

ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Financial Statements

September 30, 2024

(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 22, 2024. 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, 2024

	Sept. 30 2024	June 30 2024
Assets		
Current assets		
Cash	\$ 3,259,432	\$ 2,775,684
Accounts receivable	1,192,833	1,690,350
Inventories (note 3)	1,371,400	1,261,200
Prepaid expenses	7,132	17,327
	5,830,797	5,744,561
Equipment (note 4)	890,001	937,965
Right-of-use asset (note 5)	283,662	325,105
Investments (note 6)	1	1
	\$ 7,004,461	\$ 7,007,632
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	\$ 1,391,573	\$ 1,453,403
Customer deposits	135,593	78,112
Government remittances payable	72,661	376,849
Current portion of lease liability (note 8)	179,698	178,185
Current portion of long-term debt (note 9)	65,742	65,192
	1,845,267	2,151,741
Lease liability (note 8)	92,153	137,649
Long-term debt (note 9)	39,457	56,091
Deferred taxes (note 13)	156,736	165,433
	2,133,613	2,510,914
Shareholders' Equity		
Share capital (note 10)	25,208,224	25,186,285
Warrants (note 10)	444,229	444,229
Contributed surplus (note 10)	1,802,028	1,773,957
Deficit	(22,583,633)	(22,907,753)
	4,870,848	4,496,718
	\$ 7,004,461	\$ 7,007,632

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

Approved by the Board:

Signed: "Steve Smith"

Director

Signed: "William R. Johnstone"

Director

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

(Stated in Canadian Dollars)

September 30, 2024

	Share Capital	Warrants	Contributed Surplus	Deficit	Total
Balance, June 30, 2023	\$ 24,064,236	\$ -	\$ 1,704,197	\$ (24,661,022)	\$ 1,107,411
Net income for the period	-	-	-	171,884	171,884
Balance, September 30, 2023	24,064,236	-	1,704,197	(24,489,138)	1,279,295
Shares issued in settlement of debt	357,490	-	-	-	357,490
Stock options granted	-	-	85,951	-	85,951
Stock options exercised	51,191	-	(16,191)	-	35,000
Private placement	713,368	444,229	-	-	1,157,597
Net income for the period	-	-	-	1,581,385	1,581,385
Balance, June 30, 2024	25,186,285	444,229	1,773,957	(22,907,753)	4,496,718
Stock options exercised	21,939	-	(6,939)	-	15,000
Stock options granted	-	-	35,010	-	35,010
Net income for the period	-	-	-	324,120	324,120
Balance, September 30, 2024	\$ 25,208,224	\$ 444,229	\$ 1,802,028	\$ (22,583,633)	\$ 4,870,848

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

ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Statements of Comprehensive Income

(Stated in Canadian Dollars)

For the three month periods ended September 30

	2024	2023
Product sales	\$ 2,019,507	\$ 1,879,486
Cost of product sales (note 3)	1,098,603	1,229,606
	921,444	649,880
Expenses		
Selling, general and administrative (note 12)	490,040	389,919
Stock compensation (notes 10 and 11)	35,010	-
Interest expense - long-term debt	954	1,495
Interest expense ó lease liability (note 8)	2,419	3,858
Interest expense - other	76	2,062
Depreciation of equipment	2,576	1,001
Foreign exchange gain	(1,482)	(504)
	529,593	397,831
Income before interest income and provision for income taxes	391,851	252,049
Interest income	33,918	-
Income before provision for income taxes	425,769	252,049
(Provision for) recovery of income taxes (note 13)		
Current	(110,346)	(67,014)
Deferred	8,697	(13,151)
	(101,649)	(80,165)
Net income and comprehensive income for the period	\$ 324,120	\$ 171,884
Net income per share:		
Basic	\$ 0.01	\$ 0.01
Fully diluted	\$ 0.01	\$ 0.01
Weighted average shares outstanding:		
Basic	36,689,299	26,687,196
Fully diluted	37,069,932	26,695,442

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)

For the three month periods ended September 30

	2024	2023
Cash flow from operating activities		
Net income for the period	\$ 324,120	\$ 171,884
Items not involving cash		
Depreciation of equipment	47,964	20,587
Depreciation of right of use assets	41,443	41,444
Accreted lease interest	2,419	3,858
Stock compensation expense	35,010	-
Provision for income taxes ó deferred	(8,697)	13,151
	<u>442,259</u>	<u>250,924</u>
Changes in non-cash working capital items:		
Accounts receivable	497,517	(436,324)
Inventories	(110,200)	(232,182)
Prepaid expenses	10,195	5,353
Customer deposits	57,481	(29,605)
Accounts payable and accrued liabilities	(61,830)	402,232
Government remittances payable	(304,188)	67,014
	<u>531,234</u>	<u>27,412</u>
Cash flow from investing activities		
Purchase of equipment	-	(1,804)
Cash flow from financing activities		
Proceeds of bank operating loan, net	-	5,000
Issuance of common shares	15,000	-
Repayment of long-term debt	(16,084)	(25,545)
Repayment of lease obligation	(46,402)	(45,270)
	<u>(47,486)</u>	<u>(65,815)</u>
Increase (decrease) in cash and cash equivalents	483,748	(40,207)
Cash and cash equivalents, beginning of period	2,775,684	232,875
Cash and cash equivalents, end of period	\$ 3,259,432	\$ 192,668

Supplemental Disclosure of Cash Flow Information:

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

Interest	\$ 1,066	\$ 3,591
Income taxes	\$ 414,534	\$ -

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

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2024

1. Business of the Company

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

2. Significant Accounting Policies

Statement of compliance

The Company has prepared these unaudited condensed interim financial statements in accordance with IAS 34, *Interim Financial Reporting*, employing all of the same accounting policies and methods of computation as disclosed in the annual financial statements as at June 30, 2024.

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, 2024. 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, 2024.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on November 22, 2024.

Basis of presentation

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

Basis of consolidation

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

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

Significant accounting judgments and estimates

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

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

Financial instruments

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

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

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2024

2. Significant Accounting Policies - continued

Financial instruments - continued

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

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

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

Impairment of non-financial assets

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

Cash and cash equivalents

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

Income per share

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

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

Segment disclosure

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

Accounting standards effective for future periods

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

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2024

3. Inventories

The carrying value of inventory is comprised of:

	Sept. 30 2024	June 30 2024
Raw materials and supplies ⁽¹⁾	\$ 1,310,303	\$ 1,179,271
Work in process	43,843	60,923
Finished goods	17,254	21,006
	\$ 1,371,400	\$ 1,261,200

⁽¹⁾ Raw materials and supplies is presented net of provisions for obsolete and/or slow-moving items in the amount of \$45,183 (June 2024 - \$30,189). Management makes estimates of future demand when establishing appropriate provisions. To the extent that actual inventory losses differ from these estimates both inventories and net income will be affected.

Inventory utilization during the period was as follows:

	Sept. 30 2024	Sept. 30 2023
Raw materials and supplies used	\$ 742,696	\$ 940,832
Labour costs (note 16)	248,452	270,417
Depreciation	45,388	19,586
Shipping costs	23,704	23,522
Stencils and tooling	8,550	17,791
Repairs and maintenance	5,920	2,480
Packaging costs	2,521	7,583
Net change in finished goods and work in process	20,832	(52,605)
Cost of product sales	\$ 1,098,603	\$ 1,229,606

4. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Cost:					
Balance, June 30, 2023	\$ 193,221	\$ 71,277	\$ 2,697,773	\$ 84,143	\$ 3,046,414
Additions	1,804	-	-	-	1,804
Balance, Sept. 30, 2023	195,025	71,277	2,697,773	84,143	3,048,218
Additions	25,162	-	660,404	-	685,566
Balance, June 30, 2024	220,187	71,277	3,358,177	84,143	3,733,784
Additions	-	-	-	-	-
Balance, Sept. 30, 2024	\$ 220,187	\$ 71,277	\$ 3,358,177	\$ 84,143	\$ 3,733,784
Accumulated Depreciation:					
Balance, June 30, 2023	\$ (188,235)	\$ (70,853)	\$ (2,306,047)	\$ (78,358)	\$ (2,643,493)
Depreciation	(401)	(21)	(19,586)	(579)	(20,587)
Balance, Sept. 30, 2023	(188,636)	(70,874)	(2,325,633)	(78,937)	(2,664,080)
Depreciation	(5,140)	(64)	(124,800)	(1,735)	(131,739)
Balance, June 30, 2024	(193,776)	(70,938)	(2,450,433)	(80,672)	(2,795,819)
Depreciation	(1,982)	(16)	(45,387)	(579)	(47,964)
Balance, Sept. 30, 2024	\$ (195,758)	\$ (70,954)	\$ (2,495,820)	\$ (81,251)	\$ (2,843,783)

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2024

4. Equipment - continued

Carrying Amounts:

June 30, 2023	\$	4,986	\$	424	\$	391,726	\$	5,785	\$	402,921
September 30, 2023	\$	6,389	\$	403	\$	372,140	\$	5,206	\$	384,138
June 30, 2024	\$	26,411	\$	339	\$	907,744	\$	3,471	\$	937,965
September 30, 2024	\$	24,429	\$	323	\$	862,357	\$	2,892	\$	890,001

5. Right of use asset

The Company occupies its operating facility under a lease that expires March 2026. The right-of-use asset was initially recorded at cost, equal to the present value of the remaining lease payments, plus a refundable deposit paid at the inception of the lease. 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 term of the lease and charged as an element of occupancy costs (*note 12*). There have been no impairment losses and no remeasurement of the lease liability.

Balance, June 30, 2023	\$	490,880
Depreciation recorded as an element of occupancy costs		(41,444)
Balance, September 30, 2023		449,436
Depreciation recorded as an element of occupancy costs		(124,331)
Balance, June 30, 2024		325,105
Depreciation recorded as an element of occupancy costs		(41,443)
Balance, September 30, 2024	\$	283,662

6. Investments

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

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

ZTEST retains its right, provided it holds more than 15%, to maintain its ownership interests by subscribing for the requisite number of Class A common shares of Conversance, at the same price and payment terms applicable to any financing. To date, when properly presented, ZTEST has declined the opportunity to participate in convertible debt financings proposed by Conversance. The Company lacks adequate documentation to ascertain the aggregate amounts raised, if any, under these financings, what dilution ZTEST may be subject to as a result, and whether any conversions may have happened to date.

		Sept. 30 2024		June 30 2024
296,250 Class A common shares, representing a 25.29% interest	\$	1,129,762	\$	1,129,762
Equity in post-acquisition losses and impairment provisions		(1,129,761)		(1,129,761)
	\$	1	\$	1

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2024

7. Bank operating loan

The Company has a line of credit, which can be drawn to a maximum of \$1,000,000, bears interest at the TD Bank prime lending rate plus 2.0%, is due upon demand, and is secured by a general security agreement covering the assets of PEC. No amount was drawn on this line of credit on September 30, 2024 or June 30, 2024.

8. Lease liability

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

Balance, June 30, 2023	\$	484,738
Lease payments paid during period		(45,270)
Interest imputed		3,858
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Balance, September 30, 2023		443,326
Lease payments paid during period		(136,942)
Interest imputed		9,450
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Balance, June 30, 2024		315,834
Lease payments paid during period		(46,402)
Interest imputed		2,419
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Balance, September 30, 2024		271,851
Less current portion		(179,698)
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	\$	92,153

9. Long-Term Debt

	Sept. 30 2024	June 30 2024
Term loan bearing interest at 3.386% is secured by a general security agreement covering the assets of PEC and matures April 2026. Monthly payments of \$5,691, blended as to principal and interest, are required until maturity.	\$ 105,199	\$ 121,283
Less: current portion	65,742	65,192
	\$ 39,457	\$ 56,091
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The minimum annual future principal repayments as at September 30, 2024, are as follows:		
2025		\$ 65,742
2026		39,457
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		\$ 105,199

10. Share Capital

Authorized

Unlimited Common shares

Unlimited Preferred shares in one or more series.

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2024

10. Share Capital - continued

Issued	Sept. 30 2024	June 30 2024
Common shares	\$ 25,208,224	\$ 25,186,285
Common shares:	Number of Shares ⁽¹⁾	Amount
Balance June 30, 2023 and September 30, 2023	26,687,196	\$ 24,064,236
Shares issued in settlement of debt	4,468,625	357,490
Stock options exercised	350,000	51,191
Private placement ⁽²⁾	5,040,000	713,368
Balance, June 30, 2024	36,545,821	25,186,285
Stock options exercised	150,000	21,939
Balance, September 30, 2024	36,695,821	\$ 25,208,224

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

⁽²⁾ The Company completed a private placement whereby an aggregate of 5,040,000 working capital units were issued for gross proceeds of \$1,260,000. Each unit consisted of one common share and one-half common share purchase warrant. Each full common share purchase warrant entitles the holder to acquire one additional common share of the Company at a price of \$0.30 until November 8, 2025, being eighteen months following the closing date. The Company paid finders' fees of \$54,845, incurred other costs of \$47,558, attributed a value of \$383,786 to the common share purchase warrants, and issued 219,380 broker warrants valued at \$60,443. Each broker warrant entitles the holder to acquire one common share of the Company for \$0.25 until November 8, 2025.

Details of warrants outstanding:

	Number of Warrants	Amount
Balance, June 30, 2023 and September 30, 2023	-	\$ -
Warrants issued	2,520,000	383,786
Broker warrants issued	219,380	60,443
Balance, June 30, 2024 and September 30, 2024	2,739,380	\$ 444,229

	Number of Warrants	Weighted Average Price per Warrant	Weighted Average Expiry Date
Balance, June 30, 2024 and September 30, 2024	2,739,380	\$ 0.30	Nov. 8, 2025

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

	Sept. 30 2024	June 30 2024
Dividend yield	None granted	Nil
Risk free interest rate (%)	None granted	4.32
Expected stock volatility (%)	None granted	196.02
Expected life (years)	None granted	1.5

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2024

10. Share Capital - continued

Details of warrants outstanding - continued:

The following warrants were outstanding on September 30, 2024:

	Number of Warrants	Exercise Price	Expiry Date
Warrants	2,520,000	\$ 0.30	Nov. 8, 2025
Broker warrants	219,380	\$ 0.25	Nov. 8, 2025

Details of options outstanding:

	Common Shares Under Option	Weighted Average Price per Option	Weighted Average Expiry Date
Balance, June 30, 2024	1,100,000	\$ 0.15	Mar. 21, 2028
Stock options granted	800,000	\$ 0.30	Aug. 15, 2029
Stock options exercised	(150,000)	\$ 0.10	Sept. 30, 2027
Stock options altered ⁽¹⁾	(200,000)	\$ 0.10	Sept. 30, 2027
Stock options altered ⁽¹⁾	200,000	\$ 0.10	Jan. 7, 2025
Balance, September 30, 2024	1,750,000	\$ 0.23	Aug. 3, 2028

⁽¹⁾ In accordance with the terms of the stock option agreement, the expiry date of these options was adjusted to be 180 days after the date the holder resigned as a Director of the Company.

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

	Sept. 30 2024	June 30 2024
Dividend yield	Nil	Nil
Risk free interest rate (%)	2.92	3.414
Expected stock volatility (%)	146.09	147.76
Expected life (years)	5	5

The following stock options were outstanding on September 30, 2024:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted September 30, 2022	400,000 ^(1,2)	400,000	\$ 0.10	Sep. 30, 2027
Granted September 30, 2022	200,000	200,000	\$ 0.10	Jan. 7, 2025
Granted March 28, 2024	250,000 ⁽¹⁾	250,000	\$ 0.27	Mar. 28, 2029
Granted March 28, 2024	100,000	100,000	\$ 0.27	Mar. 28, 2029
Granted August 15, 2024	800,000 ^(1,3)	-	\$ 0.30	Aug. 15, 2029

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

⁽²⁾ 100,000 stock options were exercised subsequent to the financial reporting date.

⁽³⁾ These options will vest as to 50% on February 15, 2025 and 50% on August 15, 2025.

Share based payment transactions and contributed surplus

The Company has a stock option plan. The aggregate number of common shares reserved for issuance under this plan cannot exceed 10% of the aggregate number of common shares of the Company that are issued and outstanding. The Company has granted options for the purchase of common shares to employees, directors, and officers and may also grant stock options to other service providers. The fair values of stock options granted have been determined using the Black-Scholes model and are added to contributed surplus as follows:

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2024

10. Share Capital - continued

Share based payment transactions and contributed surplus - continued

	Sept. 30 2024	June 30 2024
Contributed surplus, beginning of period	\$ 1,773,957	\$ 1,704,197
Stock options granted ⁽¹⁾	35,010	85,951
Stock options exercised	(6,939)	(16,191)
Contributed surplus, end of period	\$ 1,802,028	\$ 1,773,957

⁽¹⁾ The aggregate value ascribed to the stock options granted August 15, 2024 was \$186,717. This amount is recognized over the vesting periods applicable to these stock options and resulted in \$35,010 being recognized in the current period.

11. Related Party Transactions and Balances

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

Description	Sept. 30 2024	Sept. 30 2023
Employee and consultant compensation	\$ 142,116	\$ 100,133
Professional fees	27,043	7,886
	\$ 169,159	\$ 108,019
Stock-based compensation	\$ 35,010	\$ -

On September 30, 2024 there was a balance of \$437,294 (June 30, 2024 - \$613,502) 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 2024	Sept. 30 2023
Employee and consultant compensation (<i>note 11</i>)	\$ 316,892	\$ 261,187
Occupancy costs (<i>note 5</i>)	82,602	84,232
Professional fees (<i>note 11</i>)	41,451	20,512
Shareholder services	20,624	4,518
Advertising and promotion	10,313	-
Insurance	9,774	9,042
Other	8,384	10,428
	\$ 490,040	\$ 389,919

13. Income Taxes

Current Income Tax

A reconciliation of combined federal and provincial corporate income taxes at the Company's effective tax rate of 26.50% (2023 of 26.50%) is as follows:

ZTEST Electronics Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2024

13. Income Taxes - continued

Current Income Tax - continued

	Sept. 30 2024	Sept. 30 2023
Income before provision for income taxes	\$ 425,769	\$ 252,049
Expected income tax	\$ 112,829	\$ 66,793
Amounts not deductible for income tax purposes	(17,850)	8
Temporary timing differences	15,367	213
Income tax expense - current	\$ 110,346	\$ 67,014

Deferred Tax

The following table summarizes the components of deferred tax:

	Sept. 30 2024	Sept. 30 2023
Deferred tax assets: Inventory	\$ (3,973)	\$ -
Deferred tax liabilities: Temporary timing differences	(4,724)	13,151
Net deferred tax liabilities	\$ (8,697)	\$ 13,151

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:

	Sept. 30 2024	June 30 2024
Share issuance costs	\$ 76,802	\$ 81,922
Equipment	13,732	13,592
Resource related expenditures	349,050	349,050
Scientific research and experimental development	1,050,618	1,050,618
Net capital loss carry-forwards	1,934,015	1,903,864
Non-capital loss carry-forwards	15,592,989	15,592,989

Share issue costs expire in 2028, and non-capital loss carry-forwards expire from 2035 to 2045. 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 2024	June 30 2024
Long-term debt	\$ 105,199	\$ 121,283
Share Capital	25,208,224	25,186,285
Warrants	444,229	444,229
Contributed surplus	1,802,028	1,773,957
Deficit	(22,583,633)	(22,907,753)
Net capital under management	\$ 4,976,047	\$ 4,618,001

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

September 30, 2024

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, 2024 or September 30, 2023.

Concentration of credit risk

Concentration of credit risk arises when one or more customers, defined as a major customer, individually account for 10% or more of the Company's revenues during a reporting period. During the current period, the Company had 3 major customers which represented 19%, 10%, and 10% of revenues (Sept. 30, 2023 - 3 customers, 23%, 19%, and 10% of revenues). Amounts due from these customers represented approximately 45% of accounts receivable on September 30, 2024 (Sept. 30, 2023 - 64%). The loss of a major customer, or significant curtailment of purchases by such a customer, could have a material adverse effect on the Company's results of operations and financial condition. The Company monitors the relationship with all customers closely and ensures that every customer is subject to the same risk management criteria.

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. On September 30, 2024 the Company had current financial assets of \$4,452,265 (June 30, 2024 - \$4,466,034) available to settle current financial liabilities of \$1,845,267 (June 30, 2024 - \$2,151,741). The Company manages its liquidity risk through the management of its capital (*note 14*) which incorporates the continuous monitoring of actual and projected cash flows to ensure that it has sufficient liquidity to meet its operating commitments without incurring unacceptable losses or risking damage to the Company's reputation.

Market risks

The Company is exposed to interest rate risk due to a bank operating loan that has a floating interest rate as well as currency risk related to accounts receivable, accounts payable, and nominal amounts of cash, prepaid expenses, and customer deposits denominated in US dollars. Market risks give rise to the potential for future cash flows to fluctuate because of changes in interest rates or foreign exchange rates. Market risks are closely monitored, and attempts are made to match foreign cash inflows and outflows. During the current period the Company has reported a foreign exchange gain of \$1,482 (Sept. 30, 2023 ó gain of \$504).

Sensitivity to market risks

On September 30, 2024, the Company had:

- A bank operating loan of which \$Nil was drawn (June 30, 2024 - \$Nil) bears interest predicated upon the TD Bank prime lending rate. A change of 1% in that prime lending rate would result in no impact on cash flows over the next 12 months, based on the current loan balance.
- US\$64,525 (June 30, 2024 ó US\$172,478) 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 \$3,226 in future cash inflow.
- US\$228,007 (June 30, 2024 ó US\$144,464) 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 \$11,400 in future cash outflow.

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