# ZTEST Electronics Inc.

**Consolidated Financial Statements**

**June 30, 2022 and 2021**

**(Stated in Canadian Dollars)**

Wasserman
Ramsay

Chartered Professional Accountants

3601 Hwy 7 East, Suite 1008, Markham, Ontario L3R 0M3
Tel. (905) 948-8637 Fax (905) 948-8638
email: wram@wassermanramsay.ca

## Independent Auditors' Report

**To the Shareholders of**
**ZTEST Electronics Inc.:**

**Opinion**
We have audited the consolidated financial statements of ZTEST Electronics Inc. (the "Company"), which comprise the consolidated statement of financial position as at June 30, 2022 and 2021, and the consolidated statements of changes in equity, comprehensive loss, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

**Basis for Opinion**
We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other information**
Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

**Responsibilities of Management and Those Charged with Governance for the consolidated Financial Statements**
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Kevin Ramsay.

Wasserman Ramsay

Chartered Professional Accountants
Licensed Public Accountants

Markham, Ontario
October 26, 2022

## ZTEST Electronics Inc.

**Consolidated Statements of Financial Position**
(Stated in Canadian Dollars)
*June 30, 2022 and 2021*

| | | 2022 | | 2021 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current assets** | | | | |
| Cash | **$** | **267,640** | $ | 557,013 |
| Accounts receivable | | **783,150** | | 654,758 |
| Inventories *(note 3)* | | **857,045** | | 488,333 |
| Prepaid expenses | | **12,535** | | 17,416 |
| | | **1,920,370** | | 1,717,520 |
| Equipment *(note 4)* | | **504,898** | | 580,807 |
| Right-of-use asset *(note 5)* | | **656,655** | | 822,430 |
| Investments *(note 6)* | | **1** | | 1 |
| | **$** | **3,081,924** | $ | 3,120,758 |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Accounts payable and accrued liabilities *(note 11)* | **$** | **1,249,976** | $ | 959,507 |
| Customer deposits | | **-** | | 1 |
| Current portion of lease liability *(note 8)* | | **158,830** | | 149,092 |
| Current portion of long-term debt *(note 9)* | | **60,929** | | 58,932 |
| | | **1,469,735** | | 1,167,532 |
| Lease liability *(note 8)* | | **484,737** | | 643,568 |
| Long-term debt *(note 9)* | | **244,295** | | 305,223 |
| | | **2,198,767** | | 2,116,323 |
| **Shareholders' Equity** | | | | |
| Share capital *(note 10)* | | **24,064,236** | | 23,859,872 |
| Warrants *(note 10)* | | **-** | | 53,052 |
| Contributed surplus *(note 10)* | | **1,645,217** | | 1,650,929 |
| Deficit | | **(24,826,296)** | | (24,559,418) |
| | | **883,157** | | 1,004,435 |
| | **$** | **3,081,924** | $ | 3,120,758 |

*The accompanying notes are an integral part of these consolidated financial statements*

Approved by the Board:

*Signed: " Steve Smith"* — Director

*Signed: "K. Michael Guerreiro"* — Director

## ZTEST Electronics Inc.

**Consolidated Statement of Changes in Equity**
(Stated in Canadian Dollars)
*June 30, 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 |
| Preferred shares redeemed | (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 | - | - | - | 45,762 | 45,762 |
| Balance, June 30, 2021 | 23,859,872 | 53,052 | 1,650,929 | (24,559,418) | 1,004,435 |
| Preferred shares issued | 1 | - | - | - | 1 |
| Preferred shares redeemed | (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 | - | - | - | (266,878) | (266,878) |
| Balance, June 30, 2022 | **$ 24,064,236** | **$ -** | **$ 1,645,217** | **$ (24,826,296)** | **$ 883,157** |

*The accompanying notes are an integral part of these consolidated financial statements*

## ZTEST Electronics Inc.

**Consolidated Statements of Comprehensive Income (Loss)**
(Stated in Canadian Dollars)
*For the years ended June 30, 2022 and 2021*

| | | 2022 | | 2021 |
|---|---|---|---|---|
| **Product sales** | **$** | **4,415,275** | $ | 4,009,460 |
| **Cost of product sales** (*note 3*) | | **3,286,712** | | 2,777,945 |
| | | **1,128,563** | | 1,231,515 |
| **Expenses** | | | | |
| Selling, general and administrative *(note 12)* | | **1,346,490** | | 1,174,408 |
| Interest expense - long-term debt | | **9,262** | | 2,439 |
| Interest expense - lease liability *(note 8)* | | **24,066** | | 8,304 |
| Interest expense - other | | **5,064** | | 599 |
| Depreciation of equipment | | **5,500** | | 5,046 |
| Foreign exchange loss (gain) | | **5,059** | | (5,043) |
| | | **1,395,441** | | 1,185,753 |
| **(Loss) income before provision for income taxes** | | **(266,878)** | | 45,762 |
| Provision for income taxes *(note 13)* | | **-** | | - |
| **Net (loss) income and comprehensive (loss) income for the year** | **$** | **(266,878)** | **$** | 45,762 |
| **Net (loss) income per share** | | | | |
| **Basic** | **$** | **(0.01)** | $ | 0.00 |
| **Fully diluted** | **$** | **(0.01)** | $ | 0.00 |
| **Weighted average shares outstanding** | | | | |
| **Basic** | | **25,780,073** | | 24,227,196 |
| **Fully diluted** | | **25,780,073** | | 25,907,107 |

*The accompanying notes are an integral part of these consolidated financial statements*

## ZTEST Electronics Inc.

**Consolidated Statements of Cash Flows**
(Stated in Canadian Dollars)
*For the years ended June 30, 2022 and 2021*

| | | **2022** | | 2021 |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| Net (loss) income for the year | **$** | **(266,878)** | $ | 45,762 |
| Items not involving cash | | | | |
| Depreciation of equipment | | **83,582** | | 43,331 |
| Depreciation of right of use asset | | **165,775** | | 118,542 |
| Imputed interest on lease liability | | **24,066** | | 8,304 |
| Equity in loss of Conversance Inc. | | **-** | | - |
| Provision for impairment of Conversance Inc. | | **-** | | - |
| | | **6,545** | | 215,939 |
| Changes in non-cash working capital items | | | | |
| Accounts receivable | | **(128,392)** | | (142,690) |
| Inventories | | **(368,712)** | | 244,628 |
| Prepaid expenses | | **4,881** | | 1,365 |
| Customer deposits | | **(1)** | | (24,999) |
| Accounts payable and accrued liabilities | | **290,469** | | 61,270 |
| | | **(195,210)** | | 355,513 |
| **Cash flow from investing activities** | | | | |
| Purchase of equipment | | **(7,673)** | | (413,220) |
| **Cash flow from financing activities** | | | | |
| Repayment of bank operating loan, net | | **-** | | - |
| Proceeds of long-term debt | | **-** | | 333,748 |
| Repayment of long-term debt | | **(58,931)** | | (9,593) |
| Repayment of lease obligation | | **(173,159)** | | (123,813) |
| Proceeds from share issuances | | **145,600** | | 193,975 |
| | | **(86,490)** | | 394,317 |
| **(Decrease) increase in cash** | | **(289,373)** | | 336,610 |
| **Cash, beginning of year** | | **557,013** | | 220,403 |
| **Cash, end of year** | **$** | **267,640** | $ | 557,013 |

**Supplemental Disclosure of Cash Flow Information:**
During the year the Company had cash flows arising from interest and income taxes paid as follows:

| | | | | |
|---|---|---|---|---|
| Interest | **$** | **14,429** | $ | 2,361 |
| Income taxes | **$** | **-** | $ | - |

*The accompanying notes are an integral part of these consolidated financial statements*

## 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 designing, developing, and assembling printed circuit boards and other electronic equipment. The Company's shares trade on the Canadian Securities Exchange ("CSE") under the symbol "ZTE".

## 2. Significant Accounting Policies

**Statement of compliance**
The Company has prepared these consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on October 26, 2022.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

**Basis of presentation and going concern considerations**
These consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting, except for cash flow information, and in accordance with IFRS applicable to a "going concern". Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. If the going concern assumption were not appropriate for these 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 consolidated financial statements include the accounts of the Company as well as the following subsidiaries' assets and liabilities and revenues and expenses, arising subsequent to the date of acquisition:

| | | |
|---|---|---|
| Permatech Electronics Corporation ("PEC") | - 100% | owned |
| Twenty49 Ltd | - 100% | owned (inactive) |
| Northern Cross Minerals Inc. | - 66.7% | owned (inactive) |

**Significant accounting judgments and estimates**
The preparation of these 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 consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and also in future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

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

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

## 2. Significant Accounting Policies - continued

**Financial instruments - continued**

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

*Amortized cost* – 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.

Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the income for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in income for the period.

**Inventories**

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the amount, net of the estimated costs to complete assemblies and sell them, which the Company expects to realize from the sale of inventory in the ordinary course of business. An assessment of net realizable value is completed at the end of each reporting period and any resulting write-downs, or recovery of previous write-downs, are reflected in income for the period. Current assessments have determined that net realizable values equal or exceed the corresponding costs and accordingly all inventories are currently carried at cost.

**Investments**

Non-controlling interests, which are not financial instruments, and are less than a 20% ownership interest, are initially recorded at the cost of acquisition plus any directly attributable transaction costs. Subsequent to the acquisition date the investment is carried at amortized value, representing the initial carrying value net of any impairment provisions. An investment of this type is considered impaired when its carrying amount exceeds its recoverable amount.

Non-controlling interests, which are not financial instruments, and are equal to or exceeding a 20% ownership interest (an equity instrument), are initially recorded at the cost of acquisition plus any directly attributable transaction costs. Subsequent to the acquisition date the investment is adjusted for the post-acquisition change in the investor's share of the investee's net assets and for any impairment provisions.

## 2. Significant Accounting Policies - continued

**Investments - continued**

An equity instrument is considered impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occur after the initial recognition of the asset (a 'loss event') and that loss event, or events, has an impact on the estimated future cash flows of the non-controlling interest that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognized.

Some items that may be taken into consideration in determining whether a loss event has occurred include significant financial difficulty of the investee, a breach of contract such as a default or delinquency in payments by the investee, it becomes probable that the investee will enter bankruptcy or other financial reorganization, or significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the investee operates, and such changes indicate that the cost of the equity instrument may not be recovered.

**Equipment**

Equipment is stated at cost. Depreciation is provided over the related assets' estimated useful lives using the following methods and annual rates:

| | | | |
|---|---|---|---|
| Computer equipment | - | 30% | declining balance |
| Office equipment | - | 20% | declining balance |
| Manufacturing equipment | - | 20% | declining balance |
| Leasehold improvements | - | 10 years | straight-line |

The Company reviews the estimated useful lives, residual values and depreciation method at the end of each reporting period, accounting for the effect of any changes in estimate on a prospective basis.

**Revenue recognition**

Revenue is recognized when the risks and rewards of ownership pass to the customer, the amount of revenue can be measured reliably, and the ability to collect is reasonably assured, which typically arises when the product is delivered.

**Share based payment transactions**

The fair value of share options granted to employees is recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black Scholes option pricing model, after considering the terms and conditions upon which the options were granted. At the end of each financial reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

**Foreign exchange**

As at the transaction date all asset, liability, revenue, and expense amounts denominated in foreign currencies are translated into Canadian dollars using the exchange rate in effect as at that date. At the end of each financial reporting period all monetary assets and liabilities are translated into Canadian dollars using the exchange rate in effect as at that date. The resulting foreign exchange gains and losses are included in income for the period.

**Income taxes**

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in profit and loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

(Stated in Canadian Dollars)

## 2. Significant Accounting Policies - continued

**Income taxes - continued**
Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in profit and loss and comprehensive (loss) income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At the end of each financial reporting period, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

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

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

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

**Accounting standards effective for future periods**
Amendment to IAS 1, Presentation of Financial Statements - Classification of Liabilities as Current or Non-Current - In January 2020, the IASB issued amendments to paragraphs 69-76 of IAS 1 to clarify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions which exist at the end of a reporting period will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods commencing on or after January 1, 2022, with early adoption permitted. These amendments, which are not expected to have any impact on the Company's consolidated financial statements, will be adopted July 1, 2022.

## 3 Inventories

The carrying value of inventories is comprised of:

| | | **2022** | | 2021 |
|---|---|---|---|---|
| Raw materials and supplies [1] | **$** | **810,822** | $ | 432,917 |
| Work in process | | **41,264** | | 31,859 |
| Finished goods | | **4,959** | | 23,557 |
| | **$** | **857,045** | $ | 488,333 |

[1] Raw materials and supplies is presented net of provisions for obsolete and/or slow-moving items in the amount of $16,547 (2021 - $4,373). 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 (loss) income will be affected.

(Stated in Canadian Dollars)

## 3 Inventories - continued

Inventory utilization during the year was as follows:

| | **2022** | 2021 |
|---|---|---|
| Raw materials and supplies used | **$ 2,264,299** | $ 1,998,385 |
| Labour costs *(note 15)* | **777,904** | 637,884 |
| Shipping costs | **99,989** | 66,619 |
| Depreciation | **78,082** | 38,285 |
| Repairs and maintenance | **3,861** | 11,327 |
| Stencils and tooling | **41,504** | 26,077 |
| Packaging costs | **11,881** | 6,470 |
| Net change in finished goods and work in process | **9,192** | (7,102) |
| Cost of product sales | **$ 3,286,712** | $ 2,777,945 |

## 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 | 5,703 | - | 407,517 | - | 413,220 |
| Balance, June 30, 2021 | 192,121 | 71,277 | 3,004,531 | 84,143 | 3,352,072 |
| Disposals | - | - | (313,331) | - | (313,331) |
| Additions | 1,100 | - | 6,573 | - | 7,673 |
| Balance, June 30, 2022 | **$ 193,221** | **$ 71,277** | **$ 2,697,773** | **$ 84,143** | **$ 3,046,414** |

| | Computer Equipment | Office Equipment | Manufacturing Equipment | Leasehold Improvements | Total |
|---|---|---|---|---|---|
| Accumulated Depreciation: | | | | | |
| Balance, June 30, 2020 | $ (180,952) | $ (70,449) | $ (2,405,117) | $ (71,416) | $ (2,727,934) |
| Depreciation | (2,330) | (165) | (38,522) | (2,314) | (43,331) |
| Balance, June 30, 2021 | (183,282) | (70,614) | (2,443,639) | (73,730) | (2,771,265) |
| Depreciation | (2,817) | (133) | (78,319) | (2,313) | (83,582) |
| Disposals | - | - | 313,331 | - | 313,331 |
| Balance, June 30, 2022 | **$ (186,099)** | **$ (70,747)** | **$ (2,208,627)** | **$ (76,043)** | **$ (2,541,516)** |
| Carrying Amounts: | | | | | |
| June 30, 2021 | $ 8,839 | $ 663 | $ 560,892 | $ 10,413 | $ 580,807 |
| June 30, 2022 | **$ 7,122** | **$ 530** | **$ 489,146** | **$ 8,100** | **$ 504,898** |

## 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 |
| Cost recognized upon extension of the lease | | 828,873 |
| Depreciation recorded as an element of occupancy costs | | (118,542) |
| Balance at June 30, 2021 | | 822,430 |
| Depreciation recorded as an element of occupancy costs | | (165,775) |
| Balance at June 30, 2022 | $ | **656,655** |

## 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 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 2 to that majority shareholder in exchange for 25,000 Class A common shares of Conversance Inc. The ZTEST Series 2 shares would have been automatically converted to common shares of ZTEST if, and only if, Conversance had completed an arm's length financing by June 30, 2022 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 returned to the majority shareholder.

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 also holds an option to acquire 75,000 Class A common shares from treasury, in exchange for a cash payment of $1,000,000 until June 30, 2023.

| | | **2022** | | 2021 |
|---|---|---|---|---|
| 296,250 Class A common shares, representing a 25.29% interest | **$** | **1,129,762** | $ | 1,129,762 |
| Equity in post-acquisition loss | | **(152,109)** | | (152,109) |
| Impairment provision | | **(977,652)** | | (977,652) |
| Aggregate investment | **$** | **1** | $ | 1 |

During the year, Conversance acquired a 28% interest in 3955 trading Inc. (o/a Cannamerx) pursuant to a purchase agreement dated August 1, 2021. Cannamerx operates an international cannabis and hemp exchange platform and facilitates trade in bulk cannabis, hemp, and cannabis and hemp products, between licensed producers worldwide. It is expected that Conversance will first upgrade the existing Cannamerx platform then replace it with a new platform developed from the Conversance proprietary technology. Conversance will receive additional shares of Cannamerx upon completion of these objectives as well as when Cannamerx achieves a certain level of operations based upon these new platforms. Based upon the current share structure of Cannamerx, the issuance of these additional shares would provide Conversance with a controlling interest.

(Stated in Canadian Dollars)

## 7. Bank operating loan

| | 2022 | 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. | **\$ -** | \$ - |

## 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 | (123,813) |
| Interest imputed at 5.7% | 8,304 |
| Present value of lease payments upon lease extension | 828,873 |
| Balance at June 30, 2021 | 792,660 |
| Lease payments paid during period | (173,159) |
| Interest imputed | 24,066 |
| Balance at June 30, 2022 | 643,567 |
| Less current portion | (158,830) |
| | \$ **484,737** |

## 9. Long-Term Debt

| | 2022 | 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. | **245,224** | 304,155 |
| | **305,224** | 364,155 |
| Less: Current portion | **60,929** | 58,932 |
| | **\$ 244,295** | \$ 305,223 |

The minimum annual future principal repayments are as follows:

| | |
|---|---|
| 2022 | \$ 60,929 |
| 2023 | 77,454 |
| 2024 | 95,183 |
| 2025 | 71,658 |
| Remaining | - |
| | \$ 305,224 |

(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 were subject to a triggering event, the occurrence of which would have resulted in these shares being automatically converted into 1,250,000 common shares, however this triggering event did not occur and the shares were redeemed for the aggregate redemption price of $1.

**Issued:**

| | **2022** | 2021 |
|---|---|---|
| Common shares | **$ 24,064,236** | $ 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 June 30, 2021 | 24,227,196 | 23,859,872 |
| Warrants exercised | 2,260,000 | 186,404 |
| Stock options exercised | 200,000 | 17,960 |
| Balance June 30, 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.

**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 June 30, 2021 | 2,360,000 | 53,052 |
| Warrants exercised | (2,260,000) | (50,804) |
| Warrants expired | (100,000) | (2,248) |
| Balance June 30, 2022 | - | **$ -** |

| | Number of Warrants | Weighted Average Price per Warrant | Weighted Average Expiry Date |
|---|---|---|---|
| Beginning of year | 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 year | - | $ - | |

No warrants were issued during the years ended June 30, 2022 or June 30, 2021.

**Details of options outstanding:**

| | Common Shares Under Option | Weighted Average Price/Option | Weighted Average Expiry Date |
|---|---|---|---|
| Balance, beginning of the year | 550,000 | $ 0.62 | May 9, 2022 |
| Exercised during the year | (200,000) [1] | $ 0.05 | Mar. 3, 2021 |
| Balance, end of the year | 350,000 | $ 0.95 | Jan. 12, 2023 |

(Stated in Canadian Dollars)

## 10. Share Capital - continued

(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 years ended June 30, 2022 or 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:

| | | **2022** | | 2021 |
|---|---|---|---|---|
| Contributed surplus, beginning of year | **$** | **1,650,929** | $ | 1,538,667 |
| Stock options exercised | | **(7,960)** | | (7,961) |
| Warrants expired | | **2,248** | | 120,223 |
| Contributed surplus, end of year | **$** | **1,645,217** | $ | 1,650,929 |

Subsequent to the year end the Company granted 1,225,000 stock options to Directors and/or Officers of the Company, plus 50,000 to a key employee of its subsidiary. These stock options may be exercised at a price of $0.10 per share until September 30, 2027.

## 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 | | **2022** | | 2021 |
|---|---|---|---|---|
| Employee and consultant compensation | **$** | **340,136** | $ | 325,674 |
| Professional fees | | **28,241** | | 48,786 |
| | **$** | **368,377** | $ | 374,461 |
| Stock-based compensation | **$** | **-** | $ | - |

As at June 30, 2022 $674,775 (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:

| | | **2022** | | 2021 |
|---|---|---|---|---|
| Employee and consultant compensation *(notes 11 and 16)* | **$** | **889,779** | $ | 744,373 |
| Occupancy costs *(notes 5 and 16)* | | **309,426** | | 248,043 |
| Insurance | | **32,673** | | 32,376 |
| Professional fees *(note 11)* | | **49,116** | | 79,412 |
| Shareholder services | | **18,758** | | 28,783 |
| Other | | **46,738** | | 41,421 |
| | **$** | **1,346,490** | $ | 1,174,408 |

(Stated in Canadian Dollars)

## 13. Income Taxes

### Current Income Taxes

A reconciliation of combined federal and provincial corporate income taxes at the Company's effective tax rate of 26.50% (2021 – 26.50%) is as follows:

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Net (loss) income before income taxes | **$** | **(266,878)** | $ | 45,762 |
| Expected (recovery of) income tax | $ | **(70,723)** | $ | 12,127 |
| Expenses not deductible for income tax purposes | | **4,421** | | 804 |
| Change in tax benefits not recognized | | **66,302** | | (12,931) |
| Income tax expense | **$** | **-** | $ | - |

### Deferred Tax

The following table summarizes the components of deferred tax:

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Deferred tax assets: | | | | |
| Non-capital losses carried forward | $ | **(66,302)** | $ | 27,768 |
| Deferred tax liabilities: | | | | |
| Temporary timing differences | | **66,302** | | (27,768) |
| 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:

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Inventory | $ | **16,547** | **$** | 4,373 |
| Share issuance costs | | **7,224** | | 23,799 |
| Property, plant and equipment | | **29,986** | | 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 | | **2,425,289** | | 2,166,546 |
| Net capital loss carry-forwards | | **15,592,989** | | 15,592,989 |

Share issue costs expire from 2022-2023 and non-capital loss carry-forwards expire as disclosed below. 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.

### Tax Loss Carry-Forwards

The potential income tax benefits resulting from the application of income tax losses have not been recognized in these consolidated financial statements. The following losses, which may be subject to verification by Canada Revenue Agency, will expire at the end of the taxation years as follows:

| Year | | |
|---|---|---|
| 2030 | $ | 174,603 |
| 2031 | | 508,773 |
| 2032 | | 14,862 |
| 2033 | | 76,561 |
| Sub-total | $ | 774,799 |

(Stated in Canadian Dollars)

## 13. Income Taxes – continued

| | | |
|---|---|---|
| Balance forward | $ | 774,799 |
| 2034 | | 125,170 |
| 2035 | | 136,504 |
| 2036 | | 69,013 |
| 2037 | | 184,366 |
| 2038 | | 294,158 |
| 2039 | | 344,141 |
| 2040 | | 246,499 |
| 2041 | | 279,798 |
| 2042 | | 267,258 |
| | $ | 2,721,706 |

## 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.

| | | **2022** | | 2021 |
|---|---|---|---|---|
| Long-term debt | **$** | **305,224** | $ | 364,155 |
| Share capital | | **24,064,236** | | 23,859,873 |
| Warrants | | **-** | | 53,052 |
| Contributed surplus | | **1,645,217** | | 1,650,929 |
| Deficit | | **(24,826,296)** | | (24,559,418) |
| Net capital under management | **$** | **1,188,381** | $ | 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 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 years ended June 30, 2022 and June 30, 2021.

**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 year the Company had two major customers which represented 19% and 15% of total revenues. In the prior year, two major customers accounted for 21% and 13% of total revenues. Amounts due from major customers represented 21% of accounts receivable at June 30, 2022 (2021 - 22%). 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.

## 15. Financial risk factors - continued

**Liquidity risk**

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. At June 30, 2022 the Company had current financial assets of $1,050,790 (2021 - $1,211,771) available to settle current financial liabilities of $1,469,735 (2021 - $1,167,532). The Company manages its liquidity risk through the management of its capital *(note 14)* which incorporates the continuous monitoring of actual and projected cash flows to ensure that it has sufficient liquidity to meet its operating commitments without incurring unacceptable losses or risking damage to the Company's reputation.

**Market risks**

The Company is exposed to interest rate risk due a bank operating loan that has a floating interest rate as well as currency risk related to accounts receivable, accounts payable, and nominal amounts of cash, prepaid expenses, and customer deposits denominated in US dollars. Market risks give rise to the potential for future cash flows to fluctuate because of changes in interest rates or foreign exchange rates. Market risks are closely monitored and attempts are made to match foreign cash inflows and outflows. During the current fiscal year, the Company has reported a foreign exchange loss of $5,059 (2021 – gain of $5,043).

**Sensitivity to market risks**

At June 30, 2022 the Company had:

- A bank operating loan that was not drawn upon (June 30, 2021 - $Nil). The loan, to the extent it is drawn upon, bears interest predicated upon the TD Bank prime lending rate.
- US$187,460 (June 30, 2021 – 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 $9,373 (June 30, 2021 – $8,770) in future cash inflow.
- US$126,498 (June 30, 2021 –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 $6,325(June 30, 2021 – $5,163) 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 Company's 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 received 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 year, the Company obtained CERS benefits of $13,923 (2021 - $23,386) which was applied to reduce Occupancy costs *(note 12)* and CEWS benefit in the amount of $67,998 (2021 - $222,388) 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.