

ZTEST Electronics Inc.

Management's Discussion and Analysis
For the Six Month Period Ended December 31, 2022
(Prepared as at February 27, 2023)

General

The following management's discussion and analysis (MD&A) of the financial condition and results of operations of ZTEST Electronics Inc. (ZTEST or the Company) constitutes management's review of the factors that affected the Company's interim condensed consolidated financial and operating performance for the six months ended December 31, 2022. The MD&A was prepared as of February 27, 2023 and was approved by the Board of Directors on February 27, 2023. It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the six months ended December 31, 2022, and the audited consolidated financial statements for the year ended June 30, 2022, including the notes thereto. Unless otherwise stated, all amounts discussed herein are denominated in Canadian dollars.

Additional information about the Company can be found at www.sedar.com.

The Company

ZTEST is located at 523 McNicoll Avenue, Toronto, Ontario. Through its wholly-owned subsidiary, Permotech Electronics Corporation (PEC), the Company operates a single business segment designing, developing, and assembling printed circuit boards and other electronic equipment. The Company's shares trade on the Canadian Securities Exchange under the symbol "ZTE".

The Company held its annual general meeting on September 30, 2022 resulting in the re-election of each of the five incumbent directors. The inaugural meeting of the Board was held immediately following the annual general meeting, during which the Officers of the Company were reappointed and the Audit Committee was re-formed as noted below.

<u>Name</u>	<u>Position(s)</u>
Steve Smith	Chairman, President & Chief Executive Officer
K. Michael Guerreiro ^(1*, 4, 5)	Director (Independent)
Zachery Dingsdale ⁽¹⁾	Director (Independent)
Dean Tyliakos ^(1, 2, 4)	Director (Independent)
Don Beaton	Director (Independent)
Michael D. Kindy, CPA ⁽²⁾	VP Finance & Chief Financial Officer
William R. Johnstone, LLB	Corporate Secretary
Suren Jeyanayagam ^(2, 3)	President of PEC

* Acts as Committee Chair

⁽¹⁾ Member of the audit committee

⁽²⁾ Director of Permotech Electronics Inc.

⁽³⁾ In December 2022 John Perreault retired and resigned his positions as an Officer and a Director of Permotech Electronics Corporation. Suren Jeyanayagam was appointed President and was also appointed to fill the vacancy on the Board.

⁽⁴⁾ In December 2022 Dean Tyliakos was elected to the Board of Permotech, replacing K. Michael Guerreiro.

⁽⁵⁾ Director of Conversance Inc.

Corporate Performance

The first half of the 2023 fiscal year continued to be dominated by the uncertainties and repercussions arising from the COVID-19 pandemic. The Company has operated continuously throughout the pandemic but that should not imply, and does not mean, that the pandemic has had no impact. As a consequence of COVID-19, the Company has encountered numerous factors affecting operating revenues, costs, and efficiencies, and many of these are expected to continue for the foreseeable future. Future repercussions of the pandemic for the Company, its personnel, its industry, its customers, its suppliers, and the broader scope domestic and international markets, cannot currently be estimated.

ZTEST Electronics Inc.

Management's Discussion and Analysis

For the Six Month Period Ended December 31, 2022

(Prepared as at February 27, 2023)

Corporate Performance - continued

Throughout this fiscal period, the Company has continued to experience significant supply chain disruptions. Production of customer orders cannot commence until 100% of the required parts have been received. The supply chain disruptions have caused, and continue to cause, many required parts to not arrive on schedule, often with little or no advanced warning. This results in production delays as well as added costs of attempting to find alternate sources for these items. Production delays result in increases in the Company's order back-log and inventory while simultaneously having negative effects on revenues, gross margins, cash flows, and liquidity. These supply chain disruptions are pervasive throughout the Company's industry, but are not isolated to the Company's industry, nor are they within the Company's control.

The increase in the Company's order backlog is demonstrated through the accumulation of inventory. When supply chain issues cause the receipt of certain items to be unexpectedly delayed, the items that did arrive as scheduled are held in inventory until production can proceed. The Company is working diligently with its customers to explore economically feasible ways to navigate through these supply-chain disruptions and to minimize production delays however some delays are proving to be unavoidable. The Company remains encouraged by the size and frequency of new orders being received, and the future revenues that they represent. The Company is optimistic that these disruptions will decline in frequency and duration however the supply chain issues are expected to persist well into, and possibly beyond, the 2023 calendar year.

As should be expected, the deferral of production and the corresponding increase in inventory, are resulting in some pressure on liquidity. Working capital declined in the most recent quarter to \$307,087, representing the fifth decline in the six most recent fiscal quarters and the lowest value reported over this time period. Current financial assets also declined to 45.6% of current financial liabilities, representing the fourth decline in the six most recent fiscal quarters and the second lowest value reported over this time period. The Company remains encouraged by the future revenues represented through a historically high order backlog, its readiness to access these revenues through accumulated inventories, and that it is managing through these liquidity challenges with virtually no utilization of its operating line thus far.

The following data may provide some additional insights relative to the Company's operating performance and financial position:

	For the fiscal years ended:		
	June 2022	June 2021	June 2020
Total Revenues	4,415,275	4,009,460	3,888,898
Net (loss) income from operations	(266,878)	45,762	(81,102)
Per share - basic	(0.010)	0.002	(0.004)
Net (loss) income for the year	(266,878)	45,762	(81,737)
Per share - basic	(0.010)	0.002	(0.038)
Total assets	3,081,924	3,120,759	1,807,231
Total long-term financial liabilities	729,032	948,791	40,000
Total liabilities	2,198,767	2,116,323	1,042,533

	For the fiscal quarters ended:			
	Dec. 2022	Sept. 2022	June 2022	Mar. 2022
Total Revenues	1,141,352	1,168,956	1,677,062	1,326,227
Net income (loss) for the period	(112,126)	(86,737)	114,966	(20,894)
Per share - basic	(0.004)	(0.003)	0.004	(0.001)
Total assets	3,206,695	3,325,446	3,081,924	3,309,755
Total long-term financial liabilities	614,619	672,075	729,032	755,507
Total liabilities	2,486,550	2,493,175	2,198,767	2,541,563

ZTEST Electronics Inc.

Management's Discussion and Analysis

For the Six Month Period Ended December 31, 2022

(Prepared as at February 27, 2023)

Corporate Performance - continued

	Dec. 2021	For the fiscal quarters ended:		
		Sept. 2021	June 2021	Mar. 2021
Total Revenues	781,865	630,121	1,045,365	1,037,388
Net income (loss) for the period	(191,338)	(169,612)	9,997	(23,906)
Per share - basic	(0.008)	(0.007)	0.000	(0.001)
Total assets	2,996,924	2,975,768	3,120,759	2,878,943
Total long-term financial liabilities	840,415	894,843	948,791	802,164
Total liabilities	2,207,838	2,098,545	2,116,323	1,884,504

There were no cash dividends paid or accrued during any of the periods noted above.

Results of Operations

For the fourth consecutive quarter, revenues have increased in comparison to one year previous. Revenues for the quarter rose almost 46% and for the six month period they were up 63.6%. Although higher revenues translate into higher valued gross margins the efforts being made to enhance the gross margin percentage have not yet yielded the desired results. Gross margins in the most recent quarter equated to 22.4% of periodic revenues as compared to 23.2% in the second quarter of 2022. To better understand gross margins, one must look more closely at cost of product sales. The different elements of cost of product sales for the periods ended December 31 are as follows:

Six month periods ended December 31	2022	2021	Change
Raw materials and supplies consumed	\$ 1,214,623	\$ 642,131	\$ 572,492
Labour costs incurred	406,435	382,833	23,602
Labour subsidies received	-	(42,771)	42,771
Depreciation	48,710	43,106	5,604
Other costs	88,245	69,987	18,258
Net change in finished goods and work in process	(15,917)	(12,884)	(3,033)
Total cost of product sales	\$ 1,742,096	\$ 1,082,402	\$ 659,694

Three month periods ended December 31	2022	2021	Change
Raw materials and supplies consumed	\$ 617,448	\$ 369,064	\$ 248,384
Labour costs incurred	204,146	192,388	11,758
Labour subsidies received	-	(3,091)	3,091
Depreciation	24,355	17,488	6,867
Other costs	47,128	40,395	6,733
Net change in finished goods and work in process	(7,703)	(15,827)	8,124
Total cost of product sales	\$ 885,374	\$ 600,417	\$ 284,957

The cost of raw materials and supplies consumed increased by 67.3% for the quarter and 89.2% for the six month period. This represents the third consecutive quarter for which materials costs have risen more than periodic revenues reflecting both a shift in product mix and some of the incremental costs being incurred in order to overcome supply issues. Product mix, or the volume of production for which the Company supplies all raw materials and supplies, always affects correlation between revenues and these costs and the Company continues to experience increased demand for this turnkey service. In addition to the increased demand, the supply chain disruptions have caused certain items to be procured from alternate suppliers, often at lower volumes, higher than anticipated unit cost, and higher delivery costs. These two factors have caused materials costs to approximate 54% of periodic revenues in the most recent quarter and just under 53% for the six month period. In comparison, these costs equated to just over 47% of quarterly revenues and over 45% of year to date revenues one year earlier. Even in these challenging times, the Company encourages its customers to reap the benefits of its turnkey services and anticipates that demand will continue for the foreseeable future.

ZTEST Electronics Inc.

Management's Discussion and Analysis
For the Six Month Period Ended December 31, 2022
(Prepared as at February 27, 2023)

Results of Operations - continued

Labour costs incurred appear to have risen by more than 6% for the most recent quarter, and for the six month period, in comparison to December 2021 levels. While costs have risen this is best described as a return to the norm as opposed to an increase. Costs incurred in the most recent quarter are virtually identical to the preceding quarter and to the average quarterly amount incurred throughout the 2022 fiscal year. Management continuously strives to match labour supply, to the extent feasible, to the labour required to facilitate customer orders and costs for the current period are in line with expectations. It should also be noted that labour subsidies introduced to by domestic governments in response to COVID-19 were phased out in October 2021 and are not expected to recur.

The net change in finished goods and work in process is a measure of the change in labour costs included in inventory. This cost must be combined with labour costs incurred to determine the net labour costs included in cost of product sales. Net labour costs for the recent quarter equated to \$196,443 as compared to \$176,561 the year prior. For the six month period, the net costs were \$390,518 at December 2022 as compared to \$369,949 at December 31, 2021. It stands to reason that net labour costs would increase in periods when revenues increase however the fact that revenues rose by a much larger percentage is further confirmation of the aforementioned shift in product mix.

The Company acquired some new machinery near the end of the 2021 fiscal year and put it into service at the start of the 2022 fiscal year. This new machinery replaced older machinery which was removed from service. The addition of new equipment typically results in higher periodic depreciation charges as is seen in the periods ended December 31, 2022. The fact that the increase for the six month period is similar to the increase for the most recent quarter is a result of a one-time charge to reduce the carrying value of the machinery that was removed from service. The charges incurred in the most recent quarter are representative of the charges that will occur in future periods.

Other costs include repairs and maintenance, stencils and tooling, packaging, and freight costs net of amounts recovered. Each of these costs is incurred on an as-warranted basis and are closely monitored. Each has risen in the current period but remain within the Company's expectations.

Selling, general and administrative expenses for the periods ended December 31 were as follows:

Six month periods ended December 31	2022	2021	Change
Employee and consultant compensation	\$ 456,095	\$ 456,481	\$ (386)
Compensation subsidies received	-	(25,227)	25,227
Occupancy costs	160,014	162,136	(2,122)
Rent subsidies received	-	(13,923)	13,923
Professional fees	39,947	32,192	7,755
Shareholder services	17,936	10,646	7,290
Insurance	18,905	15,910	2,995
Other costs	27,976	27,361	615
Total selling, general and administrative	\$ 720,873	\$ 665,576	\$ 55,297

Three month periods ended December 31	2022	2021	Change
Employee and consultant compensation	\$ 229,631	\$ 229,372	\$ 259
Compensation subsidies received	-	(1,960)	1,960
Occupancy costs	77,996	80,410	(2,414)
Rent subsidies received	-	(1,075)	1,075
Professional fees	16,106	19,874	(3,768)
Shareholder services	5,889	6,096	(207)
Insurance	9,452	7,954	1,498
Other costs	17,542	16,715	827
Total selling, general and administrative	\$ 356,616	\$ 357,386	\$ (770)

ZTEST Electronics Inc.

Management's Discussion and Analysis
For the Six Month Period Ended December 31, 2022
(Prepared as at February 27, 2023)

Results of Operations - continued

Employee and consultant compensation costs, which include salaries, benefits, consulting fees, and independent directors' fees have remained entirely comparable year over year except that the government subsidy programs introduced during the COVID-19 pandemic have ended and are not expected to recur.

The Company's current facilities lease took effect April 1, 2021 and resulted in the recognition, and amortization, of a right of use asset. This asset is subject to amortization charges which remain consistent over the term of the lease and represent a significant element of occupancy costs. Minor fluctuations in periodic occupancy costs, like arose in the most recent quarter, result from variable demand for utilities and variances in common area maintenance charges. It is anticipated that occupancy costs will remain relatively comparable from period to period until the current lease expires in March 2026.

Professional fees are comprised of fees for legal services and the costs related to the annual financial statement audit. At the inception of the 2022 annual audit, it was discovered that audit fees had increased and that they would exceed the estimated amounts that had been accrued throughout the 2022 fiscal year. The current period expense includes the shortfall from those 2022 accruals plus a pro-rated accrual based on the fees expected for the 2023 annual audit. This increase exceeds the decline experienced in legal fees for the period.

Shareholder services are exceedingly comparable for the most recent quarter but continue to be higher on a year to date basis as a direct result of the annual shareholders meeting that was held September 30, 2022.

Insurance costs have risen reflecting higher premiums applicable to comparable policies. There has been no alteration in the nature of the insurance coverages that that Company maintains

Other costs are closely monitored, are within management expectations, and are consistent from period to period.

The costs of financing for the periods ended December 31 were as follows:

Six month periods ended December 31	2022	2021	Change
Interest expense ó long term	\$ 3,905	\$ 4,919	\$ (1,014)
Interest expense ó other	791	266	525
Interest expense ó lease liability	10,096	12,661	(2,565)
Total financing expenses	\$ 14,792	\$ 17,846	\$ (3,054)

Three month periods ended December 31	2022	2021	Change
Interest expense ó long term	\$ 1,888	\$ 2,398	\$ (510)
Interest expense ó other	164	133	31
Interest expense ó lease liability	4,882	6,175	(1,293)
Total financing expenses	\$ 6,934	\$ 8,706	\$ (1,772)

The Company initiated new term financing in April 2021 in relation to the acquisition of new equipment and has been making all regular monthly payments. The reduction in interest costs is reflective of the declining balance of the loan. The interest rate on this loan is fixed so related interest costs will continue to decline until the loan reaches maturity April 2026.

Interest expense ó other represents interest arising from the use of the Company's operating line as well as miscellaneous interest charges incurred. The Company made use of its operating line briefly during the first quarter of this fiscal year resulting in the small increase in interest costs.

The Company's lease extension for its operating facility commenced April 1, 2021 and resulted in the recognition and amortization of a right-of-use asset and the recognition of a lease liability. That lease liability then gives rise to imputed interest costs, based on the discount rate, over the term of the lease. The imputed interest costs will continue to decline until the lease liability expires March 31, 2026.

ZTEST Electronics Inc.

Management's Discussion and Analysis
For the Six Month Period Ended December 31, 2022
(Prepared as at February 27, 2023)

Liquidity

At December 31, 2022, the Company had working capital of \$307,087 (June 30, 2022 ó \$450,635) and current financial assets of \$852,821 (June 30, 2022 ó \$1,050,790) available to settle current financial liabilities of \$1,871,931 (June 30, 2022 ó \$1,469,735). The Company also has access to a \$500,000 bank operating line, of which \$Nil (June 30, 2022 ó \$Nil) had been drawn as of December 31, 2022.

In addition to satisfying the cost of operations the Company must also address the payment or other settlement of the following amounts as at December 31, 2022:

	Due by Dec. 2023	Due by Dec. 2024	Due by Dec. 2025	Due after Dec. 2025	Total Due
Long-term debt ⁽¹⁾	\$ 61,971	\$ 93,339	\$ 97,049	\$ 22,667	\$ 275,026
Lease liability	163,824	174,069	181,224	46,271	565,388
	<u>\$ 225,795</u>	<u>\$ 267,408</u>	<u>\$ 278,273</u>	<u>\$ 68,938</u>	<u>\$ 840,414</u>

⁽¹⁾ Long-term debt includes a CEBA loan in the amount of \$60,000 which may be prepaid at any time. If the balance of the loan is no more than \$20,000 as at December 31, 2023, the loan balance will be forgiven. If the balance is not forgiven then it will be converted to a two-year term loan.

Capital Resources

The Company has a \$500,000 commercial line of credit from which \$Nil (June 2022 - \$Nil) was drawn as at December 31, 2022. The loan 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.

The Company has a term loan, the proceeds of which were used to purchase equipment. The loan was funded April 2021 in the amount of \$313,748 and \$215,026 remains payable at December 31, 2022. The loan bears interest at 3.386%, requires monthly payments of \$5,691 blended as to principal and interest, and will mature April 2026.

The Company has not completed any financing transactions or issued any securities since June 30, 2022.

Related Party Transactions

The Company had transactions during the periods with key management personnel. These include consulting fees paid to Steve Smith (President and CEO), consulting fees paid to Michael D. Kindy (CFO), Directors' fees paid to independent Directors of the Company and its subsidiary, salaries and benefits paid to John Perreault as an officer of PEC, legal fees paid to a legal firm in which William R. Johnstone (Corporate Secretary) is a partner, and share-based payments related to key management personnel. Compensation rates are agreed to by the related parties and are predicated upon prevailing market rates. The following expenses, involving these related parties, have arisen during the reporting periods:

Six month periods ended December 31	2022	2021
Salaries and benefits ⁽¹⁾	\$ 73,618	\$ 73,945
Consulting fees ⁽¹⁾	72,000	72,000
Directors' fees ⁽¹⁾	28,500	31,500
Legal fees ⁽²⁾	12,372	19,687
Accounting fees ⁽²⁾	-	4,255
Cash based expenditures	<u>\$ 186,490</u>	<u>\$ 201,387</u>
Share-based payments	<u>\$ 33,039</u>	<u>\$ -</u>

⁽¹⁾ Reported in the consolidated financial statements as an element of employee and consultant compensation.

⁽²⁾ Reported in the consolidated financial statements as an element of professional fees.

ZTEST Electronics Inc.

Management's Discussion and Analysis
 For the Six Month Period Ended December 31, 2022
 (Prepared as at February 27, 2023)

Related Party Transactions - continued

The following balances are due to related parties, and were reported in the unaudited condensed interim consolidated financial statements as an element of accounts payable and accrued liabilities, as at December 31 of each year:

	2022	2021
Salaries and benefits payable	\$ 1,385	\$ 5,080
Consulting and Director fees payable	\$ 717,856	\$ 529,974
Legal fees payable	\$ 49,804	\$ 56,131

The following stock options have been issued to Directors and/or Officers of the Company and were outstanding as at December 31, 2022 and as at the date of this document:

Description	Expiry Date	Number of Common Shares
Stock options @ \$0.95 per share	Jan. 12, 2023	350,000
Stock options @ \$0.10 per share	Sep. 30, 2027	1,275,000

During the period ended December 31, 2022 1,175,000 stock options were issued to Directors and/or Officers of the Company. An additional 100,000 stock options were issued to Suren Jeyanayagam who was not a related party at the time of the grant but was subsequently appointed as President and Director of Permotech Electronics Corporation.

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Shares issued	Quantity	Amount
Common shares at December 31, 2022, and at the date of this document	26,687,196	\$24,064,236

In addition to the shares issued and outstanding, the Company has issued stock options as incentives to various parties. The following list itemizes the common shares that have been reserved to satisfy the exercise of warrants and options:

Common shares reserved	Expiry Date	Number of Common Shares
To be issued for Class A shares ⁽¹⁾		8,246
Stock options @ \$0.95 per share	Jan. 2023	350,000
Stock options @ \$0.10 per share	Sep. 2027	1,275,000
Shares reserved at December 31, 2022 and as at the date of this document		1,633,246

⁽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.

Fully diluted number of shares	Quantity
Shares issued as at December 31, 2022 and as at the date of this document	26,687,196
Shares reserved as at December 31, 2022 and as at the date of this document	1,633,246
Fully diluted position December 31, 2022 and as at the date of this document	28,320,442

ZTEST Electronics Inc.

Management's Discussion and Analysis
For the Six Month Period Ended December 31, 2022
(Prepared as at February 27, 2023)

Convertible Instruments and Other Securities - continued

Additional disclosures relative to stock options are as follows:

	Average Common Shares Under Option	Weighted Price per Option	Average Expiry Date
Balance at June 30, 2022	350,000	\$ 0.95	Jan. 12, 2023
Options granted during the period	1,275,000	0.10	Sep. 30, 2027
Balance as at Dec. 31, 2022, and as at the date of this document	1,625,000	\$ 0.28	Sep. 24, 2026

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

	Dec. 31 2022	June 30 2022
Dividend yield	Nil	None issued
Risk free interest rate (%)	3.24%	None issued
Expected stock volatility (%)	135.92%	None issued
Expected life (years)	5	None issued

The following stock options were outstanding as at December 31, 2022 and as at the date of this document:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted January 12, 2018	350,000 ⁽¹⁾	350,000	\$ 0.95	Jan. 12, 2023
Granted September 30, 2022	100,000 ⁽²⁾	100,000	\$ 0.10	Sep. 30, 2027
Granted September 30, 2022	1,175,000 ⁽¹⁾	1,175,000	\$ 0.10	Sep. 30, 2027

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

⁽²⁾ A Director and Officers of Permatech electronics Corporation holds these options.

The Company has no ability to cause these options to be exercised.

No share purchase warrants were issued during the periods presented and there were no warrants outstanding as at June 30, 2022, December 31, 2022 or as at the date of this document.

Financial instruments

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

<u>Financial assets:</u>	<u>Classification</u>
Cash	Amortized cost
Accounts receivable	Amortized cost
<u>Financial liabilities:</u>	<u>Classification</u>
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.

ZTEST Electronics Inc.

Management's Discussion and Analysis

For the Six Month Period Ended December 31, 2022

(Prepared as at February 27, 2023)

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.

Impairment of Investments

Non-controlling interests, which are not financial instruments, and are less than a 20% ownership interest, are considered impaired when the carrying amount exceeds the recoverable amount.

Non-controlling interests, which are not financial instruments, and are equal to or exceeding a 20% ownership interest (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.

During the period there were no loss events nor any events that would cause a reversal, in whole or in part, of the impairment provision recognized during previous fiscal periods.

Risk Factors

Events seemingly unrelated to the Company, or to its industry, may adversely affect its finances or operations in ways that are hard to predict or defend against. For example, credit contraction in financial markets may hamper the Company's ability to access credit when needed or rapid changes in foreign exchange rates may adversely affect its financial results. Finally, a reduction in credit, combined with reduced economic activity, may adversely affect businesses and industries that constitute a significant portion of the Company's customer base. As a result, these customers may need to reduce their purchases, or the Company may experience greater difficulty in collecting amounts due from them. Any of these events, or others caused by uncertainty in world financial markets, may have a material adverse effect on the Company's business, operating results, and financial condition.

In addition to the foregoing, the Company is exposed to credit risk, concentration of credit risk, liquidity risk, and currency risk. The Company's primary risk management objective is to protect earnings and cash flow and, ultimately, shareholder value. Risk management strategies, as discussed below, are designed and implemented to ensure that the Company's risks and the related exposure are consistent with its business objectives and risk tolerance. There have been no changes to the risk management strategies during the current period.

ZTEST Electronics Inc.

Management's Discussion and Analysis
For the Six Month Period Ended December 31, 2022
(Prepared as at February 27, 2023)

Risk Factors - continued

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is in its accounts receivable. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. It has been determined that no allowance is required, as all amounts outstanding are considered collectible. The Company incurred no bad debts during the periods ended December 31, 2022 or December 31, 2021.

Concentration of credit risk

Concentration of credit risk arises when one or more customers individually account for 10% or more of the Company's revenues during a reporting period. The Company had 4 customers during the current period, representing 15%, 14%, 11% and 11% of revenues (December 2021 - 2 customers, 23% and 15% of revenues). Amounts due from these customers represented 39.5% of accounts receivable at December 31, 2022 (December 2020 - 13%). The loss of, or significant curtailment of purchases by, such a customer, could have a material adverse effect on the Company's results of operations and financial condition. The Company monitors the relationship with all customers closely and ensures that every customer is subject to the same risk management criteria.

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. At December 31, 2022 the Company had current financial assets of \$852,821 (June 30, 2022 - \$1,050,790) available to settle current financial liabilities of \$1,871,931 (June 30, 2022 - \$1,469,735). The Company also has a bank operating line available in the amount of \$500,000 of which \$Nil (June 2022 - \$Nil) had been utilized at December 31, 2022. The Company manages its liquidity risk through the management of its capital 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 gain in the amount of \$6,720 (December 2021 a loss of \$4,361).

Risk Factors - continued

Sensitivity to market risks

At December 31, 2022, the Company had:

- A bank operating loan that had not been drawn upon (June 2022 - \$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 no additional interest expense over the next 12 month period.
- US\$79,088 (June 30, 2022 a US\$187,460) included in accounts receivable. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of \$3,955 in future cash inflow.
- US\$88,033 (June 30, 2022 a US\$126,498) 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 \$4,402 in future cash outflow.

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

ZTEST Electronics Inc.

Management's Discussion and Analysis

For the Six Month Period Ended December 31, 2022

(Prepared as at February 27, 2023)

Forward-looking Information

Certain statements in this MD&A may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and its subsidiary, or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this report, the words "estimate", "believe", "anticipate", "intend", "expect", "plan", "may", "should", "will", the negative thereof or other variations thereon or comparable terminology are intended to identify forward-looking statements. Such forward-looking statements reflect the current expectations of the management of the Company with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results, performance or achievements to differ materially from those expressed or implied by those forward-looking statements, such as reduced funding, long sales cycles, currency and interest rate fluctuations, increased competition and general economic and market factors and including the risk factors summarized above under the heading "Risk Factors". New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those expressed or implied in such forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements contained in this MD&A speak only as of the date hereof. The Company does not undertake or assume any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.