ZTEST Electronics Inc.
Managementøs Discussion and Analysis
For The Year Ended June 30, 2022
(Prepared as at October 26, 2022)

General

The following Managementøs Discussion and Analysis (ñMD&Aò) of the financial condition and results of operations of ZTEST Electronics Inc. (ñZTESTò or the ñCompanyò) constitutes managementøs review of the factors that affected the Companyøs consolidated financial and operating performance for the year ended June 30, 2022. The MD&A was prepared as of October 26, 2022 and was approved by the Board of Directors on October 26, 2022. It should be read in conjunction with the consolidated financial statements of the Company 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, Permatech Electronics Corporation (ñPECò), the Company operates a single business segment designing, developing, and assembling printed circuit boards and other electronic equipment. The Companyøs 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.

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

* Acts as Committee Chair
(1) Member of the audit committee
(2) Director of Permatech Electronics Inc.
(3) Director of Conversance Inc.

Corporate Performance

Throughout the 2022 fiscal year, the Company continued to be dominated by the uncertainties and repercussions arising from the COVID-19 pandemic. The Company 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.

Prior to, and throughout this fiscal year, the Company has experienced significant supply chain disruptions. Production of customer orders typically cannot commence until 100% of the required parts have been received. The supply chain disruptions have caused, and continue to cause, the receipt of many required parts to be delayed and that results in production delays. Production delays then translate into increases in the Companyøs order back-log and inventory while simultaneously having negative effects on revenues, gross margins, and cash flows. These supply chain disruptions are pervasive throughout the Companyøs industry, but are not isolated to the Companyøs industry nor are they within the Companyøs control.

Corporate Performance - continued

The Company has asserted that the growth in its order backlog will translate into production in future periods. That started to be realized towards the end of the third fiscal quarter and throughout the fourth quarter. After the fist six months of the 2022 fiscal year, revenues were down almost 27% compared to one year earlier. By the end of the third quarter that year over year decline had been reduced to approximately 7% and at the end of the year the Company has reported revenues that exceeded fiscal 2021 levels by more than 10%. By no means does this signify that the supply chain disruptions are over. This is only the result of certain long-delayed parts having finally arrived thereby allowing certain previously deferred orders to be completed. The order backlog remains higher than historical norms and the supply chain problems are expected to persist well into, and possibly beyond, the 2023 calendar year.

The increase in the Companyӳ order backlog is best demonstrated through the accumulation of inventory. Inventory is only acquired once a customer order has been received however production of that order cannot commence until 100% of the materials required for production have arrived. Even though revenues for the fourth quarter of 2022 were more than 60% greater than they had been during the final quarter of 2021, the Company has still seen an increase of over 75% in inventory value during the year. Management recognizes that the accumulation of inventory, and its negative impact on the Companyӳ liquidity, is temporary in nature but remains uncertain as to when market conditions will improve and allow this temporary disruption to be remedied.

As alluded to previously, these market disruptions have had a negative impact on liquidity. Over the course of the fiscal year working capital declined from $549,988 to $450,635 and current financial assets declined from 104% of current financial liabilities to 71.5% of current financial liabilities. Each of the figures at June 30, 2022 were good, but not as good as one year prior. Management continues to manage its liquidity but also expects that it will remain at less than optimal levels until the supply chain issues become less pervasive.

The following data may provide some additional insights relative to the Companyӳ 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	(818,737)
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:			
	June 2022	Mar. 2022	Dec. 2021	Sept. 2021
Total Revenues	1,677,062	1,326,227	781,865	630,121
Net income (loss) from operations	114,966	(20,894)	(191,338)	(169,612)
Per share - basic	0.004	(0.001)	(0.008)	(0.007)
Net income (loss) for the period	114,966	(20,894)	(191,338)	(169,612)
Per share - basic	0.004	(0.001)	(0.008)	(0.007)
Total assets	3,081,924	3,309,755	2,996,924	2,975,768
Total long-term financial liabilities	729,032	755,507	840,415	894,843
Total liabilities	2,198,767	2,541,563	2,207,838	2,098,545

Corporate Performance - continued

	For the fiscal quarters ended:			
	June 2021	Mar. 2021	Dec. 2020	Sept. 2020
Total Revenues	1,045,365	1,037,388	873,206	1,053,501
Net income (loss) from operations	9,997	(23,906)	(22,215)	81,886
Per share - basic	0.000	(0.001)	(0.001)	0.004
Net income (loss) for the period	9,997	(23,906)	(22,215)	81,886
Per share - basic	0.000	(0.001)	(0.001)	0.004
Total assets	3,120,759	2,878,943	1,792,632	1,841,370
Total long-term financial liabilities	948,791	-	60,000	40,000
Total liabilities	2,116,323	1,884,504	935,862	994,785

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

Results of Operations

The final quarter of the 2022 provided positive results as revenues rose more than 60% in comparison to the prior year and profitability increased from $9,997 to $114,966. While the Company has been, and continues to, work with its customers to explore and find mutually beneficial solutions to allow production to proceed these solutions often result in increased costs for all. Unfortunately, gross margins for the quarter were negatively impacted by these rising costs.

Gross margins are impacted by many factors including, but not limited to, unforeseen volatility in costs, production volumes, product mix, and order sizes. As a result of these many factors, it is common for margins to vary from period to period. During the fourth quarter of 2022, gross margins were 27.6% of periodic revenues thereby raising the average for the year to 25.6%. In comparison, gross margins averaged 30.7% in the 2021 fiscal year, including 30.9% in the final quarter. 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 June 30 were as follows:

Years ended	June 22	June 21	Change
Raw materials and supplies consumed	$ 2,264,299	$ 1,998,385	$ 265,914
Labour costs incurred	820,675	781,048	39,627
Labour subsidies received	(42,771)	(143,164)	100,393
Depreciation	78,082	38,285	39,797
Other costs	157,235	110,493	46,742
Net change in finished goods and work in process	9,192	(7,102)	16,294
Total cost of product sales	$ 3,286,712	$ 2,777,945	$ 508,767

Three month periods ended	June 22	June 21	Change
Raw materials and supplies consumed	$ 895,952	$ 500,967	$ 394,985
Labour costs incurred	229,804	207,838	21,966
Labour subsidies received	-	(31,054)	31,054
Depreciation	17,488	9,572	7,916
Other costs	42,317	29,247	13,070
Net change in finished goods and work in process	28,492	5,703	22,789
Total cost of product sales	$ 1,214,053	$ 722,273	$ 491,780

Results of Operations - continued

The cost of raw materials and supplies consumed rose by 78.8% in the final quarter as compared to an increase of 60.4% in periodic revenues. This non-correlated increase in the final quarter also resulted in the creation of a disparity in the annual figures as materials costs rose 13.3% year-over-year while revenues rose by 10.1%. The cost and revenue changes had been essentially correlated over the first nine months of the year. While product mix always affects correlation, the primary driver in this situation is market volatility with respect to the cost of the materials and the costs associated with getting them delivered. The supply chain disruptions have caused certain items to be procured from alternate suppliers, often at lower volumes, higher cost, and higher delivery costs. Once again, this situation is expected to be temporary in nature.

Labour costs incurred rose by $39,627, or 5.1%, in the 2022 fiscal year with $21,966 of that increase happening in the final quarter. Labour costs are dependent upon labour volumes which are predicated, to the extent possible, on the labour required to facilitate customer orders. While this relationship is not absolute, the fourth quarter cost increase is a reflection of the higher labour demand required to facilitate the 60.4% revenue increase. A similar result was seen in the third quarter when costs also rose during that period to facilitate a 27.8% rise in revenues. In the two preceding quarters costs rose by a total of 0.6% even though revenues had declined. That was a by-product of minimum labour requirements and the impact of supply issues on production scheduling.

Labour costs incurred had been mitigated, to a degree, by government labour subsidy programs introduced in response to the COVID-19 pandemic. These programs ceased October 2021.

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. When you combine these results for the fourth quarter, we see that labour costs in cost of sales actually increased by 22.1%, which is well within expectations given the 60.4% rise in revenues. On a year-to-date basis the combined costs rose 7.2%.

Depreciation costs have risen in the current periods as a direct result of new machinery that was installed early in July, and a on-time charge to reduce the carrying value of the machinery that it replaced. Depreciation charges commence whenever equipment is placed into service, and stops whenever equipment is removed from service. It should be expected that the charges incurred in the most recent quarter will be 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-needed basis without any specific correlation with revenues. Aside from freight costs, these costs are within managementǿs expectations. Freight rates have risen since the onset of the pandemic and there have been incremental costs incurred due to the supply-chain disruption. That disruption has caused the Company to seek alternate sources of supply, often delivering fewer parts in a particular shipment without a pro-rata shipping cost reduction. Higher shipping rates may persist but it is anticipated that aggregate shipping costs will decline whenever more traditional purchasing channels return to their previous levels of dependability.

Selling, general and administrative expenses for the periods ended June 30 were as follows:

Years ended	June 22	June 21	Change
Employee and consultant compensation	$ 915,006	$ 823,597	$ 91,409
Compensation subsidies received	(25,227)	(79,224)	53,997
Occupancy costs	323,349	271,911	51,438
Rent subsidies received	(13,923)	(23,868)	9,945
Professional fees	49,116	79,412	(30,296)
Insurance	32,673	32,376	297
Shareholder services	18,758	28,783	(10,025)
Other costs	46,738	41,421	5,317
Total selling, general and administrative	$ 1,346,490	$ 1,174,408	$ 172,082

Results of Operations - continued

Three month periods ended	June 22	June 21	Change
Employee and consultant compensation	$ 220,715	$ 225,476	$ (4,761)
Compensation subsidies received	-	(18,482)	18,482
Occupancy costs	82,364	76,411	5,953
Rent subsidies received	-	(10,706)	10,706
Professional fees	7,499	12,251	(4,752)
Insurance	9,452	7,955	1,497
Shareholder services	3,943	4,671	(728)
Other costs	9,948	7,786	2,162
Total selling, general and administrative	$ 333,921	$ 305,362	$ 28,559

Employee and consultant compensation costs, which include salaries, benefits, consulting fees, and independent directorsô fees, rose more than 11% in comparison to one year prior, even though costs declined by 2% in the most recent quarter. The increase includes higher directorsô fees but is primarily the result of having filled, or partially filled, staffing vacancies that originated in Q1 2020. It is anticipated that costs for the current periods are indicative of costs to be anticipated in future periods.

Occupancy costs have risen in 2022, with the vast majority of the increase arising in the first nine months of the year. This is a direct consequence of the lease extension that took effect April 1, 2021. At the inception of any lease, or lease extension, a right of use asset is recorded, based upon the discounted value of required lease payments, and then amortized over the term of the lease, with that amortization included in occupancy costs. The payments required under that extension are higher than they had been under the former lease which translates into higher monthly amortization charges. All other elements of occupancy costs are comparable between the two periods with the exception of related government subsidies which ceased October 2021.

Professional fees are comprised of fees for legal services, costs for income tax filings, and a prorated portion of the estimated cost of the upcoming audit of the annual financial statements. Audit fees and tax filing fees have remained comparable while legal costs have declined. A significant portion of legal fees relate to matters of corporate administration and governance for which there was additional requirements during the comparable periods, including a shareholdersô meeting held January 2021. No shareholders meeting took place during the 2022 fiscal year.

Shareholder services have declined in the current periods, primarily due to the comparative amounts including costs related to the shareholders meeting held January 2021 and certain regulatory filings associated with the election of two new directors at that meeting.

Insurance expense and other costs are closely monitored, are within management expectations, and are reasonably consistent from period to period.

The Companyôs financing costs for the periods were as follows:

Years ended	June 22	June 21	Change
Interest expense ï long term	$ 9,262	$ 2,439	$ 6,823
Interest expense ï other	5,064	599	4,465
Interest expenses ï lease liability	24,066	8,304	15,762
Total financing expenses	$ 38,392	$ 11,342	$ 27,050

Results of Operations - continued

Three month periods ended	June 21	June 21	Change
Interest expense ï long term	$ 2,120	$ 2,439	$ (319)
Interest expense ï other	3,862	133	3,729
Interest expenses ï lease liability	5,542	6,793	(1,251)
Total financing expenses	$ 11,524	$ 9,365	$ 2,159

The Company initiated new term financing in April 2021 in relation to the acquisition of new equipment. This has resulted in interest expense-long term arising throughout the 2022 fiscal year and only in the fourth quarter of 2021. This term loan matures April 2026 so it is anticipated that the current period is fairly representative of costs to be incurred in subsequent periods.

Interest expense ï other represents interest arising from the use of the Companyõs operating line as well as miscellaneous interest charges incurred. The Company made use of its operating line during the third and fourth quarters of 2022 but not in any of the prior periods presented.

As noted previously, the Companyõs lease extension commenced April 1, 2021. Not only does the Company recognize and amortize a right-of-use asset at the inception of such an extension, but it also recognizes an equal 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 in the current year are higher, reflecting the greater average balance of the lease liability throughout the year. These lease costs decline as the balance of the liability declines, just as we see from the fourth quarter comparisons. We should continue to see similar declines from period to period until this lease liability expires in April 2026.

Liquidity

At June 30, 2022 the Company had working capital of $450,635 (2021- $549,988) and current financial assets of $1,050,790 (2021- $1,211,771) available to settle current financial liabilities of $1,469,735 (2021- $1,167,532). The Company also has access to a $500,000 (2021- $250,000) bank operating line, of which $Nil had been drawn as of June 30, 2022 or June 30, 2021.

In addition, the Company must also address the payment of the following amounts as at June 30, 2022:

	Due by June 30: 2023	2024	2025	2026	Due after June 2026	Total Due
Long-term debt [(1)]	$ 60,929	$ 77,454	$ 95,183	$ 71,658	$ -	$ 305,224
Lease liability [(1)]	158,830	168,903	178,185	137,649	-	643,567
	$ 219,759	$ 246,357	$ 273,368	$ 209,307	$ -	$ 948,791

[(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, which is incorporated into these figures as presented.

Capital Resources

The Company has a $500,000 (2021 - $250,000) commercial line of credit from which $Nil was drawn as at June 30, 2022 and June 30, 2021. 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 $245,224 remains payable at June 30, 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.

Capital Resources - continued

The Company has not completed any financing transactions, since June 30, 2021 but it did issue 200,000 common shares upon the exercise of stock options and 2,260,000 common shares upon the exercise of share purchase warrants. These issuances provided cash proceeds of $145,600. The Company also issued 1,250,000 Convertible Preferred Shares Series 2 in a contingent exchange for 25,000 Class A shares of Conversance Inc. The contingency was not satisfied and as a result the Preferred Shares Series 2 were redeemed for aggregate consideration of $1 and the shares of Conversance Inc. will be returned.

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 John Perreault and 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:

Years ended	June 22	June 21	Change
Salaries and benefits [1]	$ 133,136	$ 136,189	$ (3,053)
Consulting fees [1]	144,000	141,985	2,015
Directorsô fees [1]	63,000	47,500	15,500
Legal fees [2]	23,986	45,087	(21,101)
Accounting fees [2]	4,255	3,700	555
Cash based expenditures	$ 368,377	$ 374,461	$ (6,084)
Share-based payments	$ -	$ -	$ -

[1] Charged to net income as an element of employee and consultant compensation.
[2] Charged to net income as an element of professional fees.

The following balances are due to related parties, and were reported in the consolidated financial statements as an element of accounts payable and accrued liabilities, as at June 30 of each year:

	June 22	June 21	Change
Salaries and benefits payable	7,112	9,801	(2,689)
Directorsô fees payable	132,930	72,280	60,650
Consulting fees payable	497,826	379,614	118,212
Legal fees payable	36,907	55,522	(18,615)
Salaries and benefits payable	674,775	517,217	157,558

The following stock options have been issued to Directors and/or Officers of the Company and were outstanding as at June 30, 2022:

Description	Expiry Date	Number of Common Shares
Stock options @ $0.95 per share	Jan. 12, 2023	350,000

During the year ended June 30, 2022, 200,000 stock options with an exercise price of $0.05 were exercised by related parties. No new stock options were granted during the year however on September 30, 2022 a total of 1,225,000 stock options, exercisable at $0.10 per share for 5 years, were issued to Directors and Officers of the Company.

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Common shares issued:	Quantity		Amount
Balance as at June 30, 2020	22,876,696	$	23,613,546
Warrants exercised	1,150,500		228,365
Stock options exercised	200,000		17,961
Balance as at June 30, 2021	24,227,196		23,859,872
Warrants exercised	2,260,000		186,404
Stock options exercised	200,000		17,960
Balance at June 30, 2022 and as at the date of this document	26,687,196	$	24,064,236

Preference shares issued:	Quantity		Amount
Balance as at June 30, 2019 and 2020	Nil	$	-
Series 1 shares issued to acquire shares of Conversance Inc.	1,250,000		1
Series 1 shares redeemed	(1,250,000)		(1)
Balance at June 30, 2021	Nil		-
Series 2 shares issued to acquire shares of Conversance Inc.	1,250,000		1
Series 1 shares redeemed	(1,250,000)		(1)
Balance at June 30, 2022 and as at the date of this document	Nil	$	-

The Company has the following common shares reserved to satisfy the potential exercise of the following:

Common shares reserved:	Expiry Date	Common Shares
To be issued for Class A shares [(1)]		8,246
Stock options @ $0.95 per share	Jan. 2023	350,000
Common shares reserved as at June 30, 2022		358,246
Stock options @ $0.10 per share	Sept. 2027	1,275,000
Common shares reserved 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 only if, the remaining Class A shareholders identify themselves to the Company.

Fully diluted number of shares	Quantity
Shares issued at June 30, 2022	26,687,196
Shares reserved at June 30, 2022	358,246
Fully diluted number of shares at June 30, 2022	27,045,442
Change in shares reserved after June 30, 2022	1,275,000
Fully diluted number of shares as at the date of this document	28,320,442

Additional disclosures relative to stock options are as follows:

No stock options were granted during the years ended June 30, 2021 or June 30, 2022, however 1,275,000 stock options, entitling the holders to exercise at a price of $0.10 per share until September 30, 2027, were granted after the fiscal year end. The following provides additional details with respect to stock option changes:

Convertible Instruments and Other Securities - continued

	Average Common Shares Under Option		Weighted Price per Option	Average Expiry Date
Balance at June 30, 2021	550,000	$	0.62	May 9, 2022
Exercised during the period	(200,000) [1]		0.05	Aug. 26, 2021
Balance at June 30, 2022	350,000	$	0.95	Jan. 12, 2023
Granted after the end of the year	1,275,000		0.10	Sep. 30, 2027
Balance as at the date of this document	1,625,000	$	0.28	Sep. 24, 2026

As at the date of this document, the following stock options, each of which has vested are outstanding. The Company has no ability to cause these options to be exercised:

	Common Shares Under Option		Exercise Price	Expiry Date
Granted January 12, 2018	350,000 [1]	$	0.95	Jan. 12, 2023
Granted September 30, 2022	1,275,000 [2]	$	0.10	Sept. 30, 2027

[1] Directors and/or Officers of the Company hold these options.
[2] Directors and/or Officers of the Company hold 1,225,000 of these options.

The following provides additional details with respect to share purchase warrants to the date of this document:

	Number of Warrants		Weighted Average Price per Warrant	Weighted Average Expiry Date
Balance at June 30, 2021	2,360,000	$	0.06	Dec. 15, 2021
Exercised during the period	(2,260,000)		0.06	Dec. 15, 2021
Expired during the period	(100,000)		0.06	Dec. 15, 2021
Balance at June 30, 2022 and as at the date of this document	-	$	-	-

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

Financial instruments

The Companyǿs 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.

Financial instruments - continued

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

Impairment of non-financial assets

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

Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an assetǿs 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 armǿs 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 ñloss eventò) 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 prior financial 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 Companyǿs 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 Companyǿs 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 Companyǿs business, operating results, and financial condition.

Risk Factors - continued

In addition to the foregoing, the Company is exposed to credit risk, concentration of credit risk, liquidity risk, and market risks. The Companyõs 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 Companyõs 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 Companyõs primary exposure to credit risk is in its accounts receivable. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. It has been determined that no allowance is required, as all amounts outstanding are considered collectible. The Company incurred no bad debts during the years ended June 30, 2022 and June 30, 2021.

Concentration of credit risk

Concentration of credit risk arises when one or more customers, defined as a major customer, individually account for 10% or more of the Companyõs revenues during a reporting period. During the current year the Company had two major customers which represented 19% and 15% of total revenues. In the prior year, two major customers accounted for 21% and 13% of total revenues. Amounts due from major customers represented 21% of accounts receivable at June 30, 2022 (2021 - 22%). The loss of a major customer, or significant curtailment of purchases by such customer, could have a material adverse effect on the Company's results of operations and financial condition. The Company monitors the relationship with all customers closely and ensures that every customer is subject to the same risk management criteria.

Liquidity risk

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

Market risks

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

Sensitivity to market risks

At June 30, 2022 the Company had:

- A bank operating loan that was not drawn upon (June 30, 2021 - $Nil). The loan, to the extent it is drawn upon, bears interest predicated upon the TD Bank prime lending rate.
- US$187,460 (June 30, 2021 ï US$175,397) included in accounts receivable. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $9,373 (June 30, 2021 ï $8,770) in future cash inflow.
- US$126,498 (June 30, 2021 ï US$103,251) included in accounts payable. A 5% decrease in the value of the Canadian dollar relative to the US dollar would result in an increase of $6,325(June 30, 2021 ï $5,163) 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.