ZTEST Electronics Inc.

Managementôs Discussion and Analysis
For The Nine Month Period Ended March 31, 2023
(Prepared as at May 30, 2023)

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 nine months ended March 31, 2023. The MD&A was prepared as of May 30, 2023 and was approved by the Board of Directors on May 30, 2023. It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the nine months ended March 31, 2023, and the audited consolidated financial statements for the year ended June 30, 2022, including the notes thereto. Unless otherwise stated, all amounts discussed herein are denominated in Canadian dollars.

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

The Company

ZTEST is located at 523 McNicoll Avenue, Toronto, Ontario. Through its wholly-owned subsidiary, 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 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. On May 1, 2023 Zachery Dingsdale resigned from the Board for personal reasons, resulting in a vacancy on the Board and on the Audit Committee. The Companyôs management is currently as follows:

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

[*] Committee Chair
[1] Member of the audit committee
[2] Director of Permatech Electronics Inc.
[3] In December 2022 John Perreault retired and resigned his positions as an Officer and a Director of Permatech Electronics Corporation. Suren Jeyanayagam was appointed President of Permatech and was also appointed to fill the vacancy on the Board of Permatech.
[4] In December 2022 Dean Tyliakos was elected to the Board of Permatech, replacing K. Michael Guerreiro.
[5] Director of Conversance Inc.

Corporate Performance

On January 30, 2020 the World Health Organization (WHO) declared COVID-19 a global health emergency and on March 11, 2020 they declared it a pandemic. This status persisted until May 5, 2023 at which time WHO declared that COVID-19 no longer represented a global health emergency. The effects of COVID-19 were vast and widespread, and are perceived to have impacted upon current business risks, but is no longer perceived to be a risk in and of itself.

The first nine months of the 2023 fiscal year, and in particular the most recent quarter, produced encouraging results while continuing to be impacted by supply chain disruptions. Many required parts continue to not arrive on schedule, often with little or no advanced warning, causing or perpetuating production delays. This situation has now been recurring for long enough that new delays are offset, at least to a degree, by the arrival of previously delayed parts. The most recent quarter was somewhat demonstrative of this situation as it produced revenues that were almost 40% more than the preceding fiscal quarter, while still producing a 40% increase in inventory levels over that same period.

Corporate Performance - continued

Despite unavoidable production delays, revenues continue to rise. Total revenues in fiscal 2022 were more than 10% above 2021 levels and 2023 revenues appear destined to surpass 2022. The final quarter of the 2022 fiscal year produced the Company's highest quarterly revenue figure in recent years, yet revenues for the first 9 months of the 2023 fiscal year are 42% more than the same period last year and are more than 88% of revenues for all of fiscal 2022.

While revenues continue to grow so too does inventory. As a custom manufacturer, inventory is only acquired to service orders placed by customers so inventory is generally representative of near-future revenues. However, inventory growth can put a strain on liquidity. In the first 9 months of 2023 inventory has increased more than 112%, or $961,352. This inventory growth has contributed significantly to an increase of over $1 million in current liabilities while also resulting in a net use of cash. Working capital has increased 12.5% in this time period however current financial liabilities have also grown at a faster rate than current financial assets. The Company's liquidity risk continues to be manageable but there is no doubt that abatement of production delays, sufficient to first stop and then reverse inventory growth, would simplify that management process.

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

	For the fiscal years ended:		
	June 2022	June 2021	June 2020
Total Revenues	4,415,275	4,009,460	3,888,898
Net (loss) income from operations	(266,878)	45,762	(81,102)
Per share - basic	(0.010)	0.002	(0.004)
Net (loss) income for the year	(266,878)	45,762	(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:			
	Mar. 2023	Dec. 2022	Sept. 2022	June 2022
Total Revenues	1,594,507	1,141,352	1,168,956	1,677,062
Net income (loss) for the period	191,154	(112,126)	(86,737)	114,966
Per share - basic	0.007	(0.004)	(0.003)	0.004
Total assets	4,000,133	3,206,695	3,325,446	3,081,924
Total long-term financial liabilities	556,678	614,619	672,075	729,032
Total liabilities	3,088,834	2,486,550	2,493,175	2,198,767

	For the fiscal quarters ended:			
	Mar. 2022	Dec. 2021	Sept. 2021	June 2021
Total Revenues	1,326,227	781,865	630,121	1,045,365
Net income (loss) for the period	(23,906)	(191,338)	(169,612)	9,997
Per share - basic	(0.001)	(0.008)	(0.007)	0.000
Total assets	3,309,755	2,996,924	2,975,768	3,120,759
Total long-term financial liabilities	755,507	840,415	894,843	948,791
Total liabilities	2,541,563	2,207,838	2,098,545	2,116,323

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

Results of Operations

The third quarter of 2023 provided quarterly revenues second only to Q4 2022 in the Companyôs history. This was made possible by the receipt of sufficient parts to allow many turnkey products to be completed along with a short-term increase in assembly-only work. At the same time, the Companyôs order backlog, and associated inventories continued to grow supporting that near-future revenues should continue to be strong.

Of equal importance is the continued improvement in gross margins. Gross margins are impacted by many factors including, but not limited to, production volumes, product mix and order sizes. Each of these factors contributed to generate margins of 33.4% in the most recent quarter, versus 25.3% one year earlier. This also raised margins for the nine month period to 28.2%, as compared to 24.3% for the same period in 2022. To better understand gross margins, one must look more closely at cost of product sales. The different elements of cost of product sales for the periods ended March 31 were as follows:

Nine-month periods:	2023	2022	Change
Raw materials and supplies consumed	$ 1,964,499	$ 1,368,347	$ 596,152
Labour costs incurred	631,779	590,871	40,908
Labour subsidies received	-	(42,771)	42,771
Depreciation	73,065	60,594	12,471
Other costs	134,738	114,918	19,820
Net change in finished goods and work in process	(506)	(19,300)	18,794
Total cost of product sales	$ 2,803,575	$ 2,072,659	$ 730,196

Three-month periods:	2023	2022	Change
Raw materials and supplies consumed	$ 749,876	$ 726,216	$ 23,660
Labour costs incurred	225,344	208,038	17,306
Depreciation	24,355	17,488	6,867
Other costs	46,493	44,931	1,562
Net change in finished goods and work in process	15,411	(6,416)	21,827
Total cost of product sales	$ 1,061,479	$ 990,257	$ 71,222

The cost of raw materials and supplies consumed rose approximately 3.3% in the most recent quarter and were 43.6% greater for the nine month period, in comparison to the same periods ended March 31, 2022. The current period results are, as always the result of a combination of factors. We have spoken frequently of many of the incremental costs being incurred in order to overcome supply issues and these incremental costs were at or near their peak in Q3 2022, contributing to higher costs in that period. Also contributing to the results was higher than average turnkey production in Q3 2022 as compared to greater labour demand, and reduced parts demand, in Q3 2023. This is not a reduction in turnkey work, just a short-term increase in the labour element included in the turnkey work completed. This sort of variance happens periodically and is not necessarily indicative of future expectations.

Labour costs incurred rose in the current quarter, in comparison to the same period last year. They were also greater than the average for the first two quarters of the current year, which had been consistent with the quarterly average for the 2022 fiscal year. This increase is primarily due to increased labour demand in the period, aided, to a very small degree, by annual wage increases that took effect January 1. As alluded to above, certain production jobs completed in the most recent period required more labour than the average turnkey job resulting in this higher labor demand.

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 for the period. These aggregate costs were $240,755 for the most recent quarter, as compared to $201,622 the year before, representing an increase of 19.4%. This is coincidently similar to the revenue increase of 20.2% for the period and is caused by the aforementioned short-term increase in labour demand. The figures for the nine month period, which reflect a cost increase of 10.4% while revenues rose 42.6%, are more consistent with previous periods that saw costs rise at a tangibly lower rate than revenues.

Results of Operations - continued

The Company acquired some new machinery that was put it into service at the start of the 2022 fiscal year, replacing older machinery which was removed from service. The addition of new equipment typically results in higher periodic depreciation charges over the first two years of its useful life. It is expected that depreciation charges will begin to decline in the 2024 fiscal year.

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

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

Nine-month periods:		2023		2022		Change
Employee and consultant compensation	$	665,247	$	694,291	$	(29,044)
Compensation subsidies received		-		(25,227)		25,227
Occupancy costs		241,960		240,985		975
Rent subsidies received		-		(13,923)		13,923
Professional fees		58,681		41,617		17,064
Shareholder services		21,983		14,815		7,168
Insurance		27,997		23,221		4,776
Other costs		40,334		36,790		3,544
Total selling, general and administrative	$	1,056,202	$	1,012,569	$	43,633

Three-month periods:		2023		2022		Change
Employee and consultant compensation	$	209,152	$	237,810	$	(28,658)
Occupancy costs		81,946		78,849		3,097
Professional fees		18,734		9,425		9,309
Shareholder services		4,047		4,169		(122)
Insurance		9,092		7,311		1,781
Other costs		12,358		9,429		2,929
Total selling, general and administrative	$	335,329	$	346,993	$	(11,664)

Employee and consultant compensation costs, which include salaries, benefits, consulting fees, and independent directorsô fees have remained entirely comparable year over year except for the impact of the retirement of the President of Permatech at the end of 2022 and the termination of government subsidy programs introduced during the COVID-19 pandemic.

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

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

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

Results of Operations - continued

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

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

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

Nine-month periods:		2023		2022		Change
Interest expense ï long term	$	5,623	$	7,142	$	(1,519)
Interest expense ï other		3,153		1,202		1,951
Interest expense ï lease liability		14,647		18,524		(3,877)
Total financing expenses	$	23,423	$	26,868	$	(3,445)

Three-month periods:		2023		2022		Change
Interest expense ï long term	$	1,718	$	2,223	$	(505)
Interest expense ï other		2,362		936		1,426
Interest expense ï lease liability		4,551		5,863		(1,312)
Total financing expenses	$	8,631	$	9,022	$	(391)

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

Interest expense ï other represents interest arising from the use of the Companyôs operating line as well as miscellaneous interest charges incurred. The Company made use of its operating line briefly during the first quarter of this fiscal year, and again during the most recent quarter, resulting in the increase in interest costs.

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

At March 31, 2023, the Company had working capital of $539,769 (June 30, 2022 ï $450,635) and current financial assets of $1,169,898 (June 30, 2022 - $1,050,790) available to settle current financial liabilities of $2,532,156 (June 30, 2022 - $1,469,735). The Company also has access to a $500,000 bank operating line, of which $125,000 (June 30, 2022 ï $Nil) had been drawn as of March 31, 2023.

In addition to satisfying the cost of operations the Company must also address the settlement of the following obligations as at March 31, 2023:

		Due by Mar. 2024		Due by Mar. 2025		Due by Mar. 2026		Due after Mar. 2026		Total Due
Long-term debt [1]	$	69,953	$	94,257	$	90,065	$	5,733	$	259,708
Lease liability		166,353		176,685		182,762		-		525,800
	$	236,306	$	270,942	$	272,827	$	5,733	$	1,202,621

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

Capital Resources

The Company has a $500,000 commercial line of credit from which $125,000 (June 30, 2022 - $Nil) was drawn as at March 31, 2023. 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 of which $199,707 remains payable at March 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 has not completed any financing transactions or issued any securities since June 30, 2022.

Related Party Transactions

The Company had transactions during the periods with key management personnel. These include consulting fees paid to Steve Smith (President and CEO), consulting fees 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:

Nine-month periods ended March 31	2023	2022
Salaries and benefits [1]	$ 104,752	$ 99,471
Consulting fees [1]	108,000	108,000
Directorsô fees [1]	43,500	47,250
Legal fees [2]	15,105	22,803
Accounting fees [2]	6,000	4,255
Cash based expenditures	$ 277,357	$ 281,779
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 unaudited condensed interim consolidated financial statements as an element of accounts payable and accrued liabilities, as at March 31 of each year:

	2023	2022
Salaries and benefits payable	$ 5,000	$ 7,113
Consulting and Director fees payable [1]	$ 769,606	$ 579,006
Professional fees payable	$ 59,673	$ 35,566

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

The following stock options have been issued to Directors, former Directors, and Officers of the Company and its subsidiary, and were outstanding as at March 31, 2023:

Description	Expiry Date	Number of Common Shares
Stock options @ $0.95 per share	Jan. 12, 2023	350,000
Stock options @ $0.10 per share [1]	Nov. 1, 2023	175,000
Stock options @ $0.10 per share	Sep. 30, 2027	1,100,000

(1) The expiry date of these options has been amended from Sep. 30, 2027 to Oct. 21, 2027 based on the holderôs date of resignation as a Director of the Company.

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Common shares	Quantity	Amount
Common shares 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 March 31, 2023, June 30, 2022, March 31, 2022, and as at the date of this document	26,687,196	$24,064,236

In addition to the shares issued and outstanding the Company has issued share purchase warrants and stock options as incentives to various parties. The following list itemizes the common shares that have been reserved to satisfy the conversions and exercise of warrants and options along with the expiry date associated therewith.

Shares reserved	Expiry Date	Number of Common Shares
Common shares to be issued for Class A shares (1)		8,246
Stock options @ $0.95 per share	Jan. 2023	350,000
Stock options @ $0.10 per share (1)	Nov. 2023	175,000
Stock options @ $0.10 per share	Sep. 2027	1,100,000
Shares reserved at March 31, 2023 and as at the date of this document		1,633,246

(1) Following the 2013 conversion of Class A Special Shares to common shares, 8,246 common shares remain reserved to be issued if and when the remaining Class A shareholders identify themselves to the Company.
(2) The expiry date of these options has been amended from Sep. 30, 2027 to Oct. 21, 2023 being six months from the date the holder resigned from the Board of the Company.

Fully diluted number of shares	Quantity
Shares issued at March 31, 2023 and as at the date of this document	26,687,196
Shares reserved at March 31, 2023 and as at the date of this document	1,633,246
Fully diluted number of shares at March 31, 2023 and as at the date of this document	28,320,442

Additional disclosures relative to stock options are as follows:

	Average Common Shares Under Option		Weighted Price per Option	Average Expiry Date
Balance at June 30, 2022	550,000	$	0.62	May 9, 2022
Granted during the period	1,275,000		0.10	Sep. 30, 2027
Amended during the period (1)	(200,000)		0.10	Sep. 30, 2027
Amended during the period (1)	200,000		0.10	Nov. 1, 2023
Balance at March 31, 2023 and as at the date of this document	1,825,000	$	0.28	Apr. 23, 2026

The following stock options, each of which has vested, are outstanding:

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

(1) The expiry date of these options had been amended in accordance with the terms of the stock options agreements.
(2) Directors and/or Officers of the Company, or its subsidiary, hold these options.

Convertible Instruments and Other Securities - continued

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

	Mar. 31 2023	June 30 2022
Dividend yield	**Nil**	None issued
Risk free interest rate (%)	**3.24%**	None issued
Expected stock volatility (%)	**135.92%**	None issued
Expected life (years)	**5**	None issued

No warrants were issued during the period ended March 31, 2023 or during the year ended June 30, 2022 and there were no warrants outstanding as at June 30, 2022, March 31, 2023, or as at the date of this document.

Financial instruments

The Companyös financial instruments are comprised of the following:

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

Financial liabilities:	*Classification*
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 assetös 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 armös 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 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 Companyƒs 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 Companyƒs 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 Companyƒs 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 Companyƒs 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 Companyƒs 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 Companyƒs 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 any of the periods presented.

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 Companyƒs revenues during a reporting period. During the nine-month period ended March 31, 2023 the Company had three major customers who represented 17%, 13% and 13% of total revenues. In the comparative period, there were three major customers which represented 16%, 15% and 10% of revenues. Amounts due from major customers represented 65% of accounts receivable at March 31, 2023 (Mar. 31, 2022 - 43%). 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.

Risk Factors - continued

Liquidity risk
Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. At March 31, 2023 the Company had current financial assets of $1,169,898 (June 30, 2022 - $1,050,790) available to settle current financial liabilities of $2,532,156 (June 30, 2022 - $1,469,735). The Company also has a bank operating line available in the mount of $500,000 of which $125,000 (June 2022 - $Nil) had been utilized at March 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 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 period the Company has reported a foreign exchange gain in the amount of $9,944 (Mar. 31, 2022 ï loss of $3,834).

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

- A bank operating loan subject to a floating interest rate on which $125,000 had been drawn (June 2022 - $Nil). A 1% increase in the floating rate would add $1,250 in interest expense over the ensuing 12 months.
- US$121,200 (June 2022 ï US$187,460) included in accounts receivable. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $6,060 in future cash inflow.
- US$199,619 (June 2022 ï US$126,498) included in accounts payable. A 5% decrease in the value of the Canadian dollar relative to the US dollar would result in an increase of $9,981 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 that 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, readers 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 readers 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.