ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Financial Statements

December 31, 2022

(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 27, 2023. They have not been reviewed by the Companyĝs 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.

Unaudited Condensed Interim Consolidated Statements of Financial Position
(Stated in Canadian Dollars)
December 31, 2022

		Dec. 31 2022		June 30 2022
Assets				
Current assets				
Cash	**$**	**268,019**	$	267,640
Accounts receivable		**584,802**		783,150
Inventories *(note 3)*		**1,315,695**		857,045
Prepaid expenses		**10,502**		12,535
		2,179,018		1,920,370
Equipment *(note 4)*		**453,909**		504,898
Right-of-use asset *(note 5)*		**573,767**		656,655
Investments *(note 6)*		**1**		1
	$	**3,206,695**	$	3,081,924
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities *(note 11)*	**$**	**1,377,232**	$	1,249,976
Customer deposits		**268,904**		-
Current portion of lease liability *(note 8)*		**163,824**		158,830
Current portion of long-term debt *(note 9)*		**61,971**		60,929
		1,871,931		1,469,735
Lease liability *(note 8)*		**401,564**		484,737
Long-term debt *(note 9)*		**213,055**		244,295
		2,486,550		2,198,767
Shareholders' equity				
Share capital *(note 10)*		**24,064,236**		24,064,236
Warrants *(note 10)*		**-**		-
Contributed surplus *(note 10)*		**1,681,068**		1,645,217
Deficit		**(25,025,159)**		(24,826,296)
		720,145		883,157
	$	**3,206,695**	$	3,081,924

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

Unaudited Condensed Interim Consolidated Statements of Changes in Equity
(Stated in Canadian Dollars)
December 31, 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
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	-	-	-	(360,950)	(360,950)
Balance, December 31, 2020	24,064,237	-	1,645,217	(24,920,368)	789,086
Net income for the period	-	-	-	94,072	94,072
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	-	-	-	(198,863)	(198,863)
Balance, December 31, 2022	**$ 24,064,236**	**$ -**	**$ 1,681,068**	**$ (25,025,159)**	**$ 720,145**

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

Unaudited Condensed Interim Consolidated Statements of Comprehensive Income (Loss)
(Stated in Canadian Dollars)
December 31, 2022

	Three months ended		Six months ended	
	2022	2021	**2022**	2021
Product sales	**$ 1,141,352**	$ 781,685	**$ 2,310,308**	$ 1,411,986
Cost of product sales *(note 3)*	**885,374**	600,417	**1,742,096**	1,082,402
	255,978	181,448	**568,212**	329,584
Expenses				
Selling, general and administrative *(note 12)*	**356,616**	357,386	**720,873**	665,576
Stock compensation *(notes 10 and 12)*	**-**	-	**35,851**	-
Interest expense - long term	**1,888**	2,398	**3,905**	4,919
Interest expense - lease liability *(note 8)*	**4,882**	6,175	**10,096**	12,661
Interest expense - other	**164**	133	**791**	266
Depreciation of equipment	**1,140**	1,376	**2,279**	2,751
Foreign exchange (gain) loss	**3,414**	5,318	**(6,720)**	4,361
	368,104	372,786	**767,075**	690,534
(Loss) income before income taxes	**(112,126)**	(191,338)	**(198,863)**	(360,950)
Provision for income taxes *(note 13)*	**-**	-	**-**	-
Net (loss) income and comprehensive (loss) income for the period	**$ (112,126)**	$ (191,338)	**$ (198,863)**	$ (360,950)
Comprehensive income (loss) per share				
Basic	**$ (0.00)**	$ (0.01)	**$ (0.01)**	$ (0.01)
Fully diluted	**$ (0.00)**	$ (0.01)	**$ (0.01)**	$ (0.01)
Weighted average shares outstanding				
Basic	**26,687,196**	25,340,239	**26,687,196**	24,887,739
Fully diluted	**26,687,196**	25,340,239	**26,687,196**	24,887,739

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

Unaudited Condensed Interim Consolidated Statements of Cash Flows
(Stated in Canadian Dollars)
December 31, 2022

	Three months ended		Six months ended	
	2022	2020	**2022**	2020
Cash flow from operating activities				
Net income (loss) for the period	**$ (112,126)**	$ (191,338)	**$ (198,863)**	$ (360,950)
Items not involving cash				
Depreciation of equipment	**25,494**	18,864	**50,989**	45,857
Depreciation of right of use assets	**41,444**	41,444	**82,888**	82,888
Imputed interest on lease liability	**4,883**	6,175	**10,097**	12,661
Stock compensation expense	**-**	-	**35,851**	-
Changes in non-cash working capital items:				
Accounts receivable	**2,491**	141,272	**198,348**	401,085
Inventories	**(207,862)**	(391,214)	**(458,650)**	(595,833)
Prepaid expenses	**33,787**	8,212	**2,033**	4.023
Accounts payable and accrued liabilities	**47,804**	160,794	**127,256**	194.096
Customer deposits	**-**	-	**268,904**	(1)
	(164,085)	(205,791)	**118,853**	(216,184)
Cash flow from investing activities				
Purchase of equipment	**-**	-	**-**	(3,079)
Cash flow from financing activities				
Repayment of lease liability	**(44,138)**	(43,006)	**(88,276)**	(86,013)
Repayment of long-term debt	**(15,174)**	(14,670)	**(30,198)**	(29,218)
Issuance of common shares	**-**	103,200	**-**	145,600
	(59,312)	45,524	**(118,474)**	30,369
(Decrease) increase in cash	**(223,397)**	(160,267)	**379**	(188,894)
Cash, beginning of period	**491,416**	528,386	**267,640**	557,013
Cash, end of period	**$ 268,019**	$ 368,119	**$ 268,019**	$ 368,119

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	**$ 2,064**	$ 2,538	**$ 4,742**	$ 5,196
Cash paid for income taxes	**$ -**	$ -	**$ -**	$ -

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

Notes to Unaudited Condensed Interim Consolidated Financial Statements
(Stated in Canadian Dollars)
December 31, 2022

1. Business of the Company

ZTEST Electronics Inc. (ñthe Companyò) 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 (ñCSEò) 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 Companyôs 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 February 27, 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 ñgoing concernò. 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 (ñPECò)	- 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 Companyôs 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.

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 Companyǿs financial instruments are comprised of the following:

Financial assets:	*Classification*
Cash	Amortized cost
Accounts receivable	Amortized cost

Financial liabilities:	*Classification*
Accounts payable and accrued liabilities	Amortized cost
Customer deposits	Amortized cost
Lease liability	Amortized cost
Long-term debt	Amortized cost

Amortized cost ï 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 Companyǿs 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.

(Stated in Canadian Dollars)

3. Inventories

The carrying value of inventory is comprised of:

	Dec. 31 2022	June 30 2022
Raw materials and supplies [(1)]	**$ 1,253,554**	$ 810,822
Work in process	**30,727**	41,264
Finished goods	**31,414**	4,959
	$ 1,315,695	$ 857,045

(1) Raw materials and supplies is presented net of provisions for obsolete and/or slow moving items in the amount of $52,231 (June 2022 - $16,547).

Inventory utilization during the period was as follows:

	Dec. 31 2022	Dec. 31 2021
Raw materials and supplies used	**$ 1,214,623**	$ 642,131
Labour costs *(note 16)*	**406,435**	340,062
Depreciation	**48,710**	43,106
Other costs	**88,245**	69,987
Net change in finished goods and work in process	**(15,917)**	(12,884)
Cost of product sales	**$ 1,742,096**	$ 1,082,402

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, Dec. 31, 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, Dec. 31, 2022	**$ 193,221**	**$ 71,277**	**$ 2,697,773**	**$ 84,143**	**$ 3,046,414**
Accumulated Depreciation:					
Balance, June 30, 2021	$ (183,282)	$ (70,614)	$ (2,443,639)	$ (73,730)	$ (2,771,265)
Depreciation	(1,409)	(67)	(43,224)	(1,157)	(45,857)
Disposals	-	-	313,331	-	313,331
Balance, Dec. 31, 2021	(184,691)	(70,681)	(2,173,532)	(74,887)	(2,503,791)
Depreciation	(1,408)	(66)	(35,095)	(1,156)	(37,725)
Balance, June 30, 2022	(186,099)	(70,747)	(2,208,627)	(76,043)	(2,541,516)
Depreciation	(1,068)	(53)	(48,710)	(1,158)	(50,989)
Balance, Dec. 31, 2022	**$ (187,167)**	**$ (70,800)**	**$ (2,257,337)**	**$ (77,201)**	**$ (2,592,505)**

(Stated in Canadian Dollars)

4. Equipment - continued

Carrying Amounts:										
June 30, 2021	$	8,839	$	663	$	560,892	$	10,413	$	580,807
December 31, 2021	$	8,530	$	596	$	519,647	$	9,256	$	538,029
June 30, 2022	$	7,122	$	530	$	489,146	$	8,100	$	504,898
December 31, 2022	**$**	**6,054**	**$**	**477**	**$**	**440,436**	**$**	**6,942**	**$**	**453,909**

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		(82,888)
Balance at December 31, 2021		739,542
Depreciation recorded as an element of occupancy costs		(82,887)
Balance at June 30, 2022		656,655
Depreciation recorded as an element of occupancy costs		(82,888)
Balance at December 31, 2022	$	**573,767**

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.

(Stated in Canadian Dollars)

6. Investments - continued

	Dec. 31 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

	Dec. 31 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 Companyǿs 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	(86,013)
Interest imputed	12,661
Balance at December 31, 2021	565,388
Lease payments paid during period	(87,146)
Interest imputed	11,405
Balance at June 30, 2022	643,567
Lease payments paid during period	(88,276)
Interest imputed	10,097
Balance at December 31, 2022	565,388
Less current portion	(163,824)
	$ 401,564

(Stated in Canadian Dollars)

9. Long-Term Debt

		Dec. 31 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.		**215,026**		245,224
		275,026		305,224
Less: current portion		**61,971**		60,929
	$	**213,055**	$	244,295

The minimum annual future principal repayments are as follows:

2023	$	61,971
2024		93,339
2025		97,049
2026		22,667
Remaining		-
	$	275,026

10. Share Capital

Authorized
Unlimited Common shares
Unlimited Preferred shares in one or more series.
Issued

		Dec. 31 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	2,260,000		186,404
Stock options exercised	200,000		17,960
Balance December 31, 2022, June 30, 2022 and December 31, 2021	26,687,196	$	24,064,236

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 December 31, 2022, June 30, 2022 and December 31, 2021	-	$	-

No warrants were issued during the period ended December 31, 2022 or during the year ended June 30, 2022.

(Stated in Canadian Dollars)

10. Share Capital - continued

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:

	Dec. 31 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 December 31, 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	1,275,000 [1]	1,275,000	$	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:

		Dec. 31 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

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.

		Dec. 31 2022		Dec. 31 2021
Employee and consultant compensation *(note 12)*	**$**	**174,118**	$	177,445
Professional fees *(note 12)*		**12,372**		23,942
	$	**186,490**	$	201,387

(Stated in Canadian Dollars)

11. Related Party Transactions and Balances

		Dec. 31 2022		Dec. 31 2021
Stock-based compensation	$	**33,039**	$	-

As at December 31, 2022 there was a balance of $769,045 (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:

		Dec. 31 2022		Dec. 31 2021
Employee and consultant compensation *(notes 11 and 16)*	$	**456,095**	$	431,254
Occupancy costs *(notes 5 and 16)*		**160,014**		148,213
Professional fees *(note 11)*		**39,947**		32,192
Shareholder services		**17,936**		10,646
Insurance		**18,905**		15,910
Other		**27,976**		27,361
	$	**720,873**	$	665,576

13. Income Taxes

Deferred Tax

The following table summarizes the components of deferred tax:

		Dec. 31 2022		Dec. 31 2021
Deferred tax assets:				
Non-capital losses carried forward	$	**9,456**	$	7,199
Deferred tax liabilities:				
Temporary timing differences		**(9,456)**		(7,199)
Net deferred tax liabilities	$	**-**	$	-

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 2022		June 30 2022
Inventory	$	**52,231**	$	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		**2,476,278**		2,425,289
Non-capital loss carry-forwards		**15,592,989**		15,592,989

(Stated in Canadian Dollars)

13. Income Taxes - continued

Unrecognized Deferred Tax Assets - continued
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 Companyôs 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 2022	June 30 2022
Long-term debt	**$ 275,026**	$ 305,224
Share Capital	**24,064,236**	24,064,236
Contributed surplus	**1,681,068**	1,645,217
Deficit	**(25,025,159)**	(24,826,296)
Net capital under management	**$ 995,171**	$ 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 Companyôs 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, 2022 or December 31, 2021**.**

Concentration of credit risk
Concentration of credit risk arises when one or more customers individually account for 10% or more of the Companyôs revenues during a reporting period. The Company had 4 customers during the current period, representing 15%, 14%, 11% and 11% of revenues (December 2021 - 2 customers, 23% and 15% of revenues). Amounts due from these customers represented 39.5% of accounts receivable at December 31, 2022 (December 2020 - 13%). 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.

Liquidity risk
Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. At December 31, 2022 the Company had current financial assets of $852,821 (June 30, 2022 - $1,050,790) available to settle current financial liabilities of $1,871,931 (June 30, 2022 - $1,469,735). The Company also has a bank operating line available in the mount of $500,000 of which $Nil (June 2022 - $Nil) had been utilized at December 31, 2022. 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 Companyôs reputation.

15. Financial risk factors - continued

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 $6,720 (December 2021 ï loss of $4,361).

Sensitivity to market risks
At December 31, 2022, the Company had:

- A bank operating loan that had not been drawn upon (June 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$79,088 (June 30, 2022 ï 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 $3,955 in future cash inflow.
- US$88,033 (June 30, 2022 ï 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 $4,402 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 Companyôs 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.