

ZTEST Electronics Inc.
Unaudited Condensed Interim Consolidated Financial Statements
December 31, 2024
(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 25, 2025. They have not been reviewed by the Company's auditors.

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

ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Statements of Financial Position

(Stated in Canadian Dollars)

December 31, 2024

	Dec. 31 2024	June 30 2024
Assets		
Current assets		
Cash	\$ 3,678,655	\$ 2,775,684
Accounts receivable	1,195,777	1,691,350
Inventories (note 3)	1,282,880	1,261,200
Prepaid expenses	11,332	17,327
	6,168,634	5,744,561
Equipment (note 4)	842,038	937,965
Right-of-use asset (note 5)	242,218	325,105
Investments (note 6)	1	1
	\$ 7,252,891	\$ 7,007,632
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	\$ 1,450,163	\$ 1,453,403
Government remittances payable	77,338	376,849
Customer deposits	64,824	78,112
Current portion of lease liability (note 8)	181,223	178,185
Current portion of long-term debt (note 9)	66,301	65,192
	1,839,849	2,151,741
Lease liability (note 8)	46,271	137,649
Long-term debt (note 9)	22,667	56,091
Deferred taxes	164,633	165,433
	2,073,420	2,510,914
Shareholders' equity		
Share capital (note 10)	25,252,102	25,186,285
Warrants (note 10)	444,229	444,229
Contributed surplus (note 10)	1,858,169	1,773,957
Deficit	(22,375,029)	(22,907,753)
	5,179,471	4,496,718
	\$ 7,252,891	\$ 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 Statements of Changes in Equity**

(Stated in Canadian Dollars)

December 31, 2024

	Share Capital	Warrants	Contributed, Surplus	Deficit	Total
Balance, June 30, 2023	\$ 24,064,236	\$ -	\$ 1,704,197	\$ (24,661,022)	\$ 1,107,411
Shares issued in settlement of debt	357,490	-	-	-	357,490
Net income for the period	-	-	-	676,213	676,213
Balance, December 31, 2023	24,421,726	-	1,704,197	(23,984,809)	2,141,114
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	-	-	-	1,077,056	1,077,056
Balance, June 30, 2024	25,186,285	444,229	1,773,957	(22,907,753)	4,496,718
Stock options granted	-	-	105,029	-	105,029
Stock options exercised	65,817	-	(20,817)	-	45,000
Net income for the period	-	-	-	532,724	532,724
Balance, December 31, 2024	\$ 25,252,102	\$ 444,229	\$ 1,858,169	\$ (22,375,029)	\$ 5,179,471

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

ZTEST Electronics Inc.**Unaudited Condensed Interim Consolidated Statements of Comprehensive Income**

(Stated in Canadian Dollars)

December 31, 2024

	Three months ended		Six months ended	
	2024	2023	2024	2023
Product sales	\$ 2,080,861	\$ 2,459,917	\$ 4,100,368	\$ 4,339,403
Cost of product sales (note 3)	1,251,028	1,486,902	2,349,091	2,716,508
	829,833	973,015	1,751,277	1,622,895
Expenses				
Selling, general and administrative (note 12)	466,533	425,845	956,573	815,764
Stock compensation (notes 10 and 11)	70,019	-	105,029	-
Interest expense - long term debt	815	1,359	1,769	2,854
Interest expense - lease liability (note 8)	2,045	3,508	4,464	7,366
Interest expense - other	76	652	152	2,714
Depreciation of equipment	2,577	1,055	5,153	2,056
Foreign exchange loss (gain)	13,739	9,008	12,257	8,504
	555,804	441,427	1,085,397	839,258
Income before interest income, government grant and income taxes	274,029	531,588	665,880	783,637
Interest income	33,704	-	67,622	-
Government grant	-	20,000	-	20,000
Income before provision for income taxes	307,733	551,588	733,502	803,637
Provision for income taxes (note 13)				
Current	91,232	52,888	201,578	119,902
Deferred	7,897	(5,629)	(800)	7,522
	99,129	47,259	200,778	127,424
Net income and comprehensive income for the period	\$ 208,604	\$ 504,329	\$ 532,724	\$ 676,213
Comprehensive income per share				
Basic	\$ 0.01	\$ 0.02	\$ 0.01	\$ 0.02
Fully diluted	\$ 0.01	\$ 0.02	\$ 0.01	\$ 0.02
Weighted average shares outstanding				
Basic	36,815,386	28,532,932	36,753,158	27,610,064
Fully diluted	37,407,693	28,541,178	37,126,474	27,618,310

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

ZTEST Electronics Inc.**Unaudited Condensed Interim Consolidated Statements of Cash Flows**

(Stated in Canadian Dollars)

December 31, 2024

	Three months ended		Six months ended	
	2024	2023	2024	2023
Cash flow from operating activities				
Net income for the period	\$ 208,604	\$ 504,329	\$ 532,724	\$ 676,213
Items not involving cash				
Government grant	-	(20,000)	-	(20,000)
Depreciation of equipment	47,963	20,642	95,927	41,229
Depreciation of right of use assets	41,444	41,443	82,887	82,887
Imputed interest on lease liability	2,045	3,508	4,464	7,366
Stock compensation expense	70,019	-	105,029	-
Provision for income taxes - deferred	7,897	(5,629)	(800)	7,522
	377,972	544,293	820,231	795,217
Changes in non-cash working capital items:				
Accounts receivable	(2,944)	278,656	494,573	(157,668)
Inventories	88,520	163,614	(21,680)	(68,568)
Prepaid expenses	(4,190)	10,287	6,005	15,640
Accounts payable and accrued liabilities	58,590	(385,171)	(3,240)	17,061
Government remittances payable	4,677	52,888	(299,511)	119,902
Customer deposits	(70,769)	(29,604)	(13,288)	(59,209)
	451,856	634,963	983,090	662,375
Cash flow from investing activities				
Purchase of equipment	-	-	-	(1,804)
Cash flow from financing activities				
Repayment of operating loan - net	-	(115,000)	-	(110,000)
Repayment of lease liability	(46,402)	(45,270)	(92,804)	(90,540)
Repayment of long-term debt	(16,231)	(45,694)	(32,315)	(71,239)
Issuance of common shares	30,000	-	45,000	-
	(32,633)	(205,964)	(80,119)	(271,779)
Increase in cash and cash equivalents	419,223	428,999	902,971	388,792
Cash and cash equivalents, start of period	3,259,432	192,668	2,775,684	232,875
Cash and cash equivalents, end of period	\$ 3,678,655	\$ 621,667	\$ 3,678,655	\$ 621,667

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	\$ 919	\$ 2,032	\$ 1,985	\$ 5,623
Cash paid for income taxes	\$ 86,555	\$ -	\$ 501,089	\$ -

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

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 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 February 25, 2025.

Basis of presentation

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

Basis of consolidation

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

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

Significant accounting judgments and estimates

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

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

Financial instruments

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

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

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 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 Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2024

3. Inventories

The carrying value of inventory is comprised of:

	Dec. 31 2024	June 30 2024
Raw materials and supplies ⁽¹⁾	\$ 1,222,665	\$ 1,179,271
Work in process	40,545	60,923
Finished goods	19,670	21,006
	\$ 1,282,880	\$ 1,261,200

⁽¹⁾ Raw materials and supplies is presented net of provisions for obsolete and/or slow-moving items in the amount of \$55,382 (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 (loss) will be affected.

Inventory utilization during the period was as follows:

	Dec. 31 2024	Dec. 31 2023
Raw materials and supplies used	\$ 1,670,086	\$ 2,107,633
Labour costs	479,908	537,496
Depreciation	90,774	39,173
Shipping and packaging	57,787	55,008
Stencils and tooling	13,010	28,848
Repairs and maintenance	15,812	9,546
Net change in finished goods and work in process	21,714	(61,196)
Cost of product sales	\$ 2,349,091	\$ 2,716,508

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	1,805	-	-	-	1,805
Balance, Dec. 31, 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, Dec. 31, 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	(857)	(42)	(39,173)	(1,157)	(41,229)
Balance, Dec. 31, 2023	(189,092)	(70,895)	(2,345,220)	(79,515)	(2,684,722)
Depreciation	(4,684)	(43)	(105,213)	(1,157)	(111,097)
Balance, June 30, 2024	(193,776)	(70,938)	(2,450,433)	(80,672)	(2,795,819)
Depreciation	(3,962)	(34)	(90,774)	(1,157)	(95,927)
Balance, Dec. 31, 2024	\$ (197,738)	\$ (70,972)	\$ (2,541,207)	\$ (81,829)	\$ (2,891,746)

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2024

4. Equipment - continued

Carrying Amounts:

June 30, 2023	\$	4,986	\$	424	\$	391,726	\$	5,785	\$	402,921
December 31, 2023	\$	5,933	\$	382	\$	352,553	\$	4,628	\$	363,496
June 30, 2024	\$	26,411	\$	339	\$	907,744	\$	3,471	\$	937,965
December 31, 2024	\$	22,449	\$	305	\$	816,970	\$	2,314	\$	842,038

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		(82,887)
Balance, December 31, 2023		407,993
Depreciation recorded as an element of occupancy costs		(82,888)
Balance, June 30, 2024		325,105
Depreciation recorded as an element of occupancy costs		(82,887)
Balance, December 31, 2024	\$	242,218

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.

		Dec. 31 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 Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 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 December 31, 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		(90,540)
Interest imputed		7,366
Balance at December 31, 2023		401,564
Lease payments paid during period		(91,672)
Interest imputed		5,942
Balance June 30, 2024		315,834
Lease payments paid during period		(92,804)
Interest imputed		4,464
Balance at December 31, 2024		227,494
Less current portion		(181,223)
	\$	46,271

9. Long-Term Debt

	Dec. 31 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.	\$ 88,968	\$ 121,283
Less: current portion	66,301	65,192
	\$ 22,667	\$ 56,091

⁽¹⁾ In accordance with the CEBA terms, the Company repaid \$40,000 during the period to reduce the remaining balance to \$20,000, which was then forgiven. The forgiven amount has been designated as a government grant and included in net income for the period.

The minimum annual future principal repayments as at December 31, 2024, are as follows:

2025	\$	66,301
2026		22,667
	\$	88,968

10. Share Capital

Authorized

Unlimited Common shares

Unlimited Preferred shares in one or more series.

ZTEST Electronics Inc.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

December 31, 2024

10. Share Capital - continued

Issued

	Dec. 31 2024	June 30 2024
Common shares	\$ 25,252,102	\$ 25,186,285
Common shares:	Number of Shares ⁽¹⁾	Amount
Balance June 30, 2023	26,687,196	\$ 24,064,236
Shares issued in settlement of debt	4,468,625	357,490
Balance December 31, 2023	31,155,821	\$ 24,421,726
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	450,000	65,817
Balance, December 31, 2024	36,995,821	\$ 25,252,102

⁽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 December 31, 2023	-	\$ -
Warrants issued	2,520,000	383,786
Broker warrants issued	219,380	60,443
Balance, June 30, 2024 and December 31, 2024	2,739,380	\$ 444,229

	Number of Warrants	Weighted Average Price per Warrant	Weighted Average Expiry Date
Balance, June 30, 2024 and December 31, 2024	2,739,380	\$ 0.30	Nov. 8, 2025

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 Unaudited Condensed Interim Consolidated Financial Statements

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December 31, 2024

10. Share Capital - continued

Details of warrants outstanding - continued:

The following warrants were outstanding on December 31, 2024:

	Number of Warrants	Exercise Price	Expiry Date
Warrants ⁽¹⁾	2,520,000	\$ 0.30	Nov. 8, 2025
Broker warrants	219,380	\$ 0.25	Nov. 8, 2025

⁽¹⁾ 150,000 warrants have been exercised subsequent to December 31, 2024.

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 altered ⁽¹⁾	(200,000)	\$ 0.10	Sept. 30, 2027
Stock options altered ⁽¹⁾	200,000	\$ 0.10	Jan. 7, 2025
Stock options exercised	(450,000)	\$ 0.10	July 14, 2026
Balance, September 30, 2024	1,450,000	\$ 0.25	Feb. 20, 2029

⁽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 December 31, 2024:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted September 30, 2022	300,000 ⁽¹⁾	400,000	\$ 0.10	Sep. 30, 2027
Granted March 28, 2024	250,000 ⁽¹⁾	250,000	\$ 0.27	Mar. 28, 2029
Granted March 28, 2024	100,000	100,000	\$ 0.27	Mar. 28, 2029
Granted August 15, 2024	800,000 ^(1,2)	-	\$ 0.30	Aug. 15, 2029

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

⁽²⁾ 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.

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10. Share Capital - continued

Share based payment transactions and contributed surplus - continued

	Dec. 31 2024	June 30 2024
Contributed surplus, beginning of period	\$ 1,773,957	\$ 1,704,197
Stock options granted ⁽¹⁾	105,029	85,951
Stock options exercised	(20,817)	(16,191)
Contributed surplus, end of period	\$ 1,858,169	\$ 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.

	Dec. 31 2024	Dec. 31 2023
Employee and consultant compensation (<i>note 12</i>)	\$ 284,326	\$ 221,179
Professional fees (<i>note 12</i>)	42,369	26,646
	\$ 326,695	\$ 247,825
Stock-based compensation	\$ 105,029	\$ -

On December 31, 2024 there was a balance of \$308,959 (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:

	Dec. 31 2024	Dec. 31 2023
Employee and consultant compensation (<i>note 11</i>)	\$ 628,263	\$ 539,720
Occupancy costs (<i>note 5</i>)	165,885	166,826
Professional fees (<i>note 11</i>)	70,959	52,082
Travel and promotional activities	28,533	10,908
Shareholder services	26,002	10,596
Insurance	19,548	18,084
Office and general expenses	17,383	17,548
	\$ 956,573	\$ 815,764

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:

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13. Income Taxes - continued

Current Income Tax - continued

	Dec. 31 2024	Dec. 31 2023
Net income before income taxes	\$ 733,502	\$ 803,637
Expected income tax	\$ 194,378	\$ 212,964
Amounts not deductible for income tax purposes	8	(61)
Temporary timing differences	7,192	(93,001)
Income tax expense - current	\$ 201,578	\$ 119,902

Deferred Tax

The following table summarizes the components of deferred tax:

	Dec. 31 2024	Dec. 31 2023
Deferred tax assets: Inventory	\$ (6,676)	\$ -
Deferred tax liabilities: Temporary timing differences	5,876	7,522
Net deferred tax liabilities	\$ (800)	\$ 7,522

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 2024	June 30 2024
Share issuance costs	\$ 71,681	\$ 81,922
Equipment	13,875	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	1,937,944	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.

	Dec. 31 2024	June 30 2024
Long-term debt	\$ 88,968	\$ 121,283
Share Capital	25,252,102	25,186,285
Warrants	444,229	444,229
Contributed surplus	1,858,169	1,773,957
Deficit	(22,375,029)	(22,907,753)
Net capital under management	\$ 5,268,439	\$ 4,618,001

Notes to Unaudited Condensed Interim Consolidated Financial Statements

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15. Financial risk factors

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is in its accounts receivable. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. It has been determined that no allowance is required, as all amounts outstanding are considered collectible. The Company incurred no bad debts during the periods ended December 31, 2024 or December 31, 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 2 major customers which represented 25% and 15% of revenues (Dec. 31, 2023 - 2 customers, 20% and 16% of revenues). Amounts due from these customers represented approximately 42% of accounts receivable at December 31, 2024 (Dec. 31, 2023 - 57%). The loss of a major customer, or significant curtailment of purchases by such a customer, could have a material adverse effect on the Company's results of operations and financial condition. The Company monitors the relationship with all customers closely and ensures that every customer is subject to the same risk management criteria.

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. On December 31, 2024 the Company had current financial assets of \$4,874,432 (June 30, 2024 - \$4,466,034) available to settle current financial liabilities of \$1,839,849 (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 loss in the amount of \$12,257 (Dec. 31, 2023 - loss of \$8,504).

Sensitivity to market risks

On December 31, 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\$194,900 (June 30, 2024 - 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 \$9,745 in future cash inflow.
- US\$289,704 (June 30, 2024 - 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 \$14,485 in future cash outflow.

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