

**ZTEST Electronics Inc.**  
**Unaudited Condensed Interim Consolidated Financial Statements**  
**March 31, 2023**  
**(Stated in Canadian Dollars)**

Notice To Reader

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

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on May 30, 2023. They have not been reviewed by the Company's auditors.

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

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

(Stated in Canadian Dollars)

March 31, 2023

	<b>Mar. 31 2023</b>	June 30 2022
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 203,277	\$ 267,640
Accounts receivable	966,621	783,150
Inventories (note 3)	1,818,397	857,045
Prepaid expenses	51,098	12,535
	<b>3,039,393</b>	1,920,370
Equipment (note 4)	428,415	504,898
Right-of-use asset (note 5)	532,324	656,655
Investments (note 6)	1	1
	<b>\$ 4,000,133</b>	<b>\$ 3,081,924</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Operating loan (note 7)	\$ 125,000	\$ -
Accounts payable and accrued liabilities (note 11)	1,923,117	1,249,976
Customer deposits	255,210	-
Current portion of lease liability (note 8)	166,353	158,830
Current portion of long-term debt (note 9)	62,476	60,929
	<b>2,532,156</b>	1,469,735
Lease liability (note 8)	359,447	484,737
Long-term debt (note 9)	197,231	244,295
	<b>3,088,834</b>	2,198,767
<b>Shareholders' equity</b>		
Share capital (note 10)	24,064,236	24,064,236
Contributed surplus (note 10)	1,681,068	1,645,217
Deficit	(24,834,005)	(24,826,296)
	<b>911,299</b>	883,157
	<b>\$ 4,000,133</b>	<b>\$ 3,081,924</b>

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

Approved by the Board:

Signed: "Steve Smith"

Director

Signed: "K. Michael Guerreiro"

Director

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

(Stated in Canadian Dollars)

March 31, 2023

	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
Preferred shares issued	1	-	-	-	1
Stock options exercised	17,960	-	(7,960)	-	10,000
Warrants exercised	186,404	(50,804)	-	-	135,600
Warrants expired	-	(2,248)	2,248	-	-
Net loss for the period	-	-	-	(381,844)	(381,844)
Balance, March 31, 2022	24,064,237	-	1,645,217	(24,941,262)	768,192
Preferred shares redeemed	(1)	-	-	-	(1)
Net income for the period	-	-	-	114,966	114,966
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	-	-	-	(7,709)	(7,709)
<b>Balance, March 31, 2023</b>	<b>\$ 24,064,237</b>	<b>\$ -</b>	<b>\$ 1,681,068</b>	<b>\$ (24,834,005)</b>	<b>\$ 911,299</b>

*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 (Loss)**

(Stated in Canadian Dollars)

March 31, 2023

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
<b>Product sales</b>	<b>\$ 1,594,507</b>	<b>\$ 1,326,227</b>	<b>\$ 3,904,815</b>	<b>\$ 2,738,213</b>
<b>Cost of product sales (note 3)</b>	<b>1,061,479</b>	<b>990,257</b>	<b>2,803,575</b>	<b>2,072,659</b>
	<b>533,028</b>	<b>335,970</b>	<b>1,101,240</b>	<b>665,554</b>
<b>Expenses</b>				
Selling, general and administrative (note 12)	<b>335,329</b>	346,993	<b>1,056,202</b>	1,012,569
Stock compensation (notes 10 and 11)	-	-	<b>35,851</b>	-
Interest expense - long term	<b>1,718</b>	2,223	<b>5,623</b>	7,142
Interest expense - lease liability (note 8)	<b>4,551</b>	5,863	<b>14,647</b>	18,524
Interest expense - other	<b>2,362</b>	936	<b>3,153</b>	1,202
Depreciation of equipment	<b>1,138</b>	1,374	<b>3,417</b>	4,125
Foreign exchange (gain) loss	<b>(3,224)</b>	(527)	<b>(9,944)</b>	3,834
	<b>341,874</b>	<b>356,862</b>	<b>1,108,949</b>	<b>1,047,396</b>
<b>Income (loss) before provision for income taxes</b>	<b>191,154</b>	(20,894)	<b>(7,709)</b>	(381,844)
Provision for income taxes (note 13)	-	-	-	-
<b>Net income (loss) and comprehensive income (loss) for the period</b>	<b>\$ 191,154</b>	<b>\$ (20,894)</b>	<b>\$ (7,709)</b>	<b>\$ (381,844)</b>
<b>Net income (loss) per share</b>				
Basic	<b>\$ 0.01</b>	\$ (0.00)	<b>\$ (0.00)</b>	\$ (0.01)
Fully diluted	<b>\$ 0.01</b>	\$ (0.00)	<b>\$ (0.00)</b>	\$ (0.01)
<b>Weighted average shares outstanding</b>				
Basic	<b>26,687,196</b>	26,687,196	<b>26,687,196</b>	25,478,802
Fully diluted	<b>26,687,196</b>	26,687,196	<b>26,687,196</b>	25,478,802

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

## ZTEST Electronics Inc.

### Unaudited Condensed Interim Consolidated Statements of Cash Flows

(Stated in Canadian Dollars)

March 31, 2023

	Three months ended		Nine months ended	
	2023	2022	2023	2022
<b>Cash flow from operating activities</b>				
Net income (loss) for the period	\$ 191,154	\$ (20,894)	\$ (7,709)	\$ (381,844)
Items not involving cash				
Depreciation of equipment	25,494	18,862	76,483	64,719
Depreciation of right of use assets	41,443	41,444	124,331	124,332
Imputed interest on lease liability	4,550	5,863	14,647	18,524
Stock compensation expense	-	-	35,851	-
	262,641	45,275	243,603	(174,268)
Changes in non-cash working capital items:				
Accounts receivable	(381,819)	(384,268)	(183,471)	16,817
Inventories	(502,702)	(133,881)	(961,352)	(729,714)
Prepaid expenses	(40,596)	(4,156)	(38,563)	(133)
Accounts payable and accrued liabilities	545,885	245,661	673,141	439,747
Customer deposits	(13,694)	-	255,210	(1)
	(130,285)	(231,369)	(11,432)	(447,553)
<b>Cash flow from investing activities</b>				
Purchase of equipment	-	-	-	(3,079)
<b>Cash flow from financing activities</b>				
Net proceeds of operating loan	125,000	140,000	125,000	140,000
Repayment of long-term debt	(15,319)	(14,793)	(45,517)	(44,011)
Repayment of lease liability	(44,138)	(43,006)	(132,414)	(129,019)
Issuance of common shares	-	-	-	145,600
	65,543	82,201	(52,931)	112,570
<b>Decrease in cash</b>	<b>(64,742)</b>	<b>(149,168)</b>	<b>(64,363)</b>	<b>(338,062)</b>
<b>Cash, beginning of period</b>	<b>268,019</b>	<b>368,119</b>	<b>267,640</b>	<b>557,013</b>
<b>Cash, end of period</b>	<b>\$ 203,277</b>	<b>\$ 218,951</b>	<b>\$ 203,277</b>	<b>\$ 218,951</b>

### Supplemental Disclosure of Cash Flow Information:

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

Cash paid for interest	\$ 4,117	\$ 3,217	\$ 8,859	\$ 8,413
Cash paid for income taxes	\$ -	\$ -	\$ -	\$ -

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

# ZTEST Electronics Inc.

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## Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2023

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### 1. Business of the Company

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ZTEST Electronics Inc. (the Company) amalgamated under the laws of Ontario and carries on business 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

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#### 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 May 30, 2023.

#### 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 Unaudited Condensed Interim Consolidated Financial Statements**

(Stated in Canadian Dollars)

March 31, 2023

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**2. Significant Accounting Policies - continued**

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**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>
Operating loan	Amortized cost
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 Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2023

### 3. Inventories

The carrying value of inventory is comprised of:

	<b>Mar. 31 2023</b>	June 30 2022
Raw materials and supplies <sup>(1)</sup>	\$ 1,771,667	\$ 810,822
Work in process	38,750	41,264
Finished goods	7,980	4,959
	<b>\$ 1,818,397</b>	<b>\$ 857,045</b>

<sup>(1)</sup> Raw materials and supplies is presented net of provisions for obsolete and/or slow moving items in the amount of \$72,765 (June 30, 2022 - \$16,547).

Inventory utilization during the period was as follows:

	<b>Mar. 31 2023</b>	Mar. 31 2022
Raw materials and supplies used	\$ 1,964,499	\$ 1,368,347
Labour costs	631,779	548,100
Depreciation	73,065	60,594
Other costs	134,738	114,918
Net change in finished goods and work in process	(506)	(19,300)
Cost of product sales	<b>\$ 2,803,575</b>	<b>\$ 2,072,659</b>

### 4 Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
<b>Cost:</b>					
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, March 31, 2022	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, March 31, 2023	<b>\$ 193,221</b>	<b>\$ 71,277</b>	<b>\$ 2,697,773</b>	<b>\$ 84,143</b>	<b>\$ 3,046,414</b>
<b>Accumulated Depreciation:</b>					
Balance, June 30, 2021	\$ (183,282)	\$ (70,614)	\$ (2,443,639)	\$ (73,730)	\$ (2,771,265)
Depreciation	(2,113)	(99)	(60,771)	(1,736)	(64,719)
Disposals	-	-	313,331	-	313,331
Balance, March 31, 2022	(185,395)	(70,713)	(2,191,079)	(75,466)	(2,522,653)
Depreciation	(704)	(34)	(17,548)	(577)	(18,863)
Balance, June 30, 2022	(186,099)	(70,747)	(2,208,627)	(76,043)	(2,541,516)
Depreciation	(1,603)	(79)	(73,065)	(1,736)	(76,483)
Balance, March 31, 2023	<b>\$ (187,702)</b>	<b>\$ (70,826)</b>	<b>\$ (2,281,692)</b>	<b>\$ (77,779)</b>	<b>\$ (2,617,999)</b>



## ZTEST Electronics Inc.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2023

#### 4. Equipment - continued

##### Carrying Amounts:

June 30, 2021	\$	8,839	\$	663	\$	560,892	\$	10,413	\$	580,807
March 31, 2022	\$	7,826	\$	564	\$	502,100	\$	8,677	\$	519,167
June 30, 2022	\$	7,122	\$	530	\$	489,146	\$	8,100	\$	504,898
March 31, 2023	\$	<b>5,519</b>	\$	<b>451</b>	\$	<b>416,081</b>	\$	<b>6,364</b>	\$	<b>428,415</b>

#### 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 12*). 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		(124,332)
Balance at March 31, 2022		698,098
Depreciation recorded as an element of occupancy costs		(41,443)
Balance at June 30, 2022		656,655
Depreciation recorded as an element of occupancy costs		(124,331)
Balance at March 31, 2023	\$	<b>532,324</b>

#### 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 Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2023

#### 6. Investments - continued

	<b>Mar. 31 2023</b>	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)
<b>Aggregate investment</b>	<b>\$ 1</b>	<b>\$ 1</b>

#### 7. Operating loan

	<b>Mar. 31 2023</b>	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.	\$ 125,000	\$ -

#### 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	(129,019)
Interest imputed	18,524
Balance at March 31, 2022	682,165
Lease payments paid during period	(44,140)
Interest imputed	5,542
Balance at June 30, 2022	643,567
Lease payments paid during period	(132,414)
Interest imputed	14,647
Balance at March 31, 2023	525,800
Less current portion	(166,353)
	<b>\$ 359,447</b>

#### 9. Long-Term Debt

	<b>Mar. 31 2023</b>	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
Balance forward	60,000	60,000

## ZTEST Electronics Inc.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2023

#### 9. Long-Term Debt - continued

	<b>Mar. 31 2023</b>	June 30 2022
Balance forward	<b>60,000</b>	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.	<b>199,707</b>	245,224
	<b>259,708</b>	305,224
Less: current portion	<b>62,477</b>	60,929
	<b>\$ 197,231</b>	<b>\$ 244,295</b>

#### 10. Share Capital

##### Authorized

Unlimited Common shares

Unlimited Preferred shares in one or more series.

##### Issued

	<b>Mar. 31 2023</b>	June 30 2022
Common shares	<b>\$ 24,064,236</b>	<b>\$ 24,064,236</b>

<b>Common shares</b>	<b>Number of Shares <sup>(1)</sup></b>	<b>Amount</b>
Balance June 30, 2021	24,227,196	\$ 23,859,872
Warrants exercised	2,260,000	186,404
Stock options exercised	200,000	17,960
Balance March 31, 2023, June 30, 2022, and March 31, 2022	<b>26,687,196</b>	<b>\$ 24,064,236</b>

<sup>(1)</sup> 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	(2,260,000)	(50,804)
Warrants expired	(100,000)	(2,248)
Balance March 31, 2023, June 30, 2022, and March 31, 2022	-	<b>\$ -</b>

No warrants were issued during the period ended March 31, 2023 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 and later adjusted	200,000	\$ 0.10	Nov. 1, 2023
Options granted	1,100,000	\$ 0.10	Sep. 30, 2027
Balance, end of the period	1,625,000	\$ 0.28	Apr. 23, 2026

## ZTEST Electronics Inc.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2023

#### 10. Share Capital - continued

##### Details of options outstanding-continued:

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

	Mar. 31 2023	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 March 31, 2023:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted January 12, 2018	350,000 <sup>(1)</sup>	350,000	\$ 0.95	Jan. 12, 2023
Granted September 30, 2022	175,000 <sup>(2)</sup>	175,000	\$ 0.10	Nov. 1, 2023
Granted September 30, 2022	1,100,000 <sup>(1)</sup>	1,100,000	\$ 0.10	Sep. 30, 2027

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

<sup>(2)</sup> A former Director of the Company holds these options. The expiry date for the options was reduced to the date that is six months from the former Director's date of resignation.

##### Share based payment transactions and contributed surplus

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

	Mar 31 2023	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

#### 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.

	Mar. 31 2023	Mar. 31 2022
Employee and consultant compensation	\$ 256,252	\$ 254,721
Professional fees	21,105	27,058
	\$ 277,357	\$ 281,779
Stock-based compensation	\$ 33,039	\$ -

As at March 31, 2023 \$834,279 (June 2022 - \$674,775) was payable to key management personnel and included in accounts payable and accrued liabilities.

## ZTEST Electronics Inc.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2023

#### 12. Selling, general and administrative expenses

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

	<b>Mar. 31 2023</b>	Mar. 31 2022
Employee and consultant compensation ( <i>note 11</i> )	\$ 665,247	\$ 669,064
Occupancy costs ( <i>note 5</i> )	241,960	227,062
Professional fees ( <i>note 11</i> )	58,681	41,617
Shareholder services	21,983	14,815
Insurance	27,997	23,221
Other	40,334	36,790
	<b>\$ 1,056,202</b>	<b>\$ 1,012,569</b>

#### 13. Income Taxes

##### Deferred Tax

The following table summarizes the components of deferred tax:

	<b>Mar. 31 2023</b>	Mar. 31 2022
Deferred tax assets:		
Non-capital losses carried forward	\$ 35,166	\$ 11,512
Deferred tax liabilities:		
Temporary timing differences	<b>(35,166)</b>	(11,512)
Net deferred tax liabilities	<b>\$ -</b>	<b>\$ -</b>

##### 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:

	<b>Mar. 31 2023</b>	June 30 2022
Inventory	\$ 72,765	\$ 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
Non-capital loss carry-forwards	2,501,772	2,425,289
Net capital loss carry-forwards	<b>15,592,989</b>	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.

## ZTEST Electronics Inc.

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### Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2023

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#### 14. Capital disclosures - continued

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	Mar. 31 2023	June 30 2022
Long-term debt	\$ 259,708	\$ 305,224
Share Capital	24,064,236	24,064,236
Contributed surplus	1,681,068	1,645,217
Deficit	(24,834,005)	(24,826,296)
Net capital under management	\$ 1,171,007	\$ 1,188,381

#### 15. Financial risk factors

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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 any of the periods presented.

##### **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 nine-month period ended March 31, 2023 the Company had three major customers who represented 17%, 13% and 13% of total revenues. In the comparative period, there were three major customers which represented 16%, 15% and 10% of revenues. Amounts due from major customers represented 65% of accounts receivable at March 31, 2023 (Mar. 31, 2022 - 43%). The loss of a major customer, or significant curtailment of purchases by such 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. At March 31, 2023 the Company had current financial assets of \$1,169,898 (June 30, 2022 - \$1,050,790) available to settle current financial liabilities of \$2,532,156 (June 30, 2022 - \$1,469,735). The Company also has a bank operating line available in the amount of \$500,000, of which \$125,000 (June 2022 - \$Nil) had been utilized at March 31, 2023. 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 in the amount of \$9,944 (March 31, 2022 ó loss of \$3,834).

**Notes to Unaudited Condensed Interim Consolidated Financial Statements**

(Stated in Canadian Dollars)

*March 31, 2023*

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**15. Financial risk factors - continued**

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**Sensitivity to market risks**

At March 31, 2023, the Company had:

- A bank operating loan subject to a floating interest rate on which \$125,000 had been drawn (June 2022 - \$Nil). A 1% increase in the floating rate would add \$1,250 in interest expense over the ensuing 12 months.
- US\$121,200 (June 2022 6 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 \$6,060 in future cash inflow.
- US\$199,619 (June 2022 6US\$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 \$9,981 in future cash outflow.

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