ZTEST Electronics Inc.
Managementôs Discussion and Analysis
For the Six Month Period Ended December 31, 2023
(Prepared as at February 26, 2024)

General

The following managementôs discussion and analysis (ñMD&Aò) of the financial condition and results of operations of ZTEST Electronics Inc. (ñZTESTò or the ñCompanyò) constitutes managementôs review of the factors that affected the Companyôs interim condensed consolidated financial and operating performance for the six months ended December 31, 2023. The MD&A was prepared as of February 26, 2024 and was approved by the Board of Directors on February 26, 2024. It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the six months ended December 31, 2023, and the audited consolidated financial statements for the year ended June 30, 2023, 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.sedarplus.com.

The Company

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

The Companyôs management, which has not changed since the most recent fiscal year end, is currently as follows:

Name	Position(s)
Steve Smith	Chairman, President & Chief Executive Officer
Don Beaton	Director (Independent)
K. Michael Guerreiro [1*, 3]	Director (Independent)
Derrick Strickland [1]	Director (Independent)
Dean Tyliakos [1, 2]	Director (Independent)
William R. Johnstone, LLB	Corporate Secretary
Michael D. Kindy, CPA [2]	VP Finance & Chief Financial Officer
Suren Jeyanayagam [2]	President of PEC

[*] Acts as Committee Chair
[1] Member of the audit committee
[2] Director of Permatech Electronics Corporation.
[3] Director of Conversance Inc.

Corporate Performance

Recent positive trends regarding revenue growth, profitability, and enhanced liquidity all continued through the second fiscal quarter of 2024. In fact, the Company is reporting higher revenues and profitability than has been reported in any previous fiscal quarter. This represents the fourth consecutive quarter for which revenues have increased and the Company has reported a net profit for the period. These results have allowed the Company to continue to add to its capital under management and to further enhance its working capital position by growing current financial assets at a faster pace than current financial liabilities.

The Company has been benefitting in recent periods from increased demand. This increased demand began because of backlog created by parts shortages and supply chain disruptions. Those market issues cause the deferral of a significant amount of production and the accumulation of inventories to service that production. In the months that followed, previously delayed parts arrived allowing production to proceed, but the receipt of new orders has resulted in rising revenues while inventory levels remain elevated.

In the first half of this fiscal year, revenues have grown almost 88% in comparison to the same period last year and during this same timeframe inventories have risen by almost 4%. As a contract manufacturer, inventories are only acquired based on customer orders meaning that inventory truly represents future revenues. While inventory levels declined almost 8% during the most recent quarter that is indicative of the amount of production completed in that period and not suggestive of any waning of demand.

Corporate Performance - continued

The Company continuously monitors its production capabilities and capacities and determined it to be prudent to investigate the acquisition of additional equipment to augment what is already in use. During the period the Company negotiated favourable pricing for the desired equipment, an increase to its operating loan facility, a reduction in the interest rate applicable to that operating loan, and pre-approval for a term facility that will finance up to 90% of the equipment purchase. Immediately following the conclusion of these negotiations, the new machinery was ordered. This machinery is currently being manufactured outside of Canada and is expected to be delivered, installed, and fully operational in the final quarter of 2024. The final amount of the new term facility, which may have a term of up to five years, will be determined at the time of delivery. The interest rate applicable to the loan will also be set at that time, predicated upon prevailing market rates.

During this period, Conversance Inc. advised that it had some interesting prospects and was contemplating a new financing. ZTEST currently holds a 25.29% interest in Conversance Inc., along with the right to participate in any new financing. Conversance presented the final terms of that financing to ZTEST in January of 2024 and ZTEST opted not to participate. The financing is being completed by way of convertible debt which, based on the information presented, may result in a reduction of ZTESTôs ownership interests to 17.89%. ZTEST carries its investment in Conversance inc. at $1 as Conversance Inc. continues to develop and commercialize its proprietary blockchain technology.

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

	For the fiscal years ended:		
	June 2023	June 2022	June 2021
Total Revenues	5,702,239	4,415,275	4,009,460
Net income (loss) for the year	165,274	(266,878)	45,762
Per share - basic	0.006	(0.010)	0.002
Total assets	3,941,742	3,081,924	3,120,759
Total long-term financial liabilities	518,717	729,032	948,791
Total liabilities	2,834,331	2,198,767	2,116,323

	For the fiscal quarters ended:			
	Dec. 2023	Sept. 2023	June 2023	Mar. 2023
Total Revenues	2,459,917	1,879,486	1,797,424	1,594,507
Net income (loss) for the period	504,329	171,884	172,983	191,154
Per share - basic	0.018	0.006	0.006	0.007
Total assets	4,418,818	4,504,461	3,941,742	4,000,133
Total long-term financial liabilities	360,027	456,015	518,717	556,678
Total liabilities	2,277,704	3,225,166	2,834,331	3,088,834

	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

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 immediately preceding quarter and, for the eighth consecutive quarter, revenues have risen in comparison to the same period one year previous. Revenues for the quarter were up more than 30% in comparison to Q1 2024 and more than 115% in comparison to Q2 2023. For the six months ended December 2023 revenues are almost 88% greater than they were for the period ended December 2022. It is uncertain how long these trends may continue, particularly considering the unprecedented results for Q2, but inventory accumulation and the Companyęs order backlog both suggest that revenues will remain strong for at least the next couple of periods.

As revenues grow, so too do gross margins. The gross margin has grown more than 186% thus far in 2024, compared to the same period in 2023, including growth of 280% in the most recent quarter. The growth in margins exceeds revenue growth as the Company has been able to realize certain economies of scale and because there are certain costs, like depreciation, that are not correlated with production volumes. Future margins will be affected by production volumes, equipment acquisitions, and inflationary pressures from the elements of cost of product sales.

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	2023	2022	Change
Raw materials and supplies consumed	$ 2,107,633	$ 1,214,623	$ 893,010
Labour costs incurred	537,496	406,435	131,061
Depreciation	39,173	48,710	(9,537)
Other costs	93,402	88,245	5,157
Net change in finished goods and work in process	(61,196)	(15,917)	(45,279)
Total cost of product sales	$ 2,716,508	$ 1,742,096	$ 974,412

Three month periods ended December 31	2023	2022	Change
Raw materials and supplies consumed	$ 1,166,801	$ 617,448	$ 549,353
Labour costs incurred	267,079	204,146	62,933
Depreciation	19,587	24,355	(4,768)
Other costs	42,026	47,128	(5,102)
Net change in finished goods and work in process	(8,591)	(7,703)	(888)
Total cost of product sales	$ 1,486,902	$ 885,374	$ 601,528

The cost of raw materials and supplies consumed increased by almost 89% for the quarter and 73.5% year-to-date, in comparison to the same periods one year earlier. Each of these costs increases is less than the percentage increase in revenues for the corresponding periods. This is a reversal of what was observed for the December 2022 periods when materials costs rose at a faster rate than revenues. It was noted at that time that supply chain disruptions had contributed to higher than anticipated costs at December 2022. Those factors are far less prevalent at December 2023 and leads to some lack of comparability. The remainder of the disparity is attributed to product mix and how the relative values of materials and required labour differs from one product to the next. These costs were equivalent to 47.4% of revenues in the most recent quarter, and 48.5% of revenues for the first half of 2024, and this is much more in line with historical norms than last years results were. It is anticipated that costs will continue to fluctuate from period to period but that the cost escalations from last year will not recur for the foreseeable future.

Results of Operations - continued

Labour costs incurred have risen for the fifth consecutive quarter and more than 32% year-over-year, including an increase of almost 31% in the most recent quarter. This increase is a by-product of increased labour capacity, increased overtime, and increased pay rates. It stands to reason that when revenues grow by more than 88% labour demand will have also increased and thus far in fiscal 2024 there have been additions to production personnel and increases in overtime to facilitate production. To add to this, pay rates also increased by more than the historical norm. Annual wage increases take effect January 1 each year however the impact of the January 2023 increase was magnified because of the 3.3% increase in minimum wage that took place October 2022. Minimum wage increased October 2023 by 6.8% and these increases have a ripple effect throughout the wage base, raising that base before annual increases take effect.

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 $258,488 as compared to $196,443 the year prior, representing an increase of almost 32% or consistent with the increase in costs. For the six month period, the net costs were $476,294, or 22% more than the $390,518 reported at December 31, 2022. During the Q1 2024 review it was determined that there were certain costs included in the December 2022 period that should have been reallocated to administrative costs and this is causing the year-to-date increase to appear somewhat understated.

Depreciation costs have declined, in line with expectations. The most recent significant asset acquisition was put into service at the start of the 2022 fiscal year, adding to depreciation in the 2022 and 2023 fiscal years, after which those charges start to decline. The Company has recently placed an order for new equipment which is expected to become operational in the final quarter of 2024 at which time depreciation costs will rise.

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, are closely monitored, and are consistent with the Companyøs expectations.

Selling, general and administrative expenses, and the changes realized, were as follows:

Six month periods ended December 31	2023	2022	Change
Employee and consultant compensation	$ 538,518	$ 456,095	$ 83,625
Occupancy costs	166,826	160,014	6,812
Professional fees	52,082	39,947	12,135
Shareholder services	10,596	17,936	(7,340)
Insurance	18,084	18,905	(821)
Other costs	28,456	27,976	480
Total selling, general and administrative	$ 815,764	$ 720,873	$ 94,891

Three month periods ended December 31	2023	2022	Change
Employee and consultant compensation	$ 278,533	$ 229,631	$ 48,902
Occupancy costs	82,594	77,996	4,598
Professional fees	31,570	16,106	15,464
Shareholder services	6,078	5,889	189
Insurance	9,042	9,452	(410)
Other costs	18,028	17,542	486
Total selling, general and administrative	$ 425,845	$ 356,616	$ 69,229

Employee and consultant compensation costs, which include salaries, benefits, consulting fees, and independent directorsô fees were highly comparable year over year except for the impact of annual increases and performance bonuses based on the profitability of Permatech.

Results of Operations - continued

The Companyôs 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 for each of the periods presented. Minor fluctuations result from variable demand and rates applicable 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 as well as the costs related to the annual financial statement audit and filing of annual tax returns. Legal fees increased in the current period due to matters related to the issuance of shares in settlement of debt. Audit fees are modestly lower in the current year as a consequence of correcting an insufficient accrual from the 2022 fiscal year in Q1 2023. Fees related to filing the annual tax returns have remained consistent however the fees for the 2022 tax returns were not recognized until Q3 2023 while they were recognized in Q1 2024.

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 reflect minor premium reductions realized upon the most recent renewal of business insurance. There has been no alteration in the nature of the any 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		2023		2022		Change
Interest expense ï long term	$	2,854	$	3,905	$	(1,051)
Interest expense ï other		2,714		791		1,923
Interest expense ï lease liability		7,366		10,096		(2,730)
Total financing expenses	$	12,934	$	14,792	$	(1,858)

Three month periods ended December 31		2023		2022		Change
Interest expense ï long term	$	1,359	$	1,888	$	(529)
Interest expense ï other		652		164		488
Interest expense ï lease liability		3,508		4,882		(1,374)
Total financing expenses	$	5,519	$	6,934	$	(1,415)

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 cost decline on this loan will continue until the loan reaches maturity April 2026 however a new term loan, expected to be funded in May 2024, is likely to cause costs to rise.

Interest expense ï other represents interest arising from the use of the Companyôs operating line as well as miscellaneous interest charges incurred. Interest costs for the operating line will vary based on the extent and duration of advances received and on prevailing interest rates. Interest on this loan, which the Company utilized at various times throughout each of the periods presented, is predicated upon the prime lending rate which was 3.7% on June 30, 2022, had risen to 6.45% by December 31, 2022, and has been 7.2% since July 13, 2023.

The Companyôs 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.

Liquidity

On December 31, 2023, the Company had working capital of $1,783,741 (June 30, 2023 ï $732,326) and current financial assets of $1,736,839 (June 30, 2023 ï $1,190,379) available to settle current financial liabilities of $1,863,587 (June 30, 2023 ï $2,315,614). The Company also has access to a $1,000,000 (June 30, 2023 - $500,000) bank operating line, of which $Nil (June 30, 2023 ï $110,000) had been drawn as of December 31, 2023.

In addition to satisfying the cost of operations the Company must also address the payment or other settlement of the following amounts at December 31, 2023:

	Due by Dec. 2024	Due by Dec. 2025	Due by Dec. 2026	Due after Dec. 2026	Total Due
Term loan	$ 64,087	$ 66,301	$ 22,667	$ -	$ 153,055
Lease liability	174,070	181,223	46,271	-	401,564
	$ 238,157	$ 247,524	$ 68,938	$ -	$ 554,619

Capital Resources

The Company has a $1,000,000 (June 30, 2023 - $500,000) commercial line of credit from which $Nil (June 2023 - $110,000) was drawn as at December 31, 2023. The loan bears interest at the TD Bank prime lending rate plus 2.0% (June 30, 2023 ï prime 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 $153,055 remains payable at December 31, 2023. 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 had a Canadian Emergency Business Account (CEBA) with a balance of $Nil (June 2023 - $60,000) at December 31, 2023. In accordance with the CEBA terms, the Company repaid $40,000, and reduced the balance to $20,000, which was then forgiven.

In November 2023 the Company issued 4,468,625 common shares in settlement of $357,490 in accounts payable, including $316,500 that was owed to related parties.

During the period the Company obtained pre-approval for an additional term loan to acquire new equipment costing US$463,525, plus delivery costs, which has been ordered. This new term loan will finance up to 90% of the purchase price, with a term of up to five years, and will be bear interest based on prevailing market rates as of the date of funding. Funding will occur immediately following delivery of the new equipment, which is expected to be May 2024.

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 and accounting fees paid to Michael D. Kindy (CFO), Directorsô fees paid to independent Directors of the Company and its subsidiary, salaries and benefits paid to Suren Jeyanayagam as an officer of PEC in 2023 and to John Perreault as an officer of PEC in 2022, 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:

Related Party Transactions - continued

Six month periods ended December 31	2023	2022
Salaries and benefits (1)	$ 119,179	$ 73,618
Consulting fees (1)	72,000	72,000
Directorsô fees (1)	30,000	28,500
Legal fees (2)	20,646	12,372
Accounting fees (2)	6,000	-
Cash based expenditures	$ 247,825	$ 186,490
Share-based payments	$ -	$ 54,355

(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.

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 on December 31 of each year:

	2023	2022
Consulting fees payable (1)	$ 356,114	$ 557,926
Directorsô fees payable (1)	$ 140,660	$ 159,930
Salaries and benefits payable	$ 53,729	$ 1,385
Legal fees payable	$ 48,711	$ 49,804

(1) In November 2023, the Company issued 3,956,250 common shares in settlement of $316,500 due to these related parties.

The following stock options have been issued to Directors and/or Officers of the Company and its subsidiary and were outstanding on December 31, 2023, and as at the date of this document:

Description	Expiry Date	Number of Common Shares
Stock options @ $0.10 per share	Sep. 30, 2027	1,100,000

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Shares issued	Quantity	Amount
Common shares at June 30, 2022, Dec. 31, 2022 and June 30, 2023	26,687,196	$24,064,236
Common shares issued in settlement of accounts payable	4,468,625	357,490
Common shares at December 31, 2023, and as at the date of this document	31,155,821	$24,421,726

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 @ $0.10 per share	Sep. 2027	1,100,000
Shares reserved at December 31, 2023, and as at the date of this document		1,108,246

(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.

Convertible Instruments and Other Securities - continued

Fully diluted number of shares	Quantity
Shares issued at December 31, 2023, and as at the date of this document	31,155,821
Shares reserved at December 31, 2023, and as at the date of this document	1,108,246
Fully diluted position December 31, 2023, and as at the date of this document	32,264,067

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, 2023	1,275,000	$	0.10	Mar. 17, 2027
Options expired during the period	(175,000)		0.10	Nov. 1, 2023
Balance at Dec. 31, 2023, and as at the date of this document	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**	3.24%
Expected stock volatility (%)	**None issued**	135.92
Expected life (years)	**None issued**	5

The following stock options were outstanding on December 31, 2023, and remain outstanding as at the date of this document:

	Common Shares Under Option	Number of Options Vested		Exercise Price	Expiry Date
Granted September 30, 2023	1,100,000 [(1)]	1,100,000	$	0.10	Sep. 30, 2027

(1) Directors and/or Officers of the Company and its subsidiary hold 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, 2023, December 31, 2023 or as at the date of this document.

Financial instruments

The Companyôs 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
Deferred taxes	Amortized cost

Financial instruments - continued

Amortized cost ó The amount at which a financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit losses.

The effective interest method - The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to the net carrying amount on initial recognition.

Impairment of Non-financial Assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss.

Where such an indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss. The recoverable amount is the higher of an assetøs 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 armøs 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 Companyøs 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 Companyøs 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 Companyøs 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 Companyøs primary risk management objective is to protect earnings and cash flow and, ultimately, shareholder value. Risk management strategies, as discussed below, have been designed and implemented to ensure that the Companyøs 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.

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 Companyøs 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 Companyøs 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 ï 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 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 Companyøs 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 ï gain of $6,720).

Risk Factors - continued

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 ï 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 ï 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.

Forward-looking Information

Certain statements in this MD&A may constitute ñforward-lookingò 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 ñestimateò, ñbelieveò, ñanticipateò, ñintendò, ñexpectò, ñplanò, ñmayò, ñshouldò, ñwillò, 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 ñRisk Factorsò. 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.