ZTEST Electronics Inc.

Managementôs Discussion and Analysis
For the Six Month Period Ended December 31, 2020
(Prepared as at February 25, 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 interim condensed consolidated financial and operating performance for the six months ended December 31, 2020. The MD&A was prepared as of February 25, 2021 and was approved by the Board of Directors on February 25, 2021. It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the six months ended December 31, 2020, and the audited consolidated financial statements for the year ended June 30, 2020, 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

The first six months of the 2021 fiscal year continued to be 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 had no impact. There have been implications in the supply chain for materials and supplies, 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. Although there have certainly been implications, the Company can report that, with the aid of government subsidies, the COVID related factors affecting operations to date have been far more inconvenient than devastating. However, the pandemic continues, and the number of infections in many parts of the world are rising, so future implications 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.

Corporate Performance - continued

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.

During the first six months of this fiscal year, the Company has received $20,000 under CEBA, $129,875 in CEWS subsidy and $6,077 in CERS subsidy. The CEBA amount is included in long-term debt while the subsidies are included in net income for the period through the reduction of labour costs included in cost of product sales as well as employee compensation and occupancy costs included in expenses. The Company will continue to monitor government subsidy programs and to make application for any subsidies for which it may meet the qualification criteria.

The Company has realized improvements in both liquidity and capital under management during the first six months of the year. The second quarter of the fiscal year is traditionally more challenging for the Company due to the Holiday season. This year was no exception, as the Company has reported both a small loss and negative cash flow for the most recent quarter. In spite of the small loss, capital under management still rose as a result of the CEBA loan and the exercise of share purchase warrants. Also, liquidity improved in spite of the negative cash flow, as the Company realized improvements during the quarter in working capital and current financial assets rose from 91.6% to 98.6% of current financial liabilities.

The Company is working hard to continue to improve its operating results and overall financial health. In connection with this the Company has committed to the acquisition of new equipment that is expected to provide additional operational efficiencies. The equipment has a purchase price of US$328,721, plus delivery costs with 75% of the purchase price being financed over five years at 3.3% interest. This new equipment is expected to be operational in April 2021.

During the first quarter, the Company completed a transaction with Joseph Chen, the founder and majority shareholder of Conversance Inc. Through this transaction ZTEST issued 1,250,000 Series 1 Preference shares in exchange for 25,000 Class A shares of Conversance and received an option from Conversance to acquire an additional 75,000 Class A shares of Conversance, from treasury, for $1 million on or before December 31, 2022. The 1,250,000 Series 1 Preference shares will be automatically converted into common shares of the Company if, on or before June 30, 2021, one or more armôs-length investors purchase at least 130,139 shares of Conversance from treasury, at a price of at least $10.00 per share. ZTEST also retains its right to participate in any future financing of Conversance to maintain its current ownership interests. If this financing has not occurred by June 30, 2021 then, subject to further agreement of the parties, the Series 1 Preference shares will be repurchased for $1 and the 25,000 Class A shares of Conversance will be returned to Joseph Chen.

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

	For the fiscal years ended:		
	June 2020	June 2019	June 2018
Total Revenues	3,888,898	4,399,062	3,686,132
Net loss from operations	(81,102)	(274,085)	(856,314)
Per share - basic	(0.004)	(0.013)	(0.046)
Net loss for the year	(818,737)	(344,186)	(883,756)
Per share - basic	(0.038)	(0.017)	(0.047)
Total assets	1,807,231	2,268,045	2,226,121
Total long-term financial liabilities	40,000	-	3,291
Total liabilities	1,042,533	943,985	783,898

Corporate Performance - continued

	For the fiscal quarters ended:			
	Dec. 2020	Sept. 2020	June 2020	Mar. 2020
Total Revenues	873,206	1,053,501	1,077,137	1,102,355
Net income (loss) from operations	(22,215)	81,886	178,572	(13,191)
Per share - basic	(0.001)	0.004	0.008	(0.001)
Net income (loss) for the period	(22,215)	81,886	(511,798)	(24,194)
Per share - basic	(0.001)	0.004	(0.024)	(0.001)
Total assets	1,792,632	1,841,370	1,807,231	2,306,150
Total long-term financial liabilities	60,000	40,000	40,000	-
Total liabilities	935,862	994,785	1,042,533	1,029,654

	For the fiscal quarters ended:			
	Dec. 2019	Sept. 2019	June 2019	Mar. 2019
Total Revenues	828,703	880,703	1,269,697	1,065,043
Net income (loss) from operations	(148,254)	(98,229)	5,518	(102,068)
Per share - basic	(0.007)	(0.005)	0.000	(0.005)
Net income (loss) for the period	(162,103)	(120,642)	(11,385)	(127,279)
Per share - basic	(0.008)	(0.006)	(0.001)	(0.006)
Total assets	2,120,412	2,314,453	2,268,045	2,463,838
Total long-term financial liabilities	26,809	54,201	-	-
Total liabilities	1,079,097	1,111,035	943,985	1,128,394

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

Results of Operations

As noted previously, revenues and gross margins have each declined in the periods ended December 2020 in comparison to December 2019. To better understand gross margins, one must look more closely at cost of product sales. The different elements of cost of product sales for the periods ended December 31are as follows:

Six month periods ended December 31	2020	2019	Change
Raw materials and supplies consumed	$ 934,046	$ 810,906	$ 123,140
Labour costs incurred	294,930	373,384	(78,454)
Depreciation	19,142	23,727	(4,585)
Other costs	51,805	58,617	(6,812)
Net change in finished goods and work in process	(8,750)	(30,118)	21,368
Total cost of product sales	$ 1,291,173	$ 1,236,516	$ 54,657

Three month periods ended December 31	2020	2019	Change
Raw materials and supplies consumed	$ 402,982	$ 405,123	$ (2,141)
Labour costs incurred	151,219	179,173	(27,954)
Depreciation	9,571	11,891	(2,320)
Other costs	25,365	28,718	(3,353)
Net change in finished goods and work in process	5,523	(2,222)	7,745
Total cost of product sales	$ 594,660	$ 622,683	$ (28,023)

The cost of raw materials and supplies consumed were comparable in value between the second quarter of 2021 and the second quarter of 2020 however the December 31, 2021 figure equates to 46.1% of periodic revenues as compared to 48.9% for the December 2020 period. This result follows the first quarter in which costs were equal to 50.4% of revenues as compared to 46.1% one year prior. It is common for these costs to fluctuate from quarter to quarter as the mix varies between products for which customers supply the components themselves and those for which they are supplied by the Company.

Results of Operations - continued

As noted previously, labour costs incurred for 2021 are reported net of CEWS subsidies. Subsidies received equal $85,537 year to date, including $35,956 received in the most recent quarter. If not for these subsidies, the costs incurred in the 2021 periods would be marginally higher, but very comparable to the costs that arose one year prior. This slight increase is attributable to annual wage increases which take effect January 1.

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. These aggregate costs were $156,742 for the most recent quarter, or $192,698 before considering the CEWS benefits. For the second quarter of 2020 the aggregate costs were $176,951 meaning that current year costs are 8.9% greater. A cost increase should typically be expected when revenues rise and when the cost of raw materials and supplies consumed declines as a percentage of those revenues. An increase of 5.4% in periodic revenues, the decline in material costs, and the implementation of the annual wage increase all contributed to the 8.9% rise in labour costs for the quarter. For the six month periods we see that labour costs increased 8.2% at December 2021 while periodic revenues rose 12.7%. This result, with labour costs rising by a lesser percentage than revenues, is also consistent with expectations given that material costs rose 1.1% in relation to periodic revenues.

Depreciation is a function of time and the carrying value of the manufacturing equipment in use. No significant additions have been necessary in recent years so depreciation costs continued to decline. As noted previously, new equipment is currently on order and its arrival in the final quarter of 2021 will give rise to higher depreciation costs.

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 closely monitored and are within management expectations so they will not be further elaborated upon.

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

Six month periods ended December 31		2020		2019		Change
Employee and consultant compensation	$	344,759	$	481,076	$	(136,317)
Occupancy costs		126,079		138,518		(12,439)
Professional fees		48,999		34,595		14,404
Shareholder services		15,517		6,746		8,771
Insurance		17,053		16,144		909
Other costs		23,713		22,110		1,603
Total selling, general and administrative	$	576,120	$	699,189	$	(123,069)

Three month periods ended December 31		2020		2019		Change
Employee and consultant compensation	$	181,240	$	230,628	$	(49,388)
Occupancy costs		59,517		67,772		(8,255)
Professional fees		25,278		21,421		3,857
Shareholder services		11,208		3,496		7,712
Insurance		8,527		8,072		455
Other costs		16,576		12,906		3,670
Total selling, general and administrative	$	302,346	$	344,295	$	(41,949)

Employee and consultant compensation costs, which include salaries, benefits, consulting fees, and independent directorsô fees, have declined in both the most recent quarter and on a year to date basis, when compared to one year earlier. The decline was aided by CEWS benefits received in the amount of $44,338, including $17,335 in Q2. In addition to the CEWS, there have been some personnel changes contributing to the lower costs. The Company has recently hired a new employee to replace an individual that retired Q3 2020, and promoted an individual to fill a vacancy created at the end of fiscal 2020 when an employee reduced their workweek and remuneration by more than 50%. Each of these recent changes will result in somewhat more comparable remuneration costs in future periods.

Results of Operations - continued

Occupancy costs in the most recent quarter are net of CERS benefits in the amount of $6,077, without which the current costs would reflect cost reductions of 3.2% for the quarter and 4.6% for the six month period. Costs include amortization of the right of use asset, all common area costs related to the leased facility, and utility costs. Amortization is consistent from period to period while common area costs and utility costs typically increase year over year. However, current year utility costs are reflective of rate reductions in effect as a result of the COVID-19 pandemic which has contributed to the costs savings realized. It is currently not known how long these rate reductions may remain in place but it should be anticipated that costs will rise in future periods. The Companyõs current facility lease runs through March 2021 after which a new lease extension goes into effect. This extension will result in increased costs, commencing in the fourth quarter of this year.

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

Shareholder services have risen in the current periods as a result of costs related to the shareholder meeting held January 2021.

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

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

Six month periods ended December 31	2020	2019	Change
Interest expense ï long term	$ -	$ 5	$ (5)
Interest expense ï other	324	3,381	(3,057)
Interest expense ï lease liability	1,384	4,286	(2,902)
Financing fees	-	7,121	(7,121)
Total financing expenses	$ 1,708	$ 14,793	$ (13,085)

Three month periods ended December 31	2020	2019	Change
Interest expense ï long term	$ -	$ -	$ -
Interest expense ï other	162	1,953	(1,791)
Interest expense ï lease liability	506	1,967	(1,461)
Financing fees	-	3,652	(3,652)
Total financing expenses	$ 668	$ 7,572	$ (6,904)

The Company had a single long-term debt instrument, which matured in the first month of the 2019 fiscal year, such that there was virtually no expense incurred. The Companyõs present long-term debt is interest free however additional costs will arise when the new equipment financing is funded late in Q3.

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

In accordance with IFRS 16 Leases, the Company recognizes imputed interest on its lease liability, which will mature March 2021. The reduction in expense is reflective of the declining balance of this obligation.

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 December 31, 2020, the Company had working capital of $666,472 (June 30, 2020 ï $481,680) and current financial assets of $863,766 (June 30, 2020 ï $732,471) available to settle current financial liabilities of $875,862 (June 30, 2020 ï $1,002,533). The Company also has access to a $250,000 bank operating line, of which $Nil (June 30, 2020 ï $Nil) had been drawn as of December 31, 2020.

In addition to satisfying the cost of operations the Company must also address the payment or other settlement of the following amounts as at December 31, 2020:

	Due by Dec. 2021	Due by Dec. 2022	Due by Dec. 2023	Due after Dec. 2023	Total Due
Long-term debt (1)	$ -	$ -	$ 20,000	$ 40,000	$ 60,000
Lease liability (2)	26,809	-	-	-	53,239
Future lease liability (3)	105,335	149,155	160,173	398,092	812,755
	$ 132,144	$ 149,155	$ 180,173	$ 438,092	$ 925,994

(1) The Company has the right of pre-payment at any time without penalty and, if the balance is reduced to no more than $20,000 as at December 31, 2022, the loan balance will be forgiven

(2) The lease will expire March 2021.

(3) The Company has signed a lease extension covering a five year period that will commence April 2021.

Capital Resources

The Company has a $250,000 commercial line of credit from which $Nil (June 30, 2020 - $Nil) was drawn as at December 31, 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 entered into a commitment to purchase a new machine at a price of US$328,721 plus delivery costs. The new machine is expected to be delivered, installed, and operational early in the final fiscal quarter. The Company has negotiated a bank term loan, to finance approximately 75% of the purchase price of this machine. The term loan will be repayable over five years and will bear interest at 3.3%.

The Company has not completed any financing transactions since June 30, 2020 however it did issue 1,250,000 Convertible Preferred Shares Series 1 in exchange for 25,000 Class A shares of Conversance Inc. If Conversance Inc. causes certain events to take place on or before June 30, 2021 then these shares will be automatically converted into common shares of the Company. If those events do not happen then the 1,250,000 Convertible Preferred Shares Series 1 will be redeemed for the aggregate redemption price of $1 and the 25,000 Class A shares of Conversance will be returned to the former owner.

During the period the Company issued 540,000 common shares upon the exercise of 540,000 share purchase warrants and in February the Company issued 200,000 common shares upon the exercise of stock options and 610,500 shares upon the exercise of share purchase warrants.

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:

Related Party Transactions - continued

Six month periods ended December 31	2020	2019
Salaries and benefits [1]	$ 68,120	$ 134,542
Consulting fees [1]	71,069	96,000
Directorsô fees [1]	21,000	15
Legal fees [2]	29,674	17,985
Accounting fees [2]	3,700	3,500
Financing fees	-	7,116
Legal fees accounted for as share issuance costs	-	-
Cash based expenditures	$ 193,563	$ 259,158
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.
[3] Wojciech Drzazga was CEO of PEC until June 14, 2020.

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

	2020	2019
Salaries and benefits payable	$ 7,324	$ 17,305
Consulting and Director fees payable	$ 381,731	$ 402,913
Legal fees payable	$ 62,997	$ 30,887

The following stock options have been issued to Directors and/or Officers of the Company and were outstanding as at December 31, 2020:

Description	Expiry Date	Number of Common Shares
Stock options @ $0.05 per share [1]	Mar. 3, 2021	400,000
Stock options @ $0.95 per share	Jan. 12, 2023	350,000

[1] 200,000 of these options were exercised February 17, 2021.

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Shares issued	Quantity	Amount
Common shares as at June 30, 2020	22,876,696	$23,613,546
Warrants exercised	540,000	44,539
Common shares as at December 31, 2020	23,416,696	$23,658,085
Stock options exercised	200,000	17,961
Warrants exercised	610,500	183,826
Common shares as at the date of this document	24,227,196	$23,859,872

Convertible Instruments and Other Securities - continued

The Company also has common shares reserved to satisfy the exercise of warrants and options, and other dilutive factors, as follows:

Shares reserved	Expiry Date	Number of Common Shares
Common shares to be issued for Class A shares [1]		8,246
Warrants @ $0.40 per share	Jan. 2021	312,500
Warrants @ $0.25 per share	Feb. 2021	750,000
Warrants @ $0.15 per share	Feb. 2021	10,500
Stock options @ $0.05 per share	Mar. 2021	400,000
Warrants @ $0.06 per share	Dec. 2021	2,360,000
Stock options @ $0.95 per share	Jan. 2023	350,000
Conversion of Series 1 Preference shares	June 2021	1,250,000
Shares reserved as at Dec. 31, 2020		5,443,946
Warrants @ $0.40 per share, expired Jan. 2021		(312,500)
Warrants @ $0.15 per share, Exercised Feb. 2021	Feb. 2021	(10,500)
Warrants @ $0.25 per share, Exercised Feb. 2021	Feb. 2021	(600,000)
Stock options @ $0.05 per share. Exercised Feb. 2021	Mar. 2021	(200,000)
Shares reserved as at the date of this document		4,320,946

[1] Following the 2013 conversion of Class A Special Shares to common shares, 8,246 common shares remain reserved to be issued if and when the remaining Class A shareholders identify themselves to the Company.

Fully diluted number of shares	Quantity
Shares issued as at Dec. 31, 2020	23,416,696
Shares reserved as at Dec. 31, 2020	5,443,946
Fully diluted position Dec. 31, 2020	28,860,642
Shares issued after Dec. 31, 2020	810,500
Change in shares reserved after Dec. 31, 2020	(1,123,000)
Fully diluted position as at the date of this document	28,548,142

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, 2020	1,000,000	$	0.55	Sep. 2, 2021
Expired during the period	(250,000)		0.79	Jul. 26, 2020
Balance as at Dec. 31, 2020	750,000		0.47	Jan. 14, 2022
Exercised subsequent to the period	(200,000)		0.10	Mar. 3, 2020
Balance as at the date of this document	550,000	$	0.50	May 9, 2022

The following stock options, each of which has vested, are outstanding as of the date of this document:

	Common Shares Under Option		Exercise Price	Expiry Date
Granted March 3, 2016	200,000 [1]	$	0.05	Mar. 3, 2021
Granted January 12, 2019	350,000 [1]	$	0.95	Jan. 12, 2023
Total stock options outstanding	550,000			

[1] Directors and/or Officers of the Company hold these options.

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

Convertible Instruments and Other Securities - continued

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, 2020	4,378,400	$	0.15	Aug. 30, 2021
Exercised during the period	(540,000)		0.06	Dec. 15, 2021
Expired during the period	(405,400)		0.40	Dec. 22, 2020
Balance as at Dec. 31, 2020	3,433,000	$	0.13	Sep. 12, 2021
Expired subsequent to the financial reporting period	(312,500)		0.40	Jan. 31, 2021
Exercised subsequent to the financial reporting period	(610,500)		0.15	Feb. 28, 2021
Balance as at the date of this document	2,510,000	$	0.11	Nov. 27, 2021

The following warrants are outstanding as at the date of this document:

	Number of Warrants		Exercise Price	Expiry Date
Issued Dec. 15, 2016	2,360,000	$	0.06	Dec. 15, 2021
Issued Feb. 28, 2020	150,000	$	0.25	Feb. 28, 2021
Total share purchase warrants outstanding	2,510,000			

The following weighted average assumptions were used to calculate the fair value of warrants that were issued during the periods ended:

	Dec. 31 2020	June 30 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

Financial instruments

The Companyõs 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 asset's fair value less cost to sell or its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the income for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in income for the period.

Impairment of Investments

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

Non-controlling interests, which are not financial instruments, and are equal to or exceeding a 20% ownership interest (an equity instrument) is considered impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occur after the initial recognition of the asset (a 'loss event') and that loss event, or events, has an impact on the estimated future cash flows of the non-controlling interest that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognized.

Some items that may be taken into consideration in determining whether a loss event has occurred include significant financial difficulty of the investee, a breach of contract such as a default or delinquency in payments by the investee, it becomes probable that the investee will enter bankruptcy or other financial reorganization, or significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the investee operates, and such changes indicate that the cost of the equity instrument may not be recovered.

During the period there were no loss events nor any events that would cause a reversal, in whole or in part, of the impairment provision recognized during 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 Company's ability to access credit when needed or rapid changes in foreign exchange rates may adversely affect its financial results. Finally, a reduction in credit, combined with reduced economic activity, may adversely affect businesses and industries that constitute a significant portion of the Company's customer base. As a result, these customers may need to reduce their purchases, or the Company may experience greater difficulty in collecting amounts due from them. Any of these events, or others caused by uncertainty in world financial markets, may have a material adverse effect on the Company's business, operating results, and financial condition.

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

Risk Factors - continued

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Companyǿs primary exposure to credit risk is in its accounts receivable. To help mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. It has been determined that all outstanding amounts are collectible. No bad debts were recorded in the periods ended December 31, 2020 or December 31, 2019**.**

Concentration of credit risk
Concentration of credit risk arises when one or more customers individually account for 10% or more of the Companyǿs revenues during a reporting period. The Company had 2 customers during the current period, representing 22% and 15% of revenues (Dec. 31, 2019 - 3 customers, 16%, 15% and 13% of revenues). Amounts due from these customers represented 35% of accounts receivable at December 31, 2020 (Dec. 31, 2019 - 50%). The loss of, or significant curtailment of purchases by, such a customer, could have a material adverse effect on the Company's results of operations and financial condition. The Company monitors the relationship with all customers closely and ensures that every customer is subject to the same risk management criteria.

Liquidity risk
Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. At December 31, 2020 the Company had current financial assets of $863,766 (June 30, 2020 - $732,471) available to settle current financial liabilities of $875,862 (June 30, 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 Companyǿs 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, customer deposits, 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 reported a foreign exchange gain in the amount of $4,143 (Dec. 2019 ï loss of $3,149).

Sensitivity to market risks
At December 31, 2020, 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, as at the financial reporting date, would result in no additional interest expense over the next 12 month period.
- US$45,515 (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 $2,275 in future cash inflow.
- US$86,242 (June 30, 2020 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 $4,312 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.