$ -

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

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2022

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

2. Significant Accounting Policies

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, 2022.

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, 2022. 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, 2022.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on November 28, 2022.

Basis of presentation and going concern considerations

These unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting, except for cash flow information, and in accordance with IFRS applicable to a going concern. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. If the going concern assumption were not appropriate for these unaudited condensed interim consolidated financial statements then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

Basis of consolidation

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

Permatech Electronics Corporation (PECO)	- 100%	owned
Twenty49 Ltd	- 100%	owned (inactive)
Northern Cross Minerals Inc.	- 66.7%	owned (inactive)

Accounting standards adopted

Amendment to IAS 1, Presentation of Financial Statements - Classification of Liabilities as Current or Non-Current - In January 2020, the IASB issued amendments to paragraphs 69-76 of IAS 1 to clarify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions which exist at the end of a reporting period will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods commencing on or after January 1, 2022. They have been adopted effective July 1, 2022 and had no impact on the Company's consolidated financial statements.

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.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2022

2. Significant Accounting Policies - continued

Significant accounting judgments and estimates - continued

The impacts of such estimates are pervasive throughout the unaudited condensed interim consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and also in future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Amortized cost - 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.

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 financial reporting 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 from the computation of diluted income (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 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.

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2022

3. Inventories

The carrying value of inventory is comprised of:

	Sept. 30 2022	June 30 2022
Raw materials and supplies ⁽¹⁾	\$ 1,053,395	\$ 810,822
Work in process	48,141	41,264
Finished goods	6,297	4,959
	<u>\$ 1,107,833</u>	<u>\$ 857,045</u>

⁽¹⁾ Raw materials and supplies is presented net of provisions for obsolete and/or slow moving items in the amount of \$12,704 (June 2022 - \$16,547).

Inventory utilization during the period was as follows:

	Sept. 30 2022	Sept. 30 2021
Raw materials and supplies used	\$ 597,175	\$ 273,067
Labour costs (note 16)	202,289	150,765
Depreciation	24,355	25,618
Repairs and maintenance	3,559	1,148
Other costs	37,558	28,444
Net change in finished goods and work in process	(8,214)	2,943
Cost of product sales	<u>\$ 856,722</u>	<u>\$ 481,985</u>

4. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Cost:					
Balance, June 30, 2021	\$ 192,121	\$ 71,277	\$ 3,004,531	\$ 84,143	\$ 3,352,072
Additions	1,100	-	1,979	-	3,079
Disposals	-	-	(313,331)	-	(313,331)
Balance, Sept. 30, 2021	193,221	71,277	2,693,179	84,143	3,041,820
Additions	-	-	4,594	-	4,594
Balance, June 30, 2022	193,221	71,277	2,697,773	84,143	3,046,414
Additions	-	-	-	-	-
Balance, Sept. 30, 2022	<u>\$ 193,221</u>	<u>\$ 71,277</u>	<u>\$ 2,697,773</u>	<u>\$ 84,143</u>	<u>\$ 3,046,414</u>
Accumulated Depreciation:					
Balance, June 30, 2021	\$ (183,282)	\$ (70,614)	\$ (2,443,639)	\$ (73,730)	\$ (2,771,265)
Depreciation	(704)	(34)	(25,677)	(579)	(26,993)
Disposals	-	-	313,331	-	313,331
Balance, Sept. 30, 2021	(183,986)	(70,648)	(2,155,985)	(74,309)	(2,738,595)
Depreciation	(2,113)	(99)	(52,642)	(1,734)	(32,670)
Balance, June 30, 2022	(186,099)	(70,747)	(2,208,627)	(76,043)	(2,541,516)
Depreciation	(534)	(27)	(24,355)	(579)	(25,495)
Balance, Sept. 30, 2022	<u>\$ (186,633)</u>	<u>\$ (70,774)</u>	<u>\$ (2,232,982)</u>	<u>\$ (76,622)</u>	<u>\$ (2,567,011)</u>

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2022

4. Equipment - continued

Carrying Amounts:

June 30, 2021	\$	8,839	\$	663	\$	560,892	\$	10,413	\$	580,807
September 30, 2021	\$	9,235	\$	629	\$	537,194	\$	9,835	\$	556,893
June 30, 2022	\$	7,122	\$	530	\$	489,146	\$	8,100	\$	504,898
September 30, 2022	\$	6,588	\$	503	\$	464,791	\$	7,521	\$	479,403

5. Right of use asset

The Company occupies its operating facility under a lease extension 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. Subsequent to 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 remaining term of the lease and charged to net income as an element of occupancy costs (*note 11*). There have been no impairment losses and no remeasurement of the lease liability.

Balance at June 30, 2021	\$	822,430
Depreciation recorded as an element of occupancy costs		(41,444)
Balance at September 30, 2021		780,986
Depreciation recorded as an element of occupancy costs		(124,331)
Balance at June 30, 2022		656,655
Depreciation recorded as an element of occupancy costs		(41,444)
Balance at September 30, 2022	\$	615,211

6. Investments

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

Conversance Inc. is engaged in the development of its proprietary technology and has not yet produced any revenues. The timing of such revenues, if any, is not currently determinable. The absence of cash flows, or the ability to predict when any may arise, made it infeasible for the Company to ascertain the value of Conversance Inc. as a going concern as at June 30, 2020. Accordingly, 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.

Conversance holds a 28% interest in 3955 trading Inc. (o/a Cannamerx) pursuant to a purchase agreement dated August 1, 2021. Cannamerx operates an international cannabis and hemp exchange platform and facilitates trade in bulk cannabis, hemp, and cannabis and hemp products, between licensed producers worldwide. It is expected that Conversance will first upgrade the existing Cannamerx platform then replace it with a new platform developed from the Conversance proprietary technology. Conversance will receive additional shares of Cannamerx upon completion of these objectives as well as when Cannamerx achieves a certain level of operations based upon these new platforms. Based upon the current share structure of Cannamerx, the issuance of these additional shares would provide Conversance with a controlling interest.

ZTEST retains its right to maintain its 25.29% 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. ZTEST has been granted an option by Conversance Inc., to acquire 75,000 Class A common shares from treasury, in exchange for a cash payment of \$1,000,000. This option expires June 30, 2023.

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2022

6. Investments - continued

	Sept. 30 2022	June 30 2022
296,250 Class A common shares, representing a 25.29% interest	\$ 1,129,762	\$ 1,129,762
Equity in post-acquisition loss	(152,109)	(152,109)
Impairment provision	(977,652)	(977,652)
Aggregate investment	\$ 1	\$ 1

7. Bank operating loan

	Sept. 30 2022	June 30 2022
Line of credit, which can be drawn to a maximum of \$500,000, bears interest at the TD Bank prime lending rate plus 2.5%, is due upon demand, and is secured by a general security agreement covering the assets of PEC.	\$ -	\$ -

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 initially recorded at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate, which was determined to be 3.386% for the extension. The lease liability is subsequently reduced by the lease payments paid and increased by interest imputed at the discount rate as follows:

Balance at June 30, 2021	\$ 792,660
Lease payments paid during period	(43,007)
Interest imputed at 3.386%	6,486
Balance at September 30, 2021	756,139
Lease payments paid during period	(130,152)
Interest imputed at 3.386%	17,580
Balance at June 30, 2022	643,567
Lease payments paid during period	(44,138)
Interest imputed at 3.386%	5,214
Balance at September 30, 2022	604,643
Less current portion	(161,317)
	\$ 443,326

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2022

9. Long-Term Debt

	Sept. 30 2022	June 30 2022
Canadian Emergency Business Account (CEBA) bearing interest at 0% until December 2023 then 5% payable monthly until maturity December 2025. Principal may be repaid, in whole or in part, at any time prior to maturity. If the loan balance is no more than \$20,000 as at December 31, 2023 the remaining balance will be forgiven.	\$ 60,000	\$ 60,000
Term loan bearing interest at 3.386% matures April 2026. Monthly payments of \$5,691, blended as to principal and interest, are required until maturity.	230,200	245,224
	290,200	305,224
Less: current portion	61,451	60,929
	\$ 228,749	\$ 244,295
The minimum annual future principal repayments are as follows:		
2023		\$ 61,451
2024		85,351
2025		96,109
2026		47,289
		\$ 290,200

10. Share Capital

Authorized

Unlimited Common shares

Unlimited Preferred shares in one or more series.

Issued

	Sept. 30 2022	June 30 2022
Common shares	\$ 24,064,236	\$ 24,064,236
Common shares	Number of Shares ⁽¹⁾	Amount
Balance June 30, 2021	24,227,196	\$ 23,859,872
Warrants exercised	540,000	44,539
Stock options exercised	200,000	17,960
Balance September 30, 2021	24,967,196	23,922,371
Warrants exercised	1,720,000	141,865
Balance June 30, 2022 and September 30, 2022	26,687,196	\$ 24,064,236

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

Details of warrants outstanding:

	Number of Warrants	Amount
Balance June 30, 2021	2,360,000	\$ 53,052
Warrants exercised	(540,000)	(12,139)
Balance September 30, 2021	1,820,000	\$ 40,913

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2022

10. Share Capital - continued

Details of warrants outstanding - continued:

Balance September 30, 2021	1,820,000	\$	40,913
Warrants exercised	(1,720,000)		(38,665)
Warrants expired	(100,000)		(2,248)
Balance June 30, 2022 and September 30, 2022	-	\$	-

No warrants were issued during the period ended September 30, 2022 or during the year ended June 30, 2022.

Details of options outstanding:

	Common Shares Under Option	Weighted Average Price per Option	Weighted Average Expiry Date
Balance, beginning of the period	350,000	\$ 0.95	Jan. 12, 2023
Options granted	1,275,000	\$ 0.10	Sep. 30, 2027
Balance, end of the period	1,625,000	\$ 0.28	Sep. 24, 2026

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

	Sept. 30 2022	June 30 2022
Dividend yield	Nil	None issued
Risk free interest rate (%)	3.24%	None issued
Expected stock volatility (%)	135.92%	None issued
Expected life (years)	5	None issued

The following stock options were outstanding as at September 30, 2022:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted January 12, 2018	350,000 ⁽¹⁾	350,000	\$ 0.95	Jan. 12, 2023
Granted September 30, 2022	100,000	100,000	\$ 0.10	Sep. 30, 2027
Granted September 30, 2022	1,175,000 ⁽¹⁾	1,175,000	\$ 0.10	Sep. 30, 2027

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

Share based payment transactions and contributed surplus

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

	Sept. 30 2022	June 30 2022
Contributed surplus, beginning of period	\$ 1,645,217	\$ 1,650,929
Stock options granted	35,851	-
Stock options exercised	-	(7,960)
Warrants expired	-	2,248
Contributed surplus, end of period	\$ 1,681,068	\$ 1,645,217

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

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11. Related Party Transactions and Balances

The Company had transactions during the periods presented 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.

Description	Sept. 30 2022	Sept. 30 2021
Employee and consultant compensation	\$ 85,412	\$ 85,415
Professional fees	7,341	4,568
	<u>\$ 92,753</u>	<u>\$ 89,983</u>
Stock-based compensation	\$ 33,039	\$ -

As at September 30, 2022 there was a balance of \$724,051 (June 30, 2022 - \$674,775) 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:

	Sept. 30 2022	Sept. 30 2021
Employee and consultant compensation (<i>notes 11 and 16</i>)	\$ 226,464	\$ 203,842
Occupancy costs (<i>note 5</i>)	82,018	68,878
Professional fees (<i>note 11</i>)	23,841	12,318
Shareholder services	12,047	4,550
Insurance	9,453	7,956
Other	10,434	10,646
	<u>\$ 364,257</u>	<u>\$ 308,190</u>

13. Income Taxes

Deferred Tax

The following table summarizes the components of deferred tax:

	Sept. 30 2022	Sept. 30 2021
Deferred tax assets: Non-capital losses carried forward	\$ 4,248	\$ 2,223
Deferred tax liabilities: Temporary timing differences	(4,248)	(2,223)
Net deferred tax liabilities	<u>\$ -</u>	<u>\$ -</u>

Unrecognized Deferred Tax Assets

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

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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13. Income Taxes - continued

Unrecognized Deferred Tax Assets - continued

	Sept. 30 2022	June 30 2022
Inventory	\$ 32,579	\$ 16,547
Share issuance costs	7,224	7,224
Property, plant and equipment	29,986	29,986
Resource related expenditures	349,050	349,050
Scientific research and experimental development	1,050,618	1,050,618
Net capital loss carry-forwards	2,450,784	2,425,289
Non-capital loss carry-forwards	15,592,989	15,592,989

Share issue costs expire from 2022-2023 and non-capital loss carry-forwards expire from 2030-2042. 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.

	Sept. 30 2022	June 30 2022
Long-term debt	\$ 290,200	\$ 305,224
Share Capital	24,064,236	24,064,236
Contributed surplus	1,681,068	1,645,217
Deficit	(24,913,033)	(24,826,296)
Net capital under management	\$ 1,122,471	\$ 1,188,381

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 September 30, 2022 or September 30, 2021.

Concentration of credit risk

Concentration of credit risk arises when one or more customers individually account for 10% or more of the Company's revenues during a reporting period. The Company had 4 customers during the current period, representing 12%, 12%, 11% and 10% of revenues (Sept. 30, 2021 - 2 customers, 17% and 11% of revenues). Amounts due from these customers represented 36% of accounts receivable at September 30, 2022 (Sept. 30, 2021 - 6%). The loss of, 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.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2022

15. Financial risk factors - continued

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. At September 30, 2022 the Company had current financial assets of \$1,078,709 (June 30, 2022 - \$1,050,790) available to settle current financial liabilities of \$1,821,200 (June 30, 2022 - \$1,469,735). 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 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 period the Company has reported a foreign exchange gain of \$10,134 (Sept. 30, 2021 ó gain of \$957).

Sensitivity to market risks

At September 30, 2022, the Company had:

- A bank operating loan that had not been drawn upon (June 30, 2022 - \$Nil) which bears interest predicated upon the TD Bank prime lending rate. Based upon the current amount due on the operating loan, a 1% increase in the TD Bank prime lending rate, as at the financial reporting date, would result in no additional interest expense over the next 12 month period.
- US\$130,683 (June 30, 2022 ó US\$187,460) 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 \$6,534 in future cash inflow.
- US\$65,332 (June 30, 2022 ó US\$126,498) 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 \$3,267 in future cash outflow.

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

16. COVID-19

On March 11, 2020 the World Health Organization (WHO) declared COVID-19 a pandemic. This declaration was soon followed by numerous restrictions implemented by domestic and international governments affecting the way people could interact and how business was conducted. Some of these restrictions remain in place as of the financial reporting date.

The Company was permitted to, and did, continue operations throughout the pandemic after encouraging certain personnel to work from home and taking steps to facilitate physical distancing and other safety measures for those for whom working from home was not feasible.

The present and future economic effects of COVID-19 cannot be accurately predicted at this time, including the potential impact on the Company's suppliers and customers, and on the market risks described in note 15. Although these potential effects cannot be quantified, the Company anticipates that COVID-19 could have an adverse impact on its future business, results of operations, financial position and cash flows.