General

The following managementõs discussion and analysis (ñMD&Aò) of the financial condition and results of operations of ZTEST Electronics Inc. (ñZTESTò or the ñCompanyò) constitutes managementõs review of the factors that affected the Companyõs interim condensed consolidated financial and operating performance for the three months ended September 30, 2021. The MD&A was prepared as of November 24, 2021 and was approved by the Board of Directors on November 24, 2021. It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the three months ended September 30, 2021, and the audited consolidated financial statements 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 Companyõs 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)
Zachary Dingsdale (1)	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 quarter of the 2021 fiscal year continued to be dominated by the uncertainties and repercussions arising from, the COVID-19 pandemic. The Company has operated continuously throughout the pandemic but that should not imply, and does not mean 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 have impacted the Companyõs 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

The Company has been a beneficiary of government subsidies available to qualifying companies as a result of COVID-19. During the period, the Company availed itself of the Canadian Emergency Wage Subsidy (CEWS) in the amount of $60,242, the Canadian Emergency Rent Subsidy (CERS) in the amount of $12,848, and the Ontario Worker Income Protection Benefit (WIPB) in the amount of $2,704. CERS and CEWS programs have been in place for a number of months now while WIPB was introduced to subsidize paid leave for employees requiring time off to be vaccinated. Each of these subsidies are included in net income for the period. The Company will continue to monitor government programs, and make application for any programs for which it may meet the qualification criteria, but each of the subsidies the Company has been benefitting from thus far have, or will, cease. WIPB benefits will not recur and the CEWS and CERS programs ended October 23, 2021.

The first quarter of 2022 saw the Company experience a brief planned shutdown, customers deferring deliveries, and supply chain disruption. The shutdown was planned to allow installation of new machinery, which proceeded flawlessly. The other two factors are considered by-products of the COVID-19 pandemic. They have each resulted in a significant increase in the Companyøs order back-log while simultaneously being the primary reason why revenues have declined approximately 40% year-over-year. This situation is not unique to the Company, or isolated to the Companyøs industry, or within the Companyøs control. As a contract manufacturer, the Company is confident that all deliveries deferred by customers will occur in future periods. The Company is also confident that production delayed due the unavailability of required materials will proceed when those items become available. Unfortunately, the Company currently has no certainty as to when either of these will occur.

While working its way through the pandemic inspired reduction in operations, the Company also worked to renew agreements it had in place with respect to its investee company, Conversance Inc. In the 2021 fiscal year, the Company entered into an agreement with the founder and majority shareholder of Conversance Inc. whereby the Company issued 1,250,000 convertible preferred 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 preferred shares were to be converted to common shares automatically, provided Conversance achieved certain targets on or before June 30, 2021, otherwise they were to be redeemed for $1 and the 25,000 shares of Conversance would be returned. Conversance did not achieve those targets, and the preferred shares were redeemed, however it did announce that it 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. Conversance has subsequently subscribed for additional shares of Cannamerx, increasing its ownership interest to 37.5%. Conversance is upgrading the existing Cannamerx exchange platform while also developing a new platform developed from Chronicle, Conversanceô proprietary technology. Conversance will receive additional shares of Cannamerx upon deployment of these platforms, and when Cannamerx achieves a certain level of operations based upon these new platforms. The issuance of these additional shares would provide Conversance with a controlling interest in Cannamerx, based upon the current share structure of Cannamerx.

It was determined that the agreement that expired June 30, 2021 should be renewed. In October 2021, the Company and Joseph Chen executed a new agreement, agreeing to issue 1,250,000 Series 2 convertible preferred shares under terms and conditions identical to the original agreement, except that the expiry date for conversion of the preferred shares to common shares was advanced to June 30, 2022 and the expiry date on the option to acquire 75,000 shares was extended to June 30, 2023.

Conversance has advised that its operations are currently dedicated towards achieving the milestones under which it will receive additional shares of Cannamerx, but that those milestones have not yet been achieved. It also advises that while Cannamerx continues to develop its revenue streams, Conversance itself has not yet generated and cash flow from operations. Under these conditions, ZTEST has determined that there has not yet been any reversal of the conditions under which ZTEST reduced the carrying value of its investment in Conversance at June 30, 2020.

Corporate Performance - continued

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

	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:			
	Sept. 2021	June 2021	Mar. 2021	Dec. 2020
Total Revenues	630,121	1,045,365	1,037,388	873,206
Net income (loss) from operations	(169,612)	9,997	(23,906)	(22,215)
Per share - basic	(0.007)	0.000	(0.001)	(0.001)
Net income (loss) for the period	(169,612)	9,997	(23,906)	(22,215)
Per share - basic	(0.007)	0.000	(0.001)	(0.001)
Total assets	2,975,768	3,120,759	2,878,943	1,792,632
Total long-term financial liabilities	894,843	948,791	802,164	60,000
Total liabilities	2,098,545	2,116,323	1,884,504	935,862

	For the fiscal quarters ended:			
	Sept. 2020	June 2020	Mar. 2020	Dec. 2019
Total Revenues	1,053,501	1,077,137	1,102,355	828,703
Net income (loss) from operations	81,886	178,572	(13,191)	(148,254)
Per share - basic	0.004	0.008	(0.001)	(0.007)
Net income (loss) for the period	81,886	(511,798)	(24,194)	(162,103)
Per share - basic	0.004	(0.024)	(0.001)	(0.008)
Total assets	1,841,370	1,807,231	2,306,150	2,120,412
Total long-term financial liabilities	40,000	40,000	-	26,809
Total liabilities	994,785	1,042,533	1,029,654	1,079,097

No cash dividends were declared or paid during any of the periods noted above.

Results of Operations

As alluded to previously, revenues during the first quarter of 2022 were down almost 40% year-over-year and were also significantly less than preceding periods. This decline in revenues is a direct result of market conditions, including disruption of the supply chain, and has corresponded with a sharp increase in orders that are yet to be fulfilled. It is not currently determinable as to when these temporary conditions will be remedied.

This revenue decline also resulted in a decline of almost $210,000 in gross margin and almost $250,000 in profitability in comparison to the first quarter of 2021. The different elements of cost of product sales, and the changes realized, were as follows:

Results of Operations

Three month periods ended September 30	2021	2020	Change
Raw materials and supplies consumed	$ 273,067	$ 531,064	$ (257,997)
Labour costs incurred	190,445	193,352	(2,907)
Labour subsidies received	(39,680)	(49,581)	9,901
Depreciation	25,618	9,571	16,047
Other costs	29,592	26,440	3,152
Net change in finished goods and work in process	2,943	(14,273)	17,216
Total cost of product sales	$ 481,985	$ 696,573	$ (214,588)

The impact of the disruption of the supply chain is quite evident in two areas, being the reduction of over 48% in the costs of raw materials and supplies consumed, and an increase of almost 48% in raw materials inventories. Throughout the period, the Company continued to order materials only to learn of increased lead-times after orders had been placed and/or as the scheduled delivery dates were exceeded. Production cannot commence until all required materials are on hand so the receipt of some items, but not all, has provided these results. While there is always some fluctuation from one period to the next in the mix between turnkey and assembly-only services, the results of the period do not represent any tangible reduction in customers opting to have the Company supply the necessary components. Both in spite of these challenges, and because of them, management consistently promotes the benefits customers will derive from the Companyǒs 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 have remained very comparable year-over-year with the labour volume being marginally lower in the current year as costs declined by 1.5% even though annual wage increases took effect at the beginning of the calendar year. It is expected that the cessation of government subsidy programs, in combination with production that is deferred due to supply chain issues, that the Company will begin to manage its labour volume more in line with pre-COVID practices.

Labour subsidies received are based entirely on the terms and conditions, as specified from time to time by the sponsoring government. Periodic revenues have always been the primary basis for determining whether an employer qualifies for subsidy in a given period, however the way those subsidies are calculated has changed more than once during the eligible subsidy periods. These formulaic changes have resulted in subsidies for the current period being less even though gross labour costs are virtually identical and revenues for the current period are lower. The Company is very appreciative of any and all subsidies received, however this reverse correlation between subsidies and revenues has contributed to a decline in gross margin as a percentage of periodic revenues. This subsidy program was terminated in October 2021 and there is no expectation of additional subsidy in the future.

The net change in finished goods and work in process is a measure of the change in labour costs included in inventory during the period. During periods when there are few external factors affecting production, the Company is able to maintain reasonably consistent labour efficiency, subject to the varying nature and complexity of the specific products being produced. This labour efficiency is less consistent during periods when production is somehow disrupted as it was in Q1 as a result of the brief shutdown to facilitate installation of equipment and the supply chain issues.

Depreciation costs rose sharply in the current period as a direct result of the new machinery that was installed early in July. Depreciation charges commence whenever equipment is placed into service, and stops whenever equipment is removed from service. When the new machinery was installed, it replaced older equipment that was removed from service. A one-time depreciation charge was recorded to reduce the carrying value of the machinery no longer in service to its residual or salvage value, which accounts for about 50% of the cost increase in the current period. The remainder of the cost increase in the current period should be expected to recur in future periods.

Results of Operations - continued

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 managementôs expectations.

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

Three month periods ended September 30	2021	2020	Change
Employee and consultant compensation	$ 227,109	$ 190,522	$ 36,587
Compensation subsidies received	(23,267)	(27,003)	3,736
Occupancy costs	81,726	66,562	15,164
Rent subsidies received	(12,848)	-	(12,848)
Professional fees	12,318	23,721	(11,403)
Shareholder services	4,550	4,309	241
Insurance	7,956	8,526	(570)
Other costs	10,646	7,137	3,509
Total selling, general and administrative	$ 308,190	$ 273,774	$ 34,416

Employee and consultant compensation costs, which include salaries, benefits, consulting fees, and independent directorsô fees, rose more than 19% in comparison to one year prior, but remain lower than historical norms. The 2021 increase includes higher directorsô fees but is primarily the result of having filled, or partially filled, vacancies that existed in Q1 2020. Costs declined almost 35% in Q1 2020 compared to Q1 2019 as a result of having had one employee retire, another reduce their workweek and remuneration by more than 50%, and a reduction in certain payroll taxes. It is anticipated that costs for the current period are indicative of costs to be anticipated in future periods.

There has been little change in the amount of compensation subsidies received during the periods presented. This is a function of the higher costs subject to subsidy in the current period. The subsidy amounts are slightly lower in value in 2021 but are much lower as a percentage of the gross costs incurred. That lower percentage is consistent with the results noted previously in cost of product sales. The eligibility criteria for these compensation subsidies were identical to those for the labour subsidies, but there was a maximum subsidy amount per pay period which limited certain compensation subsidies. This subsidy program was terminated in October 2021 and there is no expectation of additional subsidy in the future.

Occupancy costs have risen in 2021 as a direct consequence of the lease extension that took effect April 1, 2021. All other elements of occupancy costs are highly comparable between the two periods. At the inception of any lease, or lease extension, a right of use asset is recorded, based upon the discounted value of required lease payments, and then amortized over the term of the lease, with that amortization included in occupancy costs. The Company believes the terms of the lease extension are favourable, based upon prevailing market rates, yet the payments required under that extension are higher than they had been under the former lease. Thise higher payments translate into higher amortization charges. In the current period these increased amortization charges have been offset by government rent subsidies however that subsidy program was terminated in October 2021 so there is no expectation of relief from these higher costs in the future.

Professional fees are comprised of fees for legal services and a prorated portion of the estimated cost of the upcoming audit of the annual financial statements. Audit costs have remained consistent while legal fees have declined. A significant portion of legal fees relate to matters of corporate administration and governance for which there was additional requirement in the first quarter of 2020, including facilitating the issuance of preferred shares in conjunction with the acquisition of shares of Conversance Inc.

Shareholder services, insurance expense and other costs are all closely monitored, and are within management expectations.

Results of Operations - continued

The Companyôs cost of borrowing, and the changes realized, were as follows:

Three month periods ended September 30	2021	2020	Change
Interest expense ï long term	$ 2,521	$ -	$ 2,521
Interest expense ï other	133	162	(29)
Interest expense ï lease liability	6,486	878	5,608
Total financing expenses	$ 9,140	$ 1,040	$ 8,100

The Company initiated new term financing in relation to the acquisition of new equipment. The loan was funded in April 2021 resulting in interest charges throughout the current period while there had been none one year prior. This term loan matures April 2026 so it is anticipated that the current period is fairly representative of costs to be incurred in subsequent periods.

Interest expense ï other represents incidental interest charges incurred. It would also include interest charges related to use of the Companyôs operating line except that the Company made no use of its operating line during either of the periods presented.

As noted previously the Companyôs lease extension commenced April 1, 2021. Not only does the Company recognize a right-of-use asset at the inception of such an extension based upon the discounted value of required lease payments, but it also recognizes an equal lease liability. That lease liability then gives rise to imputed interest costs, based on the discount rate, over the term of the lease. The higher imputed interest costs in the current period are reflective of the greater balance of the lease liability through the period. This lease liability will expire April 2026 so the current period costs are indicative of costs to be incurred in future periods.

Liquidity

At September 30, 2021, the Company had working capital of $434,186 (June 30, 2021 ï $549,988) and current financial assets of $923,331 (June 30, 2021 ï $1,211,771) available to settle current financial liabilities of $1,203,702 (June 30, 2021 ï $1,167,532). The Company also has access to a $250,000 bank operating line, of which $Nil (June 30, 2021 ï $Nil) had been drawn as of September 30, 2021.

In addition to satisfying the cost of operations the Company must also address the payment or other settlement of the following amounts as at September 30, 2021:

	Due by Sept. 2022	Due by Sept. 2023	Due by Sept. 2024	Due after Sept. 2024	Total Due
Long-term debt	$ 59,407	$ 71,451	$ 83,550	$ 135,199	$ 349,607
Lease liability	151,496	161,317	171,475	271,851	756,139
	$ 210,903	$ 232,768	$ 255,025	$ 407,050	$ 1,105,746

Capital Resources

The Company has a $250,000 commercial line of credit from which $Nil (June 2021 - $Nil) was drawn as at September 30, 2021. The loan bears interest at the TD Bank prime lending rate plus 2.5%, is due upon demand, and is secured by a general security agreement covering the assets of PEC.

The Company has a term loan, the proceeds of which were used to purchase equipment. The loan was funded April 2021 in the amount of $313,748 of which $289,607 remains payable at September 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, 2021 but it did issue 200,000 common shares upon the exercise of stock options and 540,000 common shares upon the exercise of share purchase warrants. These issuances provided cash proceeds of $42,400.

Subsequent to September 30, 2021 the Company also issued 1,250,000 Convertible Preferred Shares Series 2 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, 2022 then these shares will be automatically converted into common shares of the Company.

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 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 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:

Three month periods ended September 30		2021		2020
Consulting fees [1]	$	36,000	$	36,569
Directorsô fees [1]		15,750		10,500
Salaries and benefits [1]		33,665		33,664
Legal fees [2]		4,568		16,845
Cash based expenditures	$	89,983	$	97,578
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.

The following balances due to related parties are reported as an element of accounts payable and accrued liabilities as at September 30 of each year:

		2021		2020
Consulting fees payable	$	411,108	$	297,719
Directorsô fees payable	$	89,099	$	48,727
Salaries and benefits payable	$	7,113	$	6,605
Legal fees payable	$	37,074	$	48,501

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

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

During the period ended September 30, 2021, 200,000 stock options held by related parties were exercised.

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Shares issued	Quantity	Amount
Common shares at September 30, 2021, and at the date of this document	24,967,196	$23,922,372

Convertible Instruments and Other Securities - continued

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 exercise of warrants and options:

Common shares reserved	Expiry Date	Number of Common Shares
To be issued for Class A shares [(1)]		8,246
Warrants @ $0.06 per share	Dec. 2021	1,820,000
Stock options @ $0.95 per share	Jan. 2023	350,000
Shares reserved at September 30, 2021		2,178,246
Conversion of Series 1 Preference shares	June 2022	1,250,000
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 as at September 30, 2021, and as at the date of this document	24,967,196
Shares reserved as at September 30, 2021	2,178,246
Fully diluted position September 30, 2021, and as at the date of this document	27,145,442
Additional shares reserved after September 30, 2021	1,250,000
Fully diluted position as at the date of this document	28,395,442

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, 2021	550,000	$	0.62	May 9, 2022
Exercised during the period	(200,000) [(1)]		0.05	Aug. 26, 2021
Balance as at Sept. 30, 2021, and as at the date of this document	350,000	$	0.95	Jan. 12, 2023

No stock options were granted during the periods presented. As at the date of this document the following stock options, each of which has vested and is held by Directors and/or officers of the Company, are outstanding:

	Common Shares Under Option		Exercise Price	Expiry Date
Granted January 12, 2018	350,000	$	0.95	Jan. 12, 2023

(1) The expiry date of these options had been extended in accordance with the terms of the stock options agreements.

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

Additional disclosures relative to share purchase warrants are as follows:

	Number of Warrants		Weighted Average Price per Warrant	Weighted Average Expiry Date
Balance at June 30, 2021	2,360,000	$	0.06	Dec. 15, 2021
Exercised during the period	(540,000)		0.06	Dec. 15, 2021
Balance as at Sept. 30, 2021, and as at the date of this document	1,820,000	$	0.06	Dec. 15, 2021

Convertible Instruments and Other Securities - continued

No warrants options were issued during the periods presented. 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 Companyôs financial instruments are comprised of the following:

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

Financial liabilities:	*Classification*
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 assetôs 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 armôs 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.

Impairment of Investments - continued

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 Companyœ 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 Companyœ 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 Companyœ 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 Companyœ 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 Companyœ 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 Companyœ 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 periods ended September 30, 2021 or September 30, 2020**.**

Concentration of credit risk

Concentration of credit risk arises when one or more customers individually account for 10% or more of the Companyœ revenues during a reporting period. The Company had 2 customers during the current period, representing 17% and 11% of revenues (Sept. 30, 2020 - 2 customers, 20% and 15% of revenues). Amounts due from these customers represented 6% of accounts receivable at September 30, 2021 (Sept. 30, 2020 - 36%). 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.

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 September 30, 2021 the Company had current financial assets of $923,331 (June 30, 2021 - $1,211,771) available to settle current financial liabilities of $1,203,702 (June 30, 2021 - $1,167,532). The Company manages its liquidity risk through the management of its capital *(note 14)* which incorporates the continuous monitoring of actual and projected cash flows to ensure that it has sufficient liquidity to meet its operating commitments without incurring unacceptable losses or risking damage to the Companyõs reputation.

Market risks
The Company is exposed to interest rate risk due a bank operating loan that has a floating interest rate as well as currency risk related to accounts receivable, accounts payable, and nominal amounts of cash prepaid expenses, and customer deposits, denominated in US dollars. Market risks give rise to the potential for future cash flows to fluctuate because of changes in interest rates or foreign exchange rates. Market risks are closely monitored and attempts are made to match foreign cash inflows and outflows. During the current period the Company has reported a foreign exchange gain of $957 (Sept. 30, 2020 ï gain of $861).

Sensitivity to market risks
At September 30, 2021, the Company had:
- A bank operating loan that had not been drawn upon (June 30, 2021 - $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$38,255 (June 30, 2021 ï US$175,397) included in accounts receivable. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $1,913 in future cash inflow.
- US$93,297 (June 30, 2021 ï US$103,251) included in accounts payable. A 5% decrease in the value of the Canadian dollar relative to the US dollar would result in an increase of $4,665 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.