ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Financial Statements

March 31, 2022

(Stated in Canadian Dollars)

<u>Notice To Reader</u>

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

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on May 27, 2022. They have not been reviewed by the Companyôs auditors.

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

ZTEST Electronics Inc.

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

		Mar. 31 2022		June 30 2021
Assets				
Current assets				
Cash	**$**	**218,951**	$	557,013
Accounts receivable		**637,941**		654,758
Inventories *(note 3)*		**1,218,047**		488,333
Prepaid expenses		**17,549**		17,416
		2,092,488		1,717,520
Equipment *(note 4)*		**519,167**		580,807
Right-of-use asset *(note 5)*		**698,098**		822,430
Investments *(note 6)*		**2**		1
	$	**3,309,755**	$	3,120,758
Liabilities				
Current liabilities				
Operating loan *(note 7)*	**$**	**140,000**	$	-
Accounts payable and accrued liabilities *(note 11)*		**1,399,254**		959,507
Customer deposits		**-**		1
Current portion of lease liability *(note 8)*		**156,365**		149,092
Current portion of long-term debt *(note 9)*		**60,437**		58,932
		1,756,056		1,167,532
Lease liability *(note 8)*		**525,800**		643,568
Long-term debt *(note 9)*		**259,707**		305,223
		2,541,563		2,116,323
Shareholders' equity				
Share capital *(note 10)*		**24,064,237**		23,859,872
Warrants *(note 10)*		**-**		53,052
Contributed surplus *(note 10)*		**1,645,217**		1,650,929
Deficit		**(24,941,262)**		(24,559,418)
		768,192		1,004,435
	$	**3,309,755**	$	3,120,758

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

Approved by the Board:

Signed: "Steve Smith"
Director

Signed: "K. Michael Guerreiro"
Director

ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Statements of Changes in Equity
(Stated in Canadian Dollars)
March 31, 2022

	Share Capital	Warrants	Contributed Surplus	Deficit	Total
Balance, June 30, 2020	$ 23,613,546	$ 217,665	$ 1,538,667	$ (24,605,180)	$ 764,698
Preferred shares issued	1	-	-	-	1
Stock options exercised	17,961	-	(7,961)	-	10,000
Warrants exercised	228,365	(44,390)	-	-	183,975
Warrants expired	-	(120,223)	120,223	-	-
Net income for the period	-	-	-	35,765	35,765
Balance, March 31, 2021	23,859,873	53,052	1,650,929	(24,569,415)	994,439
Preferred shares redeemed	(1)	-	-	-	(1)
Net income for the period	-	-	-	9,997	9,997
Balance, June 30, 2021	23,859,872	53,052	1,650,929	(24,559,418)	1,004,435
Preferred shares issued	1	-	-	-	1
Stock options exercised	17,960	-	(7,960)	-	10,000
Warrants exercised	186,404	(50,804)	-	-	135,600
Warrants expired	-	(2,248)	2,248	-	-
Net loss for the period	-	-	-	(381,844)	(381,844)
Balance, March 31, 2022	**$ 24,064,237**	**$ -**	**$ 1,645,217**	**$ (24,941,262)**	**$ 768,192**

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

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

	Three months ended		Nine months ended	
	2022	2021	**2022**	2021
Product sales	**$ 1,326,227**	$ 1,037,388	**$ 2,738,213**	$ 2,964,095
Cost of product sales *(note 3)*	**990,257**	764,499	**2,072,659**	2,055,672
	335,970	272,889	**665,554**	908,423
Expenses				
Selling, general and administrative *(note 12)*	**346,993**	292,926	**1,012,569**	869,046
Interest expense - long term	**2,223**	-	**7,142**	-
Interest expense - lease liability *(note 8)*	**5,863**	127	**18,524**	1,511
Interest expense - other	**936**	142	**1,202**	466
Depreciation of equipment	**1,374**	1,310	**4,125**	3,488
Foreign exchange (gain) loss	**(527)**	2,290	**3,834**	(1,853)
	356,862	296,795	**1,047,396**	872,658
(Loss) income before provision for income taxes	**(20,894)**	(23,906)	**(381,844)**	35,765
Provision for income taxes *(note 13)*	**-**	-	**-**	-
Net (loss) income and comprehensive (loss) income for the period	**$ (20,894)**	$ (23,906)	**$ (381,844)**	$ 35,765
Net (loss) income per share				
Basic	**$ (0.00)**	$ (0.00)	**$ (0.00)**	$ 0.00
Fully diluted	**$ (0.00)**	$ (0.00)	**$ (0.00)**	$ 0.00
Weighted average shares outstanding				
Basic	**26,687,196**	23,749,785	**25,478,802**	23,749,785
Fully diluted	**26,687,196**	23,749,785	**25,478,802**	25,562,897

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)
March 31, 2022

	Three months ended 2022	Three months ended 2021	Nine months ended 2022	Nine months ended 2021
Cash flow from operating activities				
Net (loss) income for the period	**$ (20,894)**	$ (23,906)	**$ (381,844)**	$ 35,765
Items not involving cash				
Depreciation of equipment	**18,862**	10,880	**64,719**	32,201
Depreciation of right of use assets	**41,444**	25,699	**124,332**	77,099
Imputed interest on lease liability	**5,863**	127	**18,524**	1,511
	45,275	12,800	**(174,268)**	(137,054)
Changes in non-cash working capital items:				
Accounts receivable	**(384,268)**	(201,968)	**16,817**	(149,886)
Inventories	**(133,881)**	49,475	**(729,714)**	108,748
Prepaid expenses	**(4,156)**	(136,112)	**(133)**	(122,211)
Accounts payable and accrued liabilities	**245,661**	171,578	**439,747**	97,394
Customer deposits	**-**	(25,000)	**(1)**	(25,000)
	(231,369)	(129,227)	**(447,553)**	55,621
Cash flow from investing activities				
Purchase of equipment	**-**	(4,603)	**(3,079)**	(4,603)
Cash flow from financing activities				
Net proceeds of operating loan	**140,000**	-	**140,000**	-
Proceeds of long-term debt	-	-	-	20,000
Repayment of long-term debt	**(14,793)**	-	**(44,011)**	-
Repayment of lease liability	**(43,006)**	(26,936)	**(129,019)**	(80,807)
Issuance of common shares	**-**	161,575	**145,600**	193,975
	82,201	134,639	**112,570**	133,168
(Decrease) increase in cash	**(149,168)**	809	**(338,062)**	184,186
Cash, beginning of period	**368,119**	403,780	**557,013**	220,403
Cash, end of period	**$ 218,951**	$ 404,589	**$ 218,951**	$ 404,589

Supplemental Disclosure of Cash Flow Information:

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

	Three months ended 2022	Three months ended 2021	Nine months ended 2022	Nine months ended 2021
Cash paid for interest	**$ 3,217**	$ 125	**$ 8,413**	$ 449
Cash paid for income taxes	**$ -**	$ -	**$ -**	$ -

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

(Stated in Canadian Dollars)

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, 2021.

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, 2021. 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, 2021.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 27, 2022.

Basis of presentation and going concern considerations

These unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting, except for cash flow information, and in accordance with IFRS applicable to a 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 was 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)

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 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.

(Stated in Canadian Dollars)

2. Significant Accounting Policies - continued

Financial instruments
The Companyøs financial instruments are comprised of the following:

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

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

Amortized cost 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 Companyøs 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.

3. Inventories

The carrying value of inventory is comprised of:

	Mar. 31 2022	June 30 2021
Raw materials and supplies [(1)]	**$ 1,143,331**	$ 432,917
Work in process	**67,981**	31,859
Finished goods	**6,734**	23,557
	$ 1,218,047	$ 488,333

(1) Raw materials and supplies is presented net of provisions for obsolete and/or slow moving items in the amount of $47,639 (June 30, 2021 - $4,373).

(Stated in Canadian Dollars)

3. Inventories - continued

Inventory utilization during the period was as follows:

	Mar. 31 2022	Mar. 31 2021
Raw materials and supplies used	**$ 1,368,347**	$ 1,497,418
Labour costs *(note 16)*	**548,100**	461,100
Depreciation	**60,594**	28,713
Other costs	**114,918**	81,246
Net change in finished goods and work in process	**(19,300)**	(12,805)
Cost of product sales	**$ 2,072,659**	$ 2,055,672

4 Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Cost:					
Balance, June 30, 2020	$ 186,418	$ 71,277	$ 2,597,014	$ 84,143	$ 2,938,852
Additions	4,603	-	-	-	4,603
Balance, March 31, 2020	191,021	71,277	2,597,014	84,143	2,943,455
Additions	-	-	407,517	-	407,517
Balance, June 30, 2021	192,121	71,277	3,004,531	84,143	3,352,072
Additions	1,100	-	1,979	-	3,079
Disposals	-	-	(313,331)	-	(313,331)
Balance, March 31, 2022	**$ 193,221**	**$ 71,277**	**$ 2,693,179**	**$ 84,143**	**$ 3,041,820**
Accumulated Depreciation:					
Balance, June 30, 2020	$ (180,952)	$ (70,449)	$ (2,405,117)	$ (71,416)	$ (2,727,934)
Depreciation	(1,450)	(124)	(28,891)	(1,736)	(32,201)
Balance, March 31, 2021	(182,402)	(70,573)	(2,434,008)	(73,152)	(2,760,135)
Depreciation	(880)	(41)	(9,631)	(578)	(11,130)
Balance, June 30, 2021	(183,282)	(70,614)	(2,443,639)	(73,730)	(2,771,265)
Depreciation	(2,113)	(99)	(60,771)	(1,736)	(64,719)
Disposals	-	-	313,331	-	313,331
Balance, March 31, 2022	**$ (185,395)**	**$ (70,713)**	**$ (2,191,079)**	**$ (75,466)**	**$ (2,522,653)**
Carrying Amounts:					
June 30, 2020	$ 5,466	$ 828	$ 191,897	$ 12,727	$ 210,918
March 31, 2021	$ 8,619	$ 704	$ 163,006	$ 10,992	$ 183,320
June 30, 2021	$ 8,839	$ 663	$ 560,892	$ 10,413	$ 580,807
March 31, 2022	**$ 7,826**	**$ 564**	**$ 502,100**	**$ 8,677**	**$ 519,167**

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.

(Stated in Canadian Dollars)

5. Right of use asset - continued

Balance at June 30, 2020	$	112,099
Depreciation recorded as an element of occupancy costs		(77,099)
Cost recognized upon extension of the lease		828,873
Balance at March 31, 2021		863,873
Depreciation recorded as an element of occupancy costs		(41,443)
Balance at June 30, 2021		822,430
Depreciation recorded as an element of occupancy costs		(124,332)
Balance at March 31, 2021	$	**698,098**

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.

During the 2021 fiscal year, ZTEST entered into an agreement with the founder and majority shareholder of Conversance Inc. whereby ZTEST issued 1,250,000 Convertible First Preferred Shares Series 1 to that majority shareholder in exchange for 25,000 Class A common shares of Conversance Inc. The ZTEST Series 1 shares would have been automatically converted to common shares of ZTEST if, and only if, Conversance had completed an armôs length financing by June 30, 2021 whereby at least 130,139 Class A shares were issued at a price of at least $10 per Class A share. No such financing occurred therefore the preferred shares were redeemed for an aggregate price of $1 and the 25,000 Class A common shares of Conversance Inc. were to be returned to the majority shareholder. However, the Class A shares were not returned and a replacement agreement was executed during this financial reporting period. This replacement agreement replaced the 1,250,000 Convertible First Preferred Shares Series 1 shares with 1,250,000 Convertible First Preferred Shares Series 2 shares and the expiry date was extended to June 30, 2022. The trigger for automatic conversion to common shares on a 1:1 basis remained unchanged.

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 was set to expire December 31, 2022 but the replacement agreement noted above extended that expiry to June 30, 2023.

		Dec. 31 2021		June 30 2021
296,250 Class A common shares, representing a 25.29% interest	**$**	**1,129,762**	$	1,129,762
25,000 Class A common shares		**1**		-
Equity in post-acquisition loss		**(152,109)**		(152,109)
Impairment provision		**(977,652)**		(977,652)
Aggregate investment	**$**	**2**	$	1

(Stated in Canadian Dollars)

7. Operating loan

	Mar. 31 2022	June 30 2021
Line of credit, which can be drawn to a maximum of $500,000 (June 2021 - $250,000), 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.	$ 140,000	$ -

8. Lease liability

The Company occupies its operating facility under a lease extension that commenced April 2021 and expires March 2026. A refundable deposit of $35,000 was paid at the inception of the lease. The lease liability was initially recorded at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate of 5.7% for the initial lease and 3.386% for the lease extension. The lease liability is subsequently reduced by lease payments paid and increased by imputed interest as follows:

Balance at June 30, 2020	$ 79,296
Lease payments paid during period	(80,807)
Interest imputed	1,511
Present value of lease payments upon lease extension	828,873
Balance at March 31, 2021	828,873
Lease payments paid during period	(43,006)
Interest imputed	6,793
Balance at June 30, 2021	792,660
Lease payments paid during period	(129,019)
Interest imputed	18,524
Balance at March 31, 2022	682,165
Less current portion	(156,365)
	$ **525,800**

9. Long-Term Debt

	Mar. 31 2022	June 30 2021
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.	260,144	304,155
	320,144	364,155
Less: current portion	60,437	58,932
	$ 259,707	$ 305,223

(Stated in Canadian Dollars)

10. Share Capital

Authorized

Unlimited	Common shares
Unlimited	Preferred shares in one or more series.
1,250,000	Convertible Preferred Shares Series 2, redeemable, non-voting, with no dividend rights. These shares are subject to a triggering event, and a determination date not to exceed June 30, 2022. If the triggering event occurs, on or before June 30, 2022, then these shares will be automatically converted into 1,250,000 common shares, otherwise they will be redeemed for the aggregate redemption price of $1. The triggering event *(note 6)* is the completion, by Conversance Inc., of an armôs length financing whereby it issues at least 130,139 Class A shares from treasury, representing at least 10% of the outstanding capital of Conversance after giving effect to the financing, at a price of at least $10 per share.

Issued

	Mar. 31 2022	June 30 2021
Common shares	**$ 24,064,236**	$ 23,859,872
Convertible Preferred Shares Series 2	**1**	-
Share capital	**$ 24,064,237**	$ 23,859,872

Common shares	**Number of Shares** [1]	**Amount**
Balance June 30, 2020	22,876,696	$ 23,613,546
Warrants exercised	1,150,500	228,365
Stock options exercised	200,000	17,961
Balance March 31, 2021 and June 30, 2021	24,227,196	23,859,872
Warrants exercised	2,260,000	186,404
Stock options exercised	200,000	17,960
Balance March 31, 2022	26,687,196	**$ 24,064,236**

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

Convertible Preferred Shares	**Number of Shares**	**Amount**
Balance June 30, 2020	-	$ -
Series 1 shares issued to acquire investment in Conversance Inc. *(note 6)*	1,250,000	1
Balance March 31, 2021	1,250,000	1
Series 1 shares redeemed	(1,250,000)	(1)
Balance June 30, 2021	-	-
Series 2 shares issued to acquire investment in Conversance Inc. *(note 6)*	1,250,000	1
Balance March 31, 2022	1,250,000	**$ 1**

Details of warrants outstanding:

	Number of Warrants	Amount
Balance June 30, 2020	4,378,400	217,665
Warrants exercised	(1,150,500)	(44,390)
Warrants expired	(867,900)	(120,223)
Balance March 31, 2021 and June 30, 2021	2,360,000	53,052
Warrants exercised	(2,260,000)	(50,804)
Warrants expired	(100,000)	(2,248)
Balance March 31, 2022	-	**$ -**

(Stated in Canadian Dollars)

10. Share Capital - continued

Details of warrants outstanding - continued:

	Number of Warrants		Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning of period	2,360,000	$	0.06	Dec. 15, 2021
Warrants exercised during the period	(2,260,000)	$	0.06	Dec. 15, 2021
Warrants expired during the period	(100,000)	$	0.06	Dec. 15, 2021
End of period	-	$	-	

No warrants were issued during the period ended March 31, 2022 or during the year ended June 30, 2021.

Details of options outstanding:

	Common Shares Under Option		Weighted Average Price per Option	Weighted Average Expiry Date
Balance, beginning of the period	550,000	$	0.62	May 9, 2022
Exercised during the period	(200,000) (1)	$	0.05	Aug. 26, 2021
Balance, end of the period	350,000 (2)	$	0.95	Jan. 12, 2023

	Common Shares Under Option	Number of Options Vested		Exercise Price	Expiry Date
Granted January 12, 2018	350,000 (2)	350,000	$	0.95	Jan. 12, 2023

(1) The expiry date of these options had been extended in accordance with the terms of the stock options agreements.
(2) Directors and/or Officers of the Company hold these options.

No stock options were granted during the period ended March 31, 2022 or during the year ended June 30, 2021.

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

		Mar 31 2022		June 30 2021
Contributed surplus, beginning of period	**$**	**1,650,929**	$	1,538,667
Stock options exercised		**(7,960)**		(7,961)
Warrants expired		**2,248**		120,223
Contributed surplus, end of period	**$**	**1,645,217**	$	1,650,929

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.

(Stated in Canadian Dollars)

11. Related Party Transactions and Balances - continued

		Mar. 31 2022		Mar. 31 2021
Employee and consultant compensation	**$**	**254,721**	$	236,559
Professional fees		**27,058**		44,036
	$	**281,779**	$	280,595
Stock-based compensation	**$**	**-**	$	-

As at March 31, 2022 $621,685 (June 2021 - $517,217) was payable to key management personnel and included in accounts payable and accrued liabilities.

12. Selling, general and administrative expenses

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

		Mar. 31 2022		Mar. 31 2021
Employee and consultant compensation *(notes 11 and 16)*	**$**	**669,064**	$	537,379
Occupancy costs *(notes 5 and 16)*		**227,062**		182,338
Professional fees *(note 11)*		**41,617**		67,161
Shareholder services		**14,815**		24,112
Insurance		**23,221**		24,421
Other		**36,790**		33,635
	$	**1,012,569**	$	869,046

13. Income Taxes

Deferred Tax

The following table summarizes the components of deferred tax:

		Mar. 31 2022		Mar. 31 2021
Deferred tax assets:				
Non-capital losses carried forward	$	**11,512**	$	743
Deferred tax liabilities:				
Temporary timing differences		**(11,512)**		(743)
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:

		Mar. 31 2022		June 30 2021
Inventory	**$**	**47,639**	**$**	4,373
Share issuance costs		**23,799**		23,799
Property, plant and equipment		**34,310**		34,132
Resource related expenditures		**349,050**		349,050
Scientific research and experimental development		**1,050,618**		1,050,618
Non-capital loss carry-forwards		**2,228,009**		2,166,546
Net capital loss carry-forwards		**15,592,989**		15,592,989

(Stated in Canadian Dollars)

13. Income Taxes - continued

Share issue costs expire from 2021-2023 and non-capital loss carry-forwards expire from 2030-2041. 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 Companyǿs 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.

	Mar. 31 2022	June 30 2021
Long-term debt	**$ 320,144**	$ 364,155
Share Capital	**24,064,237**	23,859,873
Warrants	**-**	53,052
Contributed surplus	**1,645,217**	1,650,929
Deficit	**(24,941,262)**	(24,559,418)
Net capital under management	**$ 1,088,336**	$ 1,368,591

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 Companyǿs primary exposure to credit risk is in its accounts receivable. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. It has been determined that no allowance is required, as all amounts outstanding are considered collectible. The Company incurred no bad debts during any of the periods presented**.**

Concentration of credit risk

Concentration of credit risk arises when one or more customers, defined as a major customer, individually account for 10% or more of the Companyǿs revenues during a reporting period. During the nine-month period ended March 31, 2022 the Company had three major customers who represented 16%, 15% and 10% of total revenues. In the comparative period, there were two major customers which represented 21% and 15% of revenues. Amounts due from major customers represented 43% of accounts receivable at March 31, 2022 (Mar. 31, 2021 - 48%). The loss of a major customer, or significant curtailment of purchases by such customer, could have a material adverse effect on the Company's results of operations and financial condition. The Company monitors the relationship with all customers closely and ensures that every customer is subject to the same risk management criteria.

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. At March 31, 2022 the Company had current financial assets of $919,892 (June 2021 - $1,211,771) available to settle current financial liabilities of $1,756,056 (June 2021 - $1,167,532). The Company also has a bank operating line available in the mount of $500,000 of which $140,000 (June 2021 - $Nil) had been utilized at March 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 Companyǿs 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 loss in the amount of $3,834 (Mar. 31, 2021 ï gain of $1,853).

Sensitivity to market risks

At March 31, 2022, the Company had:

- A bank operating loan, of which $140,000 had been drawn (June 30, 2021 - $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 $1,400 in additional interest expense over the next 12 month period.
- US$141,454 (June 2021 ï US$175,397) 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 $7,073 in future cash inflow.
- US$205,416 (June 2021 ï US$103,251) 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 $10,271 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.

The Company has obtained subsidy under the Canada Emergency Business Account (CEBA, note 9), the Canada Emergency Wage Subsidy (CEWS), and the Canada Emergency Rent Subsidy (CERS). During the period, the Company obtained CERS benefits of $13,923 (March 2021 - $13,162) which was applied to reduce Occupancy costs *(note 12)* and CEWS benefit in the amount of $67,998 (March 2021 - $172,852) which was applied to reduce Labour costs *(note 3)* and Employee and consultant compensation *(note 12)*. Each of these subsidy programs has now ended. The Company will continue to monitor all government subsidy programs, and make application wherever it may satisfy eligibility criteria, but there is no expectation of future subsidies as at the financial reporting date.