ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Financial Statements

December 31, 2023

(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 February 26, 2024. They have not been reviewed by the Companyĝs auditors.

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

Unaudited Condensed Interim Consolidated Statements of Financial Position
(Stated in Canadian Dollars)
December 31, 2023

	Dec. 31 2023	June 30 2023
Assets		
Current assets		
Cash	**$ 621,667**	$ 232,875
Accounts receivable	**1,115,172**	957,504
Inventories *(note 3)*	**1,898,521**	1,829,953
Prepaid expenses	**11,968**	27,608
	3,647,328	3,047,940
Equipment *(note 4)*	**363,496**	402,921
Right-of-use asset *(note 5)*	**407,993**	490,880
Investments *(note 6)*	**1**	1
	$ 4,418,818	$ 3,941,742
Liabilities		
Current liabilities		
Bank operating loan *(note 7)*	**$ -**	$ 110,000
Accounts payable and accrued liabilities *(note 11)*	**1,409,133**	1,749,562
Customer deposits	**150,485**	209,694
Government remittances payable	**119,902**	-
Current portion of lease liability *(note 8)*	**174,070**	168,904
Current portion of long-term debt *(note 9)*	**64,087**	77,454
	1,917,677	2,315,614
Lease liability *(note 8)*	**227,494**	315,834
Long-term debt *(note 9)*	**88,968**	166,840
Deferred taxes	**43,565**	36,043
	2,277,704	2,834,331
Shareholders’ equity		
Share capital *(note 10)*	**24,421,726**	24,064,236
Contributed surplus *(note 10)*	**1,704,197**	1,704,197
Deficit	**(23,984,809)**	(24,661,022)
	2,141,114	1,107,411
	$ 4,418,818	$ 3,941,742

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

Approved by the Board:

Signed: “Steve Smith” — Director

Signed: “K. Michael Guerreiro” — Director

Unaudited Condensed Interim Consolidated Statements of Changes in Equity
(Stated in Canadian Dollars)
December 31, 2023

	Share Capital	Contributed Surplus	Deficit	Total
Balance, June 30, 2022	$ 24,064,236	$ 1,645,217	$ (24,826,296)	$ 883,157
Stock options granted	-	58,980	-	58,980
Net loss for the period	-	-	(221,992)	(221,992)
Balance, December 31, 2022	24,064,236	1,704,197	(25,048,288)	720,145
Net income for the period	-	-	387,266	387,266
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**

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

Unaudited Condensed Interim Consolidated Statements of Comprehensive Income (Loss)
(Stated in Canadian Dollars)
December 31, 2023

	Three months ended 2023	Three months ended 2022	Six months ended 2023	Six months ended 2022
Product sales	**$ 2,459,917**	$ 1,141,352	**$ 4,339,403**	$ 2,310,308
Cost of product sales *(note 3)*	**1,486,902**	885,374	**2,716,508**	1,742,096
	973,015	255,978	**1,622,895**	568,212
Expenses				
Selling, general and administrative *(note 12)*	**425,845**	356,616	**815,764**	720,873
Stock compensation *(notes 10 and 11)*	**-**	-	**-**	58,980
Interest expense - long term	**1,359**	1,888	**2,854**	3,905
Interest expense - lease liability *(note 8)*	**3,508**	4,882	**7,366**	10,096
Interest expense - other	**652**	164	**2,714**	791
Depreciation of equipment	**1,055**	1,140	**2,056**	2,279
Foreign exchange loss (gain)	**9,008**	3,414	**8,504**	(6,720)
	441,427	368,104	**839,258**	790,204
Income (loss) before government grant and income taxes	**531,588**	(112,126)	**783,637**	(221,992)
Government grant *(note 9)*	**20,000**	-	**20,000**	-
Income (loss) before income taxes	**551,588**	(112,126)	**803,637**	(221,992)
Provision for income taxes *(note 13)*				
Current	**52,888**	-	**119,902**	-
Deferred	**(5,629)**	-	**7,522**	-
	47,259	-	**127,424**	-
Net income (loss) and comprehensive income (loss) for the period	**$ 504,329**	$ (112,126)	**$ 676,213**	$ (221,992)
Comprehensive income (loss) per share				
Basic	**$ 0.02**	$ (0.00)	**$ 0.02**	$ (0.01)
Fully diluted	**$ 0.02**	$ (0.00)	**$ 0.02**	$ (0.01)
Weighted average shares outstanding				
Basic	**28,532,932**	26,687,196	**27,610,064**	26,687,196
Fully diluted	**28,541,178**	26,687,196	**27,618,310**	26,687,196

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

Unaudited Condensed Interim Consolidated Statements of Cash Flows
(Stated in Canadian Dollars)
December 31, 2023

	Three months ended 2023	Three months ended 2022	Six months ended 2023	Six months ended 2022
Cash flow from operating activities				
Net income (loss) for the period	$ **504,329**	$ (112,126)	$ **676,213**	$ (221,992)
Items not involving cash				
Government grant	**(20,000)**	-	**(20,000)**	-
Depreciation of equipment	**20,642**	25,494	**41,229**	50,989
Depreciation of right of use assets	**41,443**	41,444	**82,887**	82,888
Imputed interest on lease liability	**3,508**	4,883	**7,366**	10,097
Stock compensation expense	**-**	-	**-**	58,980
Provision for income taxes - deferred	**(5,629)**	-	**7,522**	58,980
	544,293	(40,305)	**795,217**	(19,038)
Changes in non-cash working capital items:				
Accounts receivable	**278,656**	2,491	**(157,668)**	198,348
Inventories	**163,614**	207,862	**(68,568)**	(458,650)
Prepaid expenses	**10,287**	33,878	**15,640**	2,033
Accounts payable and accrued liabilities	**(385,171)**	47,804	**17,061**	127,256
Government remittances payable	**52,888**	-	**119,902**	-
Customer deposits	**(29,604)**	-	**(59,209)**	268,904
	634,963	(164,085)	**662,375**	118,853
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	**(45,270)**	(44,138)	**(90,540)**	(88,276)
Repayment of long-term debt	**(45,694)**	(15,174)	**(71,239)**	(30,198)
	(205,964)	(59,312)	**(271,779)**	(118,474)
Increase (decrease) in cash	**428,999**	(223,397)	**388,792**	379
Cash, beginning of period	**192,668**	491,416	**232,875**	267,640
Cash, end of period	$ **621,667**	$ 268,019	$ **621,667**	$ 268,019

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 2023	Three months ended 2022	Six months ended 2023	Six months ended 2022
Cash paid for interest	$ **2,032**	$ 2,064	$ **5,623**	$ 4,742
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 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, 2023.

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, 2023. 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, 2023.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on February 26, 2024.

Basis of presentation and going concern considerations
These unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting, except for cash flow information, and in accordance with IFRS applicable to a ñgoing concernò. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. If the going concern assumption were not appropriate for these unaudited condensed interim consolidated financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

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

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

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 Companyӧs financial instruments are comprised of the following:

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

Financial liabilities:	*Classification*
Bank 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 Companyӧs 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:

	Dec. 31 2023	June 30 2023
Raw materials and supplies [(1)]	**$ 1,781,189**	$ 1,773,817
Work in process	**87,743**	36,812
Finished goods	**29,589**	19,324
	$ 1,898,521	$ 1,829,953

(Stated in Canadian Dollars)

3. Inventories - continued

[1] Raw materials and supplies is presented net of provisions for obsolete and/or slow-moving items in the amount of $74,216 (June 2023 - $36,200). 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 2023	Dec. 31 2022
Raw materials and supplies used	**$ 2,107,633**	$ 1,214,623
Labour costs	**537,496**	406,435
Depreciation	**39,173**	48,710
Other costs	**93,402**	88,245
Net change in finished goods and work in process	**(61,196)**	(15,917)
Cost of product sales	**$ 2,716,508**	$ 1,742,096

4. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Cost:					
Balance, June 30, 2022	$ 193,221	$ 71,277	$ 2,697,773	$ 84,143	$ 3,046,414
Additions	-	-	-	-	-
Balance, Dec. 31, 2022	193,221	71,277	2,697,773	84,143	3,046,414
Additions	-	-	-	-	-
Balance, June 30, 2023	193,221	71,277	2,697,773	84,143	3,046,414
Additions	1,804	-	-	-	1,804
Balance, Dec. 31, 2023	**$ 195,025**	**$ 71,277**	**$ 2,697,773**	**$ 84,143**	**$ 3,048,218**
Accumulated Depreciation:					
Balance, June 30, 2022	$ (186,099)	$ (70,747)	$ (2,208,627)	$ (76,043)	$ (2,541,516)
Depreciation	(1,068)	(53)	(48,710)	(1,158)	(50,989)
Balance, Dec. 31, 2022	(187,167)	(70,800)	(2,257,337)	(77,201)	(2,592,505)
Depreciation	(1,068)	(53)	(48,710)	(1,157)	(50,988)
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)**
Carrying Amounts:					
June 30, 2022	$ 7,122	$ 530	$ 489,146	$ 8,100	$ 504,898
December 31, 2022	$ 6,054	$ 477	$ 440,436	$ 6,942	$ 453,909
June 30, 2023	$ 4,986	$ 424	$ 391,726	$ 5,785	$ 402,921
December 31, 2023	**$ 5,933**	**$ 382**	**$ 352,553**	**$ 4,628**	**$ 363,496**

(Stated in Canadian Dollars)

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 at June 30, 2022	656,655
Depreciation recorded as an element of occupancy costs	(82,888)
Balance at December 31, 2022	573,767
Depreciation recorded as an element of occupancy costs	(82,887)
Balance at June 30, 2023	490,880
Depreciation recorded as an element of occupancy costs	(82,887)
Balance at December 31, 2023	**$ 407,993**

6. Investments

The Company holds a non-controlling interest in Conversance Inc., a private Canadian technology company engaged in the development of its proprietary technology, which has not yet produced any revenues. The timing of such revenues is not currently determinable. 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. Subsequent to the financial reporting date, ZTEST declined the opportunity to participate in a convertible promissory note financing proposed by Conversance. Under this financing the creditor will have the right to convert all or a portion of the promissory notes into Class A common shares of Conversance, with the conversion rate dependent upon the timing of conversion. Based on the information currently available to ZTEST, if subscribers convert 100% of the promissory notes prior to June 1, 2024, the ZTEST interests would be reduced to 17.89%.

	Dec. 31 2023	June 30 2023
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

(Stated in Canadian Dollars)

7. Bank operating loan

	Dec. 31 2023	June 30 2023
Line of credit, which can be drawn to a maximum of $1,000,000 (June 2023 - $500,000), bears interest at the TD Bank prime lending rate plus 2.0% (June 2023 ï prime plus 2.5%), is due upon demand, and is secured by a general security agreement covering the assets of PEC.	**$ -**	$ 110,000

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 Companyôs 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 at June 30, 2022	$ 643,567
Lease payments paid during period	(88,276)
Interest imputed	10,097
Balance at December 31, 2022	565,388
Lease payments paid during period	(89,407)
Interest imputed	8,757
Balance at June 30, 2023	484,738
Lease payments paid during period	(90,540)
Interest imputed	7,366
Balance at December 31, 2023	401,564
Less current portion	(174,070)
	$ 227,494

9. Long-Term Debt

	Dec. 31 2023	June 30 2023
Term loan bearing interest at 3.386% matures April 2026. Monthly payments of $5,691, blended as to principal and interest, are required until maturity.	**153,055**	184,294
Canadian Emergency Business Account (CEBA) (1)	**$ -**	$ 60,000
	153,055	244,294
Less: current portion	**64,087**	77,454
	$ 88,968	$ 166,840

(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, 2023, are as follows:

2024	$ 64,087
2025	66,301
2026	22,667
	$ 153,055

(Stated in Canadian Dollars)

10. Share Capital

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

Issued

	Dec. 31 2023	June 30 2023
Common shares	**$ 24,421,726**	$ 24,064,236

Common shares	**Number of Shares** [1]	**Amount**
Balance June 30, 2023, Dec. 31, 2022 and June 30, 2022	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

Details of warrants outstanding:
No warrants were outstanding at June 30, 2023 or have been issued subsequent to that date.

Details of options outstanding:

	Common Shares Under Option	Weighted Average Price per Option	Weighted Average Expiry Date
Balance, beginning of the period	1,275,000	$ 0.10	Mar. 17, 2027
Options expired	175,000	$ 0.10	Nov. 1, 2023
Balance, end of the period	1,100,000	$ 0.10	Sep. 30, 2027

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

	Dec. 31 2023	June 30 2023
Dividend yield	**None Issued**	Nil
Risk free interest rate (%)	**None Issued**	3.243
Expected stock volatility (%)	**None Issued**	135.92
Expected life (years)	**None Issued**	5

The following stock options were outstanding as at December 31, **Dec. 31**:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted September 30, 2022	1,100,000 [1]	1,275,000	$ 0.10	Sep. 30, 2027

[1] Directors and/or Officers of the Company and its subsidiary hold these options.

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

	Dec. 31 2023	June 30 2023
Contributed surplus, beginning of period	**$ 1,704,197**	$ 1,645,217
Stock options granted [1]	**-**	58,980
Contributed surplus, end of period	**$ 1,704,197**	$ 1,704,197

(Stated in Canadian Dollars)

10. Share Capital - continued

(1) Due to a computational error, the compensation amount related to these stock options was originally reported as $35,851 during the period ended December 31, 2022. All comparative amounts at December 31, 2022 have been revised to include this correction.

11. Related Party Transactions and Balances

The Company had transactions during the periods presented with key management personnel.

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

		Dec. 31 2023		Dec. 31 2022
Employee and consultant compensation *(note 12)*	**$**	**221,179**	$	174,118
Professional fees *(note 12)*		**26,646**		12,372
	$	**247,825**	$	186,490
Stock-based compensation	**$**	**-**	$	54,355

During the period, 3,956,250 common shares were issued in settlement of $316,500 owing to these related parties. At December 31, 2023 there was a balance of $599,214 (June 30, 2023 - $883,182) 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 2023		Dec. 31 2022
Employee and consultant compensation *(note 11)*	**$**	**539,720**	$	456,095
Occupancy costs *(note 5)*		**166,826**		160,014
Professional fees *(note 11)*		**52,082**		39,947
Shareholder services		**10,596**		17,936
Insurance		**18,084**		18,905
Other		**28,456**		27,976
	$	**815,764**	$	720,873

13. Income Taxes

Current Income Tax
A reconciliation of combined federal and provincial corporate income taxes at the Companyǿs effective tax rate of 26.50% (2022 ï 26.50%) is as follows:

		Dec. 31 2023		Dec. 31 2022
Net income (loss) before income taxes	**$**	**803,637**	$	(221,992)
Expected income tax (recovery)	$	**212,964**	$	(58,828)
Amounts not deductible for income tax purposes		**(61)**		16,878
Temporary timing differences		**(93,001)**		41,950
Income tax expense - current	**$**	**119,902**	$	-

(Stated in Canadian Dollars)

13. Income Taxes - continued

Deferred Tax
The following table summarizes the components of deferred tax:

		Dec. 31 2023		Dec. 31 2022
Deferred tax assets: Non-capital losses carried forward	$	**-**	$	9,456
Deferred tax liabilities: Temporary timing differences		**7,522**		(9,456)
Net deferred tax liabilities	**$**	**-**	$	-

Unrecognized Deferred Tax Assets
Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

		Dec. 31 2023		June 30 2023
Share issuance costs	**$**	**656**	$	1,313
Property, plant and equipment		**24,997**		26,445
Resource related expenditures		**349,050**		349,050
Scientific research and experimental development		**1,050,618**		1,050,618
Non-capital loss carry-forwards		**1,999,559**		2,312,531
Net capital loss carry-forwards		**15,592,989**		15,592,989

Share issue costs expire in 2024 and non-capital loss carry-forwards expire from 2030-2043. 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 Companyồs 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 2023		June 30 2023
Long-term debt	**$**	**153,055**	$	244,294
Share Capital		**24,421,726**		24,064,236
Contributed surplus		**1,704,197**		1,704,197
Deficit		**(23,984,809)**		(24,661,022)
Net capital under management	**$**	**2,294,169**	$	1,351,705

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. 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, 2023 or December 31, 2022**.**

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. The Company had 2 major customers during the current period, representing 20% and 16% of revenues (December 2022 - 4 customers, 15%, 14%, 11% and 11% of revenues). Amounts due from these customers represented 57% of accounts receivable at December 31, 2023 (December 2022 – 40%). The loss of, or significant curtailment of purchases by a major customer, could have a material adverse effect on the Company's results of operations and financial condition. The Company monitors the relationship with all customers closely and ensures that every customer is subject to the same risk management criteria.

Liquidity risk
Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. At December 31, 2023 the Company had current financial assets of $852,821 (June 30, 2023 - $1,190,379) available to settle current financial liabilities of $1,871,931 (June 30, 2023 - $2,315,614). The Company also has a bank operating line available in the mount of $1,000,000 (June 30, 2023 - $500,000) of which $Nil (June 2023 - $110,000) had been utilized at December 31, 2023. 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 period the Company has reported a foreign exchange loss in the amount of $8,504 (December 2022 – gain of $6,720).

Sensitivity to market risks
At December 31, 2023, the Company had:

- A bank operating loan that had not been drawn upon (June 2023 - $110,000), which bears interest predicated upon the TD Bank prime lending rate. Based upon the current amount due on the operating loan, a 1% increase in the TD Bank prime lending rate, as at the financial reporting date, would result in no additional interest expense over the next 12 month period.
- US$116,461 (June 30, 2023 – US$183,892) 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 $5,823 in future cash inflow.
- US$157,510 (June 30, 2023 – US$124,491) 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 $7,876 in future cash outflow.

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