ZTEST Electronics Inc.

Managementôs Discussion and Analysis
For The Year Ended June 30, 2021
(Prepared as at October 28, 2021)

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 consolidated financial and operating performance for the year ended June 30, 2021. The MD&A was prepared as of October 28, 2021 and was approved by the Board of Directors on October 28, 2021. It should be read in conjunction with the consolidated financial statements of the Company for the year ended June 30, 2021, 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 Companyôs shares trade on the Canadian Securities Exchange under the symbol "ZTE".

The Company held its annual general meeting on January 13, 2021 resulting in the re-election of the Steve Smith, K. Michael Guerreiro and Zachary Dingsdale, plus the election of Dean Tyliakos and Don Beaton. 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 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

All of fiscal 2021, and continuing right up to present, was dominated by the uncertainties caused by, and repercussions arising from, the COVID-19 pandemic. The Company has operated continuously throughout the pandemic but the way in which people interact and business is conducted has been altered dramatically. All personnel that can feasibly work remotely continue to do so, and safety measures remain in place to provide a safe workplace for those that can not. The Company is proud of how its personnel have conducted themselves throughout this pandemic and that there have been no positive cases of COVID-19 at its facility.

Although the Companyôs operating facility has remained COVID-free, that should not imply that the pandemic has had no impact. There have been disruptions and delays in the supply chain for materials and supplies, customer alterations to scheduled deliveries of finished product, inefficiencies caused by physical distancing and the use of personal protective equipment, and many other factors that impacted the Companyôs operations. With the aid of pandemic inspired government subsidies, the Company has faired reasonably well thus far, however the pandemic continues and its future implications for the Company, its personnel, its industry, its customers, its suppliers, and the broader scope domestic and international markets, cannot currently be estimated.

Corporate Performance - continued

As alluded to above, the Company has been, and continues to be, the beneficiary of government subsidies made available to qualifying companies as a result of COVID-19. During the period, the Company was a beneficiary of the Canadian Emergency Wage Subsidy (CEWS). The Canadian Emergency rent Subsidy (CERS), and the recipient of a further advance under the Canadian Emergency Business Account (CEBA). CERS and CEWS are government subsidies while CEBA is an interest-free loan until December 31, 2022, a portion of which may be forgiven if adequate repayment has been made by December 31, 2022. Each of these government programs have been made available to qualifying companies as a result of COVID-19.

The Company received a CEBA benefit of $40,000 during fiscal 2020 and this was increased by $20,000 in fiscal 2021. The CEBA balance of $60,000 is included in long-term debt. During fiscal 2021 the Company received CEWS in the amount of $222,388 and CERS of $23,386. Each of these subsidies were included in net income for the year the reduction of labour costs included in cost of product sales as well as employee compensation and occupancy costs included in selling, general and administrative expenses. The Company continues to monitor government subsidy programs, and to make application for any subsidies for which it meets the qualification criteria.

During the third quarter of 2021 the Company completed negotiations on a 5-year extension of the lease on its operating facility. The Company believes itself to be well located, in a facility that meets all of its requirements, and welcomed the extension that went into effect April 1, 2021 and extends to March 31, 2026. In accordance with IFRS 16 this lease extension has resulted in the Company recognizing a new right of use asset in the amount of $828,873, with a corresponding lease obligation. This amount, which was determined by discounting the lease payments to be made over the term of the lease extension, has significantly increased the Companyøs total assets, total liabilities, and current financial liabilities. The amortization charges related to the new right of use asset, and the imputed interest on the new lease obligation, both exceed the amounts that arose from the expired lease, and will have a comparatively negative impact upon future operating results.

Also during the third fiscal quarter, the Company placed an order for a new manufacturing machine and negotiated a new bank term loan equivalent to approximately 75% of the purchase price. The loan was funded in April 2021, facilitating adherence to the payment terms for the purchase. The machinery was released from the manufacturer in Singapore, delivered late June, and installed early July. The new machine, which is expected to enhance the Companyøs production capabilities and generate renewed customer interest, is faster, more economical, and has a broader scope of operations than the machine it replaced. The term loan has a term of 5 years, and bears interest at 3.386%. It is anticipated that the incremental depreciation charges and interest costs will have a comparatively negative impact upon future operating results.

In addition to these operational achievements, the Company also issued 1,350,500 common shares and 1,250,000 Series 1 preference shares during the year. The common shares were issued upon the exercise of warrants and stock options and generated cash proceeds of $193,975. The preference shares were issued to the founder and majority shareholder of Conversance Inc. (ñConversanceò) in exchange for 25,000 Class A shares (2.13%) of Conversance. This transaction was conditional, with the 25,000 shares remaining in escrow pending the occurrence of certain events at Conversance on or before June 30, 2021. Due primarily to negotiations that Conversance was engaged in, these required events did not occur, resulting in the redemption of the Series 1 preferred shares for $1. However, while these negotiations were underway, ZTEST and the majority shareholder of Conversance agreed to revisit this agreement. On October 28 a replacement agreement was executed, honouring all of the basic terms of the expired agreement except that, subject to the issuance of a press release and the filing of documentation with the Canadian Security Exchange, the 1,250,000 Series 1 preferred shares have been replaced by 1,250,000 Series 2 preferred shares and the expiry date has been extended to June 30, 2022. If conversion of the Series 2 preferred shares to 1,250,000 common shares occurs, ZTEST would hold a 27.43% interest in Conversance, based upon the number of shares currently outstanding. Through this replacement agreement, the option that ZTEST holds to acquire 75,000 shares of Conversance for $1,000,000 was also extended from December 31, 2022 to June 30, 2023.

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

As a result of the yearôs operations, and the issuance of shares, ZTEST experienced growth in capital under management and enhanced its liquidity position. Capital under management, which is comprised of shareholdersô equity plus armôs length long-term debt, increased by over 70% while working capital rose by more than 14%. In addition, current financial assets rose from being equivalent to 73% of current financial liabilities at the start of the year to marginally exceeding current financial liabilities at the end of the year. This enhanced liquidity position and the increased capital under management place the Company in a good position should the incremental costs from the lease extension and new machinery not be offset in the immediate future by otherwise enhanced operating results. The Company will continue its efforts to navigate the risks of COVID-19 while striving to further enhance the Companyôs liquidity and financial position. The following data may provide some additional insights relative to the Companyôs financial position and its operating performance:

	For the fiscal years ended:		
	June 2021	June 2020	June 2019
Total Revenues	4,009,460	3,888,898	4,399,062
Net income (loss) from operations	45,762	(81,102)	(274,085)
Per share - basic	0.002	(0.004)	(0.013)
Net income (loss) for the year	45,762	(818,737)	(344,186)
Per share - basic	0.002	(0.038)	(0.017)
Total assets	3,120,759	1,807,231	2,268,045
Total long-term financial liabilities	948,791	40,000	-
Total liabilities	2,116,323	1,042,533	943,985

	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

	For the fiscal quarters ended:			
	June 2020	Mar. 2020	Dec. 2019	Sept. 2019
Total Revenues	1,077,137	1,102,355	828,703	880,703
Net income (loss) from operations	178,572	(13,191)	(148,254)	(98,229)
Per share - basic	0.008	(0.001)	(0.007)	(0.005)
Net income (loss) for the period	(511,798)	(24,194)	(162,103)	(120,642)
Per share - basic	(0.024)	(0.001)	(0.008)	(0.006)
Total assets	1,807,231	2,306,150	2,120,412	2,314,453
Total long-term financial liabilities	40,000	-	26,809	54,201
Total liabilities	1,042,533	1,029,654	1,079,097	1,111,035

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

Results of Operations

Revenues for the 2021 fiscal year were just over 3% greater than they had been during the prior fiscal year, with the first half of 2021 outperforming 2020 by 6.7% and the final half of 2021 lagging 2020 results by about 4.4%. In the second half of 2021 the Company began be significantly impacted by escalating delivery times resulting from the world-wide shortage of electronic components. This shortage is having an impact on a multitude of industries, in many different countries, and is expected to persist for many months. The Company has orders in-house that it simply cannot complete until the components arrive.

Had it not been for a higher than average final month, it is likely that 2021 revenues would have been more similar to, or even marginally less than, 2020 revenues. The Company had made many of its customers aware that production was going to be interrupted briefly in the month of July 2021 to facilitate the installation of new machinery. While installations should proceed without unplanned difficulties, that is never certain. Production was accelerated in advance of the interruption to ensure that scheduled deliveries of completed products would be accommodated however certain customers opted for delivery earlier than scheduled. This resulted in revenues, which otherwise would have been realized during Q1 2022, being recognized in June 2021. The installation of the new machinery proceeded successfully, as scheduled, and production was only interrupted for a couple days.

Although revenues were 3.1% greater in 2021 than they had been in 2020, the gross margins realized in each year were almost identical. To more accurately analyse these margins, it is beneficial to eliminate the effects of government subsidies received. During 2021 the Company realized a gross margin of $1,231,515, after giving effect to government subsidies received in the amount of $143,164. Without these subsidies the margins would have been $1,088,351, representing 27.1% of periodic revenues. The corresponding gross margins for 2020 would have been $1,123,666 and 28.9% of periodic revenues, without the $105,129 in subsidies received. Prior to the COVID-19 pandemic the Company had been making a concerted effort to increase its gross margins and that effort was reflected in the 2020 results. The onset of the pandemic has not only negated much of this effort but has also impacted directly upon component costs, delivery costs, labour management, and other elements of cost of product sales that generated negative impact upon gross margin. Management will continue investigating all product costs and alternatives for enhancing margins as a percentage of periodic revenues however this is expected to be challenging until supply of components becomes more predictable.

The different elements of cost of product sales, and the changes realized, are as follows:

Years ended	June 21	June 20	Change
Raw materials and supplies consumed	$ 1,998,385	$ 1,868,875	$ 129,510
Labour costs incurred	637,884	647,450	(9,566)
Depreciation	38,285	47,509	(9,224)
Other costs	110,493	117,610	(7,117)
Net change in finished goods and work in process	(7,102)	(21,341)	14,239
Total cost of product sales	$ 2,777,945	$ 2,660,103	$ 117,842

Three month periods ended	June 21	June 20	Change
Raw materials and supplies consumed	$ 500,967	$ 553,743	$ (52,776)
Labour costs incurred	176,784	78,743	98,041
Depreciation	9,572	11,891	(2,319)
Other costs	29,247	26,426	2,785
Net change in finished goods and work in process	5,703	(4,506)	10,209
Total cost of product sales	$ 772,273	$ 666,027	$ 106,246

Results of Operations - continued

The cost of raw materials and supplies consumed have risen in 2021, both in value and as a percentage of periodic revenues. In fiscal 2021 these costs were just under 50% of periodic revenues while in 2020 they were just over 48%. Customers always have a choice between supplying required components themselves or having them supplied by the Company and the availability of this choice contributes to variances in these costs from one period to the next. Furthermore, aside from the disruptive effect that COVID-19 has had on the supply of components, it has also impacted upon the cost of supply, driving costs higher. Both in spite of these challenges, and because of them, management consistently promotes the benefits customers will derive from the Companyôs provision of necessary components. It should be anticipated that these costs will continue to vary from one period to the next depending on the size and complexity of the orders completed during that particular period and the choice made by customers.

Labour costs incurred, net of subsidies, for the two fiscal years were quite comparable although there were certainly variances in the individual fiscal quarters. The most significant variance is attributable to the timing of government subsidies received which are netted against these costs. For the 2020 fiscal year the Company received subsidies in the amount of $105,129, all of which arose in the final fiscal quarter. If not for those subsidies then the costs for the final quarter would have been $183,872 while the costs for the year would have been $752,579. In comparison, subsidies for fiscal 2021 were $143,164, with $31,054 arising in the final quarter. Eliminating these would increase costs to $781,048 for the year, including $207,838 in the final quarter. This means that gross labour costs were 3.8% higher in 2021 than they had been in 2020 and that virtually all of that increase arose in the final quarter, when production was increased to compensate for the down-time that would arise upon installation of the new equipment.

The net change in finished goods and work in process is a measure of the change in labour costs included in inventory. Similar to gross labour costs, we see that most of the increase for the 2021 fiscal year arose in the final quarter. Just like labour costs rose due to increased production, these costs rose in the fourth quarter due to the shipments that were accelerated into the month of June.

Depreciation is a function of time and the carrying value of the manufacturing equipment in use. The new machine arrived in June but was not installed and put into operation until July so no depreciation was recorded during the 2021 fiscal year. However, this new equipment will give rise to higher depreciation costs 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. These costs are comparable for the reported periods and are within management expectations.

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

Years ended	June 21	June 20	Change
Employee and consultant compensation	$ 744,373	$ 841,418	$ (97,045)
Occupancy costs	248,043	266,277	(18,234)
Professional fees	79,412	64,067	15,345
Insurance	32,376	33,197	(821)
Shareholder services	28,783	16,377	12,406
Other costs	41,421	41,452	(31)
Total selling, general and administrative	$ 1,174,408	$ 1,262,788	$ (88,380)

Three month periods ended	June 21	June 20	Change
Employee and consultant compensation	$ 206,994	$ 131,281	$ 75,713
Occupancy costs	65,705	62,357	3,348
Professional fees	12,251	13,001	(750)
Insurance	7,955	8,527	(572)
Shareholder services	4,671	4,150	521
Other costs	7,786	8,045	(259)
Total selling, general and administrative	$ 305,362	$ 227,361	$ 78,001

Results of Operations - continued

Employee and consultant compensation costs, which include salaries, benefits, consulting fees, and independent directorsô fees. Employee compensation has been reduced by CEWS benefits received in each period presented. During 2021 the Company received subsidy of $79,224, including $18,482 in the fourth quarter. For the 2020 fiscal year subsidies amounted to $59,406, all of which arose in the final quarter. This tells us that, on a pre-subsidy basis, gross costs were $77,227 lower in 2021 despite costs being $34,789 higher in the fourth quarter. Employee compensation declined in the year, but rose in the final quarter, due to a performance bonus earned in 2021 by senior management of PEC, an employee who retired at the start of the pandemic was not replaced until the third quarter of 2021, and a promotion that occurred at the end of the second quarter of 2021 effectively replacing another who had reduced their workweek and remuneration by more than 50% at the end of the 2020 fiscal year. In addition to this there was an increase in fees paid to independent directors in 2021, in part because there were more directors that qualified for these fees and in part because certain fees were waived during the final quarter of 2020.

Occupancy costs appear to have been $18,234 lower in 2021 than they had been in 2020 however this apparent reduction is due to CERS subsidy of $23,386 that was received during 2021, while no subsidies were received in 2020. The increase in pre-subsidy costs in 2021 is a direct result of the new lease extension that took effect at the start of the fourth quarter. This is most evident when comparing figures for the fourth quarter where the 2021 costs, even net of $10,224 in subsidy, exceeded the costs incurred in the same period of 2020. At the start of the 2020 fiscal year the Company recognized a right of use asset in the amount of $214,897 based on discounting monthly lease payments of $8,979 for twenty-one months. The lease extension requires monthly lease payments that average $15,015 over a sixty-month period and resulted in recognizing a right of use asset valued at $863,873. It therefore follows that the higher monthly payments, and greater amount of amortization applicable to the right of use asset, will result in higher periodic costs.

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 risen during 2021. A significant portion of legal fees relate to matters of corporate administration and governance for which there was additional requirement during the first three quarters of 2021, including work related to the shareholders meeting held January 2021 and facilitating the issuance of preferred shares in conjunction with the proposed acquisition of shares of Conversance Inc. during the first fiscal quarter.

Shareholder services have risen in the current periods, primarily as a result of the shareholders meeting held January 2021 and certain regulatory filings associated with the two new directors elected at that meeting.

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

The Companyõs financing costs for the periods were as follows:

Years ended		June 21		June 20		Change
Interest expense ï long term	$	2,439	$	5	$	2,434
Interest expenses ï lease liability		8,304		7,141		1,163
Interest expense ï other		599		5,608		(5,009)
Financing fees		-		16,181		(16,181)
Total financing expenses	$	11,342	$	28,935	$	(17,593)

Three month periods ended		June 21		June 20		Change
Interest expense ï long term	$	2,439	$	-	$	2,439
Interest expenses ï lease liability		6,793		1,247		5,546
Interest expense ï other		133		401		(268)
Financing fees		-		3,889		(3,889)
Total financing expenses	$	9,365	$	5,537	$	3,828

Results of Operations - continued

The Company had a single long-term debt instrument, which matured in the first month of the 2020 fiscal year, such that there was virtually no expense incurred during that year. There also was no expense incurred for the first three fiscal quarters of 2021. This changed when the new equipment term loan was funded in April 2021. This loan has a term of sixty months so it should be expected that the results for the most recent fiscal quarter will be relatively indicative of future periods.

The Company recognizes imputed interest on its lease liability. The original lease liability matured March 2021 the declining balance of that liability throughout 2020 and the first three quarters of 2021 resulted in fairly modest interest charges. The new lease extension took effect April 1, 2021 and the higher balance of that obligation gives rise to greater interest charges. This liability has a term of sixty months so it should be expected that the results for the most recent fiscal quarter will be relatively indicative of future periods.

Interest expense ï other represents interest arising from the use of the Companyös operating line as well as miscellaneous interest charges incurred. The Company made no use of its bank operating line in the 2021 fiscal year.

The Company was subject to an agreement with a related party whereby it could offer to sell specific accounts receivable to that related party at a discount from the face value of the receivable. That discount was accounted for as financing fees at the time of the sale. The agreement was terminated July 2020.

Liquidity

At June 30, 2021 the Company had working capital of $549,988 (2020- $481,680) and current financial assets of $1,211,771 (2020- $732,471) available to settle current financial liabilities of $1,167,532 (2020- $1,002,533). The Company also has access to a $250,000 bank operating line, of which $Nil had been drawn as of June 30, 2021 or June 30, 2020.

In addition, the Company must also address the payment of the following amounts as at June 30, 2021:

	Due by June 30: 2022	2023	2024	2025	2026	Due after June 2026	Total Due
Long-term debt	$ 58,932	$ 70,929	$ 83,011	$ 85,192	$ 66,091	$ -	$ 364,155
Lease liability [1]	149,092	158,830	168,904	178,185	137,649	-	792,660
	$ 208,024	$ 229,759	$ 251,915	$ 263,377	$ 203,740	$ -	$ 1,156,815

[1] The Company signed a lease extension for its operating facility covering a five-year period that commenced April 1, 2021.

Capital Resources

The Company has a $250,000 commercial line of credit from which $Nil was drawn as at June 30, 2021 and June 30, 2020. 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 during the year in the amount of $313,748 of which $304,155 remains payable at June 30, 2021. 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, 2020 however it did complete the following transactions related to its securities:

- 1,250,000 Convertible Preferred Shares Series 1 were issued in exchange for 25,000 Class A shares of Conversance Inc. If Conversance Inc. had caused certain events to take place on or before June 30, 2021 then these shares would have been automatically converted into common shares of the Company. Those events did not happen so the 1,250,000 Convertible Preferred Shares Series 1 were redeemed for the aggregate redemption price of $1. The 25,000 Class A shares of Conversance were to be returned to the former owner however a new arrangement was negotiated subsequent to the year end date.
- 1,150,500 common shares were issued upon the exercise of warrants for proceeds of $183,975
- 200,000 common shares were issued upon the exercise of stock options for proceeds of $10,000
- Subsequent to June 30, 2021, 200,000 common shares were issued upon the exercise of stock options for proceeds of $10,000, 540,000 common shares were issued upon the exercise of warrants for proceeds of $32,400 and 1,250,000 Convertible Preferred Shares Series 2 were issued in exchange for 25,000 Class A shares of Conversance Inc.

Related Party Transactions

The Company had transactions during the periods with key management personnel and with 1114377 Ontario Inc., a company controlled by the spouse of a former Director of PEC. 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 Wojciech Drzazga (3) as officers of PEC, legal fees paid to a legal firm in which William R. Johnstone (Corporate Secretary) is a partner, financing fees paid to 1114377 Ontario Inc., 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 21	June 20	Change
Salaries and benefits (1)	$ 136,189	$ 265,543	$ (129,354)
Consulting fees (1)	141,985	162,000	(20,015)
Directorsô fees (1)	47,500	19,230	28,270
Legal fees (2)	45,087	34,957	10,130
Accounting fees (2)	3,700	3,500	200
Financing fees (4)	-	16,181	(16,181)
Legal fees accounted for as share issuance costs	-	5,000	(5,000)
Cash based expenditures	$ 374,461	$ 506,411	$ (131,950)
Share-based payments	$ -	$ -	$ -

(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.
(3) Wojciech Drzazga was CEO of PEC until June 14, 2020.
(4) The agreement with 1114377 Ontario Inc. was terminated July 2020.

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:

	2021	2020	Change
Salaries and benefits payable	9,801	10,669	(868)
Directorsô fees payable (1)	72,280	37,397	34,883
Consulting fees payable (1)	379,614	276,773	102,841
Legal fees payable	55,522	33,831	21,691
Salaries and benefits payable	517,217	358,670	158,547

(1) During the 2020 fiscal year, the Company settled $153,500 owing to these related parties in exchange for 1,023,000 common shares.

Related Party Transactions - continued

The following stock options have been issued to Directors, former Directors and/or Officers of the Company and were outstanding as at June 30, 2021:

Description	Expiry Date	Number of Common Shares
Stock options @ $0.05 per share [(1)]	Mar. 3, 2021	200,000
Stock options @ $0.95 per share	Jan. 12, 2023	350,000

(1) The expiry date of these options was extended in accordance with the terms of the stock options agreements. These options were exercised subsequent to June 30, 2021.

During the year ended June 30, 2021, 200,000 stock options with an exercise price of $0.95 that were held by a former Director of the Company expired, 200,000 options with an exercise price of $0.05 were exercised, and no new stock options were granted.

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Common shares issued:	Quantity		Amount
Balance as at June 30, 2019	21,103,696	$	23,394,174
Issued through private placement, net of costs [(1)]	750,000		65,922
Issued in settlement of debts	1,023,000		153,450
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	540,000		44,539
Stock options exercised	200,000		17,961
Balance as at the date of this document	24,967,196	$	23,922,372

(1) Costs include findersô fees, legal and brokerage fees, and the value of the associated warrants and/or broker warrants as determined using the Black-Scholes valuation model.

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
Balance as at the date of this document	1,250,000	$	1

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 @ $0.05 per share	Mar. 2021	200,000
Warrants @ $0.06 per share	Dec. 2021	2,360,000
Stock options @ $0.95 per share	Jan. 2023	350,000
Common shares reserved as at June 30, 2021		2,918,246

Convertible Instruments and Other Securities - continued

Common shares reserved as at June 30, 2021		2,918,246
Stock options @ $0.05 per share - exercised	Mar. 2021	(200,000)
Warrants @ $0.06 per share - exercised	Dec. 2021	(540,000)
Shares reserved for conversion of Series 2 preferred shares		1,250,000
Common shares reserved as at the date of this document		3,428,246

(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 at June 30, 2021	24,227,196
Shares reserved at June 30, 2021	2,918,246
Fully diluted number of shares at June 30, 2021	27,145,442
Shares issued after June 30, 2021	740,000
Change in shares reserved after June 30, 2021	510,000
Fully diluted number of shares as at the date of this document	28,395,442

Additional disclosures relative to stock options are as follows:

No stock options were granted during the years ended June 30, 2020 or June 30, 2021, or after the fiscal year end. The following provides additional details with respect to stock option changes:

	Common Shares Under Option		Weighted Average Price per Option	Weighted Average Expiry Date
Balance at June 30, 2020	1,000,000	$	0.55	Sep. 2, 2021
Exercised during the year	(200,000)		0.05	Mar. 3, 2021
Expired during the year	(250,000)		0.79	July 26, 2020
Balance at June 30, 2021	550,000		0.62	May 9, 2022
Exercised after the end of the year	(200,000)		0.05	Mar. 3, 2021
As at the date of this document	350,000		0.95	Jan. 12, 2023

As at the date of this document, the following stock options, each of which has vested and are held by Directors and/or Officers of the Corporations, 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	$	0.95	Jan. 12, 2023

Additional disclosures relative to share purchase warrants are as follows:

The following weighted average assumptions were used to calculate the fair value of the warrants issued during the years ended June 30:

	2021	2020
Dividend yield	None issued	Nil
Risk free interest rate (%)	None issued	1.27
Expected stock volatility (%)	None issued	119.88
Expected life (years)	None issued	1.0

Convertible Instruments and Other Securities - continued

The following provides additional details with respect to warrant changes:

	Number of Warrants		Weighted Average Price per Warrant	Weighted Average Expiry Date
Balance at June 30, 2020	4,378,400	$	0.15	Aug. 30. 2021
Exercised during the year	(1,150,500)	$	1.16	Jul. 14, 2021
Expired during the year	(867,900)	$	0.40	Jan. 17, 2021
Balance at June 30, 2021	2,360,000	$	0.06	Dec. 15, 2021
Exercised after the year	(540,000)	$	0.06	Dec. 15, 2021
Balance as at the date of this document	1,820,000	$	0.06	Dec. 15, 2021

As at the date of this document, the following share purchase warrants are outstanding:

	Number of Warrants		Exercise Price	Expiry Date
Issued Dec. 15, 2016	1,820,000	$	0.06	Dec. 15, 2021

Financial instruments

The Companyӳ financial instruments are comprised of the following:

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

Financial liabilities:	*Classification*
Bank operating loan	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Customer deposits	Amortized cost
Lease liability	Amortized cost
Long-term debt	Amortized cost

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

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

Impairment of Non-financial Assets

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

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 assetӳ 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 armӳ 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.

Impairment of Non-financial Assets - continued

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 the fiscal year ended June 30, 2020.

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 Companyœs 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 Companyœs 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 Companyœs 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 Companyœs 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 Companyœs 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 Companyœs 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, 2021 and June 30, 2020**.**

Risk Factors - continued

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 Companyôs revenues during a reporting period. During the current year the Company had two major customers which represented 21% and 13% of total revenues. In the prior year, two major customers accounted for 20% and 19% of total revenues. Amounts due from major customers represented 22% of accounts receivable at June 30, 2021 (2020 - 17%). 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, 2021 the Company had current financial assets of $1,211,771 (2020 - $732,471) available to settle current financial liabilities of $1,167,532 (2020 - $1,002,533). 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 Companyôs 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 gain of $5,043 (2020 ï loss of $13,486).

Sensitivity to market risks
At June 30, 2021 the Company had:

- A bank operating loan that had not been drawn upon (June 30, 2020 - $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 would have no impact upon interest expense ï other over the next 12 month period.
- US$175,397 (June 30, 2020 ï US$61,399) 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 $8,770 in future cash inflow.
- US$103,251 (June 30, 114,337 ï US$114,337) 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 $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.

Forward-looking Information - continued

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.