ZTEST Electronics Inc.
Managementôs Discussion and Analysis
For the Six Month Period Ended December 31, 2021
(Prepared as at February 28, 2022)

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, 2021. The MD&A was prepared as of February 28, 2022 and was approved by the Board of Directors on February 28, 2022. 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 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]	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 half of the 2022 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, impact upon shipping times and costs, inefficiencies caused by physical distancing and the use of personal protective equipment, and many other factors that have impacted the Companyôs operations. 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.

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 $67,998, the Canadian Emergency Rent Subsidy (CERS) in the amount of $13,923, and the Ontario Worker Income Protection Benefit (WIPB) in the amount of $2,704. Each of these subsidy programs have now ceased. The Company will continue to monitor government programs, and make application for any programs for which it may meet the qualification criteria.

Corporate Performance - continued

The first six months of the 2022 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.

The first half of 2022 saw the Company experience significant supply chain disruptions, customers deferring deliveries, and a brief planned shutdown. The shutdown was to allow installation of new machinery, which proceeded flawlessly at the start of the first fiscal quarter. The other two factors have resulted in a significant increase in the Companyôs order back-log while simultaneously reducing periodic revenues. Revenues in the most recent quarter were almost 10% less than the same period one year earlier while year-to-date revenues are almost 27% less than last yearôs levels. This situation is not unique to the Company, or isolated to the Companyôs industry, or within the Companyôs control. As a contract manufacturer, the Company remains confident that all in-house orders will proceed in future periods.

The increase in the Companyôs order backlog is demonstrated through the accumulation of inventory. Production of customer orders cannot commence until 100% of the items required for production have arrived. When supply chain issues cause the receipt of certain items to be unexpectedly delayed the items that did arrive as scheduled are added to inventory until production can proceed. As the supply chain issues are resolved, or alternate sources for delayed items can be found, the inventory will be converted to finished products and delivered to customers. Management recognizes that the build up of inventory, and its negative impact on the Companyôs liquidity, is temporary in nature but remains uncertain as to when this temporary disruption will be remedied.

While coping with pandemic inspired disruptions to operations, the Company also worked to renew agreements with Conversance Inc. and its controlling shareholder. In the 2021 fiscal year, the Company issued 1,250,000 convertible preferred shares to the founder and majority shareholder of Conversance Inc.in exchange for 25,000 Class A shares of Conversance and an option from Conversance to acquire an additional 75,000 Class A shares, from treasury, for $1 million. 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. While Conversance did not achieve those targets, and the preferred shares were redeemed, it did announce the acquisition of 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 issued 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 Class A shares of Conversance Inc. for $1 million 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.

The following data may provide some additional insights relative to the Companyôs 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:			
	Dec. 2021	Sept. 2021	June 2021	Mar. 2021
Total Revenues	781,865	630,121	1,045,365	1,037,388
Net income (loss) from operations	(191,338)	(169,612)	9,997	(23,906)
Per share - basic	(0.008)	(0.007)	0.000	(0.001)
Net income (loss) for the period	(191,338)	(169,612)	9,997	(23,906)
Per share - basic	(0.008)	(0.007)	0.000	(0.001)
Total assets	2,996,924	2,975,768	3,120,759	2,878,943
Total long-term financial liabilities	840,415	894,843	948,791	802,164
Total liabilities	2,207,838	2,098,545	2,116,323	1,884,504

	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

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

Results of Operations

As noted previously, revenues have declined in the three month and six month periods ended December 2021, in comparison to the same periods ended December 2020. This decline in revenues further translates into reduced gross margin amounts. 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 31 are as follows:

Six month periods ended December 31	2021	2020	Change
Raw materials and supplies consumed	$ 642,131	$ 934,046	$ (291,915)
Labour costs incurred	382,833	380,467	2,366
Labour subsidies received	(42,771)	(85,537)	42,766
Depreciation	43,106	19,142	23,964
Other costs	69,987	51,805	18,182
Net change in finished goods and work in process	(12,884)	(8,750)	(4,134)
Total cost of product sales	$ 1,082,402	$ 1,291,173	$ (208,771)

Results of Operations - continued

Three month periods ended December 31	2021	2020	Change
Raw materials and supplies consumed	$ 369,064	$ 402,982	$ (33,918)
Labour costs incurred	192,388	187,175	5,213
Labour subsidies received	(3,091)	(35,956)	32,865
Depreciation	17,488	9,571	7,917
Other costs	40,395	25,365	15,030
Net change in finished goods and work in process	(15,827)	5,523	(21,350)
Total cost of product sales	$ 600,417	$ 594,660	$ 5,757

The cost of raw materials and supplies consumed have declined by 8.4% in the most recent quarter and by 31.3% year to date. The overall decline in this cost category is attributed primarily to the supply chain issues and the corresponding deferral of production. Production can only proceed after 100% of the required products have been received and, in many instances, a small number of parts necessary for production have been delayed. The parts that do arrive are added to inventory which is why we have seen raw materials inventories increase by $582,950 thus far in the year, including an increase of $375,387 in the most recent quarter. Accompanying, or as a by-product of, the supply chain disruption, there have also been increases in the cost of materials and in the cost of shipping those materials each of which is having an impact on these costs and on the amounts being added to inventory.

Labour costs incurred have been very comparable during the periods presented. The more notable impact on cost of goods sold is the decline in the government subsidies received. The Canada Emergency Wage Subsidy (CEWS) was initiated in March 2020, was modified a few times, then ceased in October 2021. The amount of subsidy received each period varied in accordance with the programǒs qualification criteria but the primary reason for the change is that CEWS was only available for the first couple weeks of the most recent quarter.

The net change in finished goods and work in process is a measure of the change in labour costs included in inventory. When this cost is combined with labour costs incurred, we see that net labour costs included in cost of product sales declined by 8.4% during the most recent quarter and by less than 1% for the six month period. During periods when there is little variance in the 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. However, labour efficiency is less consistent during periods when production is disrupted as it was in Q1 as a result of the brief shutdown to facilitate installation of equipment and the acceleration of supply chain disruptions.

Depreciation costs have risen in the current periods as a direct result of new machinery that was installed early in July, and a on-time charge to reduce the carrying value of the machinery that it replaced. Depreciation charges commence whenever equipment is placed into service, and stops whenever equipment is removed from service. It should be expected that the charges incurred in the most recent quarter will be representative of the charges that will occur in future periods.

Other costs include repairs and maintenance, stencils and tooling, packaging, and freight costs net of amounts recovered. Each of these costs is incurred on an as-needed basis without any specific correlation with revenues. Aside from freight costs, these costs are within managementǒs expectations. Freight costs have risen as a by-product of the supply chain disruption and because that disruption has caused the Company to seek alternate sources of supply, often delivering fewer parts in a particular shipment. It is unclear whether higher shipping rates will persist but it is anticipated that aggregate shipping costs will decline whenever more traditional purchasing channels return to their previous levels of dependability.

Results of Operations - continued

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

Six month periods ended December 31	2021	2020	Change
Employee and consultant compensation	$ 456,481	$ 389,097	$ 67,384
Compensation subsidies received	(25,227)	(44,338)	19,111
Occupancy costs	162,136	132,156	29,980
Rent subsidies received	(13,923)	(6,077)	(7,846)
Professional fees	32,192	48,999	(16,807)
Shareholder services	10,646	15,517	(4,871)
Insurance	15,910	17,053	(1,143)
Other costs	27,361	23,713	3,648
Total selling, general and administrative	$ 665,576	$ 576,120	$ 89,456

Three month periods ended December 31	2021	2020	Change
Employee and consultant compensation	$ 229,372	$ 198,575	$ 30,797
Compensation subsidies received	(1,960)	(17,335)	15,375
Occupancy costs	80,410	65,594	14,816
Rent subsidies received	(1,075)	(6,077)	5,002
Professional fees	19,874	25,278	(5,404)
Shareholder services	6,096	11,208	(5,112)
Insurance	7,954	8,527	(573)
Other costs	16,715	16,576	139
Total selling, general and administrative	$ 357,386	$ 302,346	$ 55,040

Employee and consultant compensation costs, which include salaries, benefits, consulting fees, and independent directorsô fees, rose more than 17% in comparison to one year prior, including an increase of 15.5% in the most recent quarter. The increase includes higher directorsô fees but is primarily the result of having filled, or partially filled, staffing vacancies that originated in Q1 2020 when one employee retired and another reduced their workweek and remuneration by more than 50%. The increase in costs, in conjunction with the cessation of the CEWS program, results in compensation costs accounting for most of the increase in total SG&A expense. It is anticipated that costs for the current periods are indicative of costs to be anticipated in future periods.

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. In the first quarter government rent subsidies helped to offset the higher charges but the cessation of the subsidy program in October 2021 limited the benefits received in the most recent quarter.

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 have remained comparable while tax filing fees rose modestly and legal costs declined. A significant portion of legal fees relate to matters of corporate administration and governance for which there was additional requirement in the comparison 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 declined in the current periods as costs related to the shareholder meeting held January 2021 have not yet recurred.

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

Results of Operations - continued

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

Six month periods ended December 31	2021	2020	Change
Interest expense ï long term	$ 4,919	$ -	$ 4,919
Interest expense ï other	266	324	(58)
Interest expense ï lease liability	12,661	1,384	11,277
Total financing expenses	$ 17,846	$ 1,708	$ 16,138

Three month periods ended December 31	2021	2020	Change
Interest expense ï long term	$ 2,398	$ -	$ 2,398
Interest expense ï other	133	162	(29)
Interest expense ï lease liability	6,175	506	5,669
Total financing expenses	$ 8,706	$ 668	$ 8,038

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 any 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 December 31, 2021, the Company had working capital of $351,928 (June 30, 2021 ï $549,988) and current financial assets of $621,792 (June 30, 2021 ï $1,211,771) available to settle current financial liabilities of $1,367,423 (June 30, 2021 ï $1,167,532). The Company also has access to a $500,000 bank operating line, of which $Nil (June 30, 2021 ï $Nil) had been drawn as of December 31, 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 December 31, 2021:

	Due by Dec. 2022	Due by Dec. 2023	Due by Dec. 2024	Due after Dec. 2024	Total Due
Long-term debt (1)	$ 59,910	$ 61,972	$ 64,087	$ 148,968	$ 334,937
Lease liability	153,920	163,824	174,069	227,495	719,308
	$ 213,830	$ 225,796	$ 238,156	$ 376,463	$ 1,054,245

(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 $Nil (June 30, 2021 - $Nil) was drawn as at December 31, 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 $274,937 remains payable at December 31, 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.

The Company has not completed any financing transactions, since June 30, 2021 but it did issue 200,000 common shares upon the exercise of stock options and 2,260,000 common shares upon the exercise of share purchase warrants. These issuances provided cash proceeds of $145,600. The Company also issued 1,250,000 Convertible Preferred Shares Series 2 in 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. If those events fail to take place, the Preferred Shares will be redeemed for $1 and the shares of Conversance Inc. will be returned.

Related Party Transactions

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

Six month periods ended December 31		2021		2020
Salaries and benefits (1)	$	73,945	$	68,120
Consulting fees (1)		72,000		71,069
Directorsô fees (1)		31,500		21,000
Legal fees (2)		19,687		29,674
Accounting fees (2)		4,255		3,700
Cash based expenditures	$	201,387	$	193,563
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 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:

		2021		2020
Salaries and benefits payable	$	5,080	$	7,324
Consulting and Director fees payable	$	529,974	$	381,731
Legal fees payable	$	56,131	$	62,997

There are 350,000 stock options issued to Directors and/or Officers of the Company that were outstanding as at December 31, 2021, and remain outstanding as at the date of this document. They have an exercise price of $0.95 and will expire January 12, 2023. During the period ended December 31, 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 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
Common shares as at December 31, 2021 and as at the date of this document	26,687,196	$24,064,236

The Company also has common shares reserved to satisfy dilutive factors, as follows:

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
Conversion of Series 1 Preference shares	June 2022	1,250,000
Shares reserved as at Dec. 31, 2021 and as at the date of this document		1,608,246

(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 Dec. 31, 2021 and as at the date of this document	26,687,196
Shares reserved as at Dec. 31, 2021 and as at the date of this document	1,608,246
Fully diluted position Dec. 31, 2021 and as at the date of this document	28,295,442

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)		0.05	Aug. 26, 2021
Balance as at Dec. 31, 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 there are 350,000 stock options outstanding, each of which has vested and is held by Directors and/or officers of the Company. They can be exercised at $0.95 until January 12, 2023 and the Company has no ability to cause these options to be exercised.

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

	Number of Warrants		Weighted Average Price per Warrant	Weighted Average Expiry Date
Balance at June 30, 2021	2,360,000	$	0.06	Dec. 15, 2021
Exercised during the period	(2,260,000)		0.06	Dec. 15, 2021
Expired during the period	(100,000)		0.06	Dec. 15, 2021
Balance as at Dec. 31, 2021, and as at the date of this document	-	$	-	

No share purchase warrants were issued during the periods presented.

Financial instruments

The Companyøs 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 assetøs 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 armøs 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.

Impairment of Investments - continued

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 Companyös 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 Companyös 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 Companyös 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 Companyös 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 Companyös 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 Companyös 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 December 31, 2021 or December 31, 2020**.**

Concentration of credit risk

Concentration of credit risk arises when one or more customers individually account for 10% or more of the Companyös revenues during a reporting period. The Company had 2 customers during the current period, representing 23% and 15% of revenues (December 2020 - 2 customers, 22% and 15% of revenues). Amounts due from these customers represented 13% of accounts receivable at December 31, 2021 (December 2020 - 35%). 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, 2021 the Company had current financial assets of $621,792 (June 2021 - $1,211,771) available to settle current financial liabilities of $1,367,423 (June 2021 - $1,167,532). The Company also has a bank operating line available in the mount of $500,000 of which $Nil (June 2021 - $Nil) had been utilized at December 31, 2021. 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 Companyös 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 loss in the amount of $4,361 (December 2020 ï gain of $4,143).

Risk Factors - continued

Sensitivity to market risks

At December 31, 2021, the Company had:

- A bank operating loan that had not been drawn upon (June 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$22,975 (June 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 $1,149 in future cash inflow.
- US$163,184 (June 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 $8,159 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.