ZTEST Electronics Inc.

Managementôs Discussion and Analysis
For The Nine Month Period Ended March 31, 2022
(Prepared as at May 27, 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 nine months ended March 31, 2022. The MD&A was prepared as of May 27, 2022 and was approved by the Board of Directors on May 27, 2022. It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the nine months ended March 31, 2022, 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 Companyôs management, which has remained unchanged since the previous fiscal year, is as follows:

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 [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 nine months of the 2022 fiscal year continued to be dominated by the uncertainties and repercussions arising from, the COVID-19 pandemic. The Company operated continuously throughout the pandemic but that should not imply, and does not mean, that the pandemic has had no impact. As a consequence of COVID-19, the Company has encountered numerous factors affecting operating revenues, costs, and efficiencies and many of these are expected to continue for the foreseeable future. Future repercussions 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.

Throughout the first nine months of this fiscal year, the Company has experienced significant supply chain disruptions, customers deferring deliveries, and a brief planned shutdown in Q1 to allow installation of new machinery. Each of these factors have contributed to an increase in the Companyôs order back-log while simultaneously having negative effects on revenues and gross margins. Revenues in the most recent quarter were almost 30% greater than the same period one year earlier however year-to-date revenues remain more than 7% behind last yearôs levels. These disruptive factors are not unique to the Company, isolated to the Companyôs industry, or within the Companyôs control. The Company remains confident that all in-house orders will proceed in due course and that it will continue to secure new orders in future periods.

Corporate Performance - continued

The increase in the Companyôs order backlog is best demonstrated through the accumulation of inventory. Inventory is only acquired once a customer order has been received, however production of that order cannot commence until 100% of the materials required for production have arrived. When supply chain issues cause the receipt of certain materials to be delayed, the materials that did arrive are added to inventory until production can proceed. Raw materials inventory has increased by $127,464 in the current quarter and by $710,414 this fiscal year to date. As the supply chain issues are resolved, or alternate sources for delayed materials can be found, inventory will be converted to finished products and delivered to customers. Management recognizes that the accumulation 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.

The impact upon liquidity is most evident through the comparison of current financial assets to current financial liabilities. The Company began the 2022 fiscal year with current financial assets of $1,211,771 as compared to current financial liabilities of $1,167,532, or a ratio marginally in excess of 1:1. By the end of the second fiscal quarter this ratio had declined to be just over 0.45:1 while at March 31, 2022 it had recovered slightly to be just under 0.5:1. The primary force driving this ratio lower has been the accumulation of inventory. As these supply issues are overcome, thereby allowing production to reduce inventories, this temporary pressure on liquidity will wane.

From March 2020 to October 2021, governments made certain subsidies available to qualifying companies as a result of COVID-19. The Company availed itself of these programs and received subsidies aggregating $84,625 this fiscal year, before the subsidy programs came to an end. The Company will continue to monitor government programs, and make application for any programs for which it may meet the qualification criteria, but further subsidy benefits are not anticipated.

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:			
	Mar. 2022	Dec. 2021	Sept. 2021	June 2021
Total Revenues	1,326,227	781,865	630,121	1,045,365
Net (loss) income from operations	(20,894)	(191,338)	(169,612)	9,997
Per share - basic	(0.001)	(0.008)	(0.007)	0.000
Net (loss) income for the period	(23,906)	(191,338)	(169,612)	9,997
Per share - basic	(0.001)	(0.008)	(0.007)	0.000
Total assets	3,309,755	2,996,924	2,975,768	3,120,759
Total long-term financial liabilities	755,507	840,415	894,843	948,791
Total liabilities	2,541,563	2,207,838	2,098,545	2,116,323

Corporate Performance - continued

	For the fiscal quarters ended:			
	Mar. 2021	Dec. 2020	Sept. 2020	June 2020
Total Revenues	1,037,388	873,206	1,053,501	1,077,137
Net (loss) income from operations	(23,906)	(22,215)	81,886	178,572
Per share - basic	(0.001)	(0.001)	0.004	0.008
Net (loss) income for the period	(23,906)	(22,215)	81,886	(511,798)
Per share - basic	(0.001)	(0.001)	0.004	(0.024)
Total assets	2,878,943	1,792,632	1,841,370	1,807,231
Total long-term financial liabilities	-	60,000	40,000	40,000
Total liabilities	1,884,504	935,862	994,785	1,042,533

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

Results of Operations

The third quarter of 2022 provided one of the best quarterly revenue totals that the Company has reported. While that is certainly a positive result it is tempered by the fact that supply-chain issues remain and that year-to-date revenues remain approximately 7% behind 2021 levels. The current period results were made possible by the completion of certain assembly-only jobs along with procuring the parts necessary to allow turnkey work to proceed. The Company has been, and continues to, work with its customers in the attempt to find solutions to allow production to proceed but the supply-chain issues continue to be an impediment. It remains unclear as to when these issues will be resolved.

Gross margins are impacted by many factors including, but not limited to, production volumes, product mix and order sizes. As a result of these many factors, it is common for margins to vary from period to period. Margins in the most recent quarter of 25.3%, versus 26.3% one year earlier, and year to date margins of 24.3% as compared to 30.6% for the same period in 2021. To better understand gross margins, one must look more closely at cost of product sales. The different elements of cost of product sales for the periods ended March 31 were as follows:

Nine-month periods:	2022	2021	Change
Raw materials and supplies consumed	$ 1,368,347	$ 1,497,418	$ (129,071)
Labour costs incurred	590,871	573,210	17,661
Labour subsidies received	(42,771)	(112,110)	69,339
Depreciation	60,594	28,713	31,881
Other costs	114,918	81,246	33,672
Net change in finished goods and work in process	(19,300)	(12,805)	(6,495)
Total cost of product sales	$ 2,072,659	$ 2,055,672	$ 16,987

Three-month periods:	2022	2021	Change
Raw materials and supplies consumed	$ 726,216	$ 563,372	$ 162,844
Labour costs incurred	208,038	192,743	15,295
Labour subsidies received	-	(26,573)	26,573
Depreciation	17,488	9,571	7,917
Other costs	44,931	29,441	15,490
Net change in finished goods and work in process	(6,416)	(4,055)	(2,361)
Total cost of product sales	$ 990,257	$ 764,499	$ 225,758

The cost of raw materials and supplies consumed rose by 28.9% in the current quarter, compared to 2021 levels, but remain 8.6% less on a year-to-date basis. These variances are generally correlated with revenue changes over those same periods. There will never be complete correlation due to the mix between assembly-only production, where customers provide all parts required, and turnkey production when all parts are supplied by the Company.

Results of Operations - continued

Labour costs incurred rose in the current quarter, in comparison to the same period last year, and the value of that increase is virtually identical to the year-to-date increase. Labour volumes are predicated, to the extent possible, on the labour required to facilitate customer orders. This practice has been more challenging in recent periods as the customer orders have not resulted in typical production schedules due to supply-chain issues. A 7.9% cost increase in the current quarter, to help facilitate a 27.8% increase in revenues, is not unexpected while an increase of 3.1% in costs on a year-to-date, at a time when revenues declined, is a by-product of minimum labour requirements and the impact of supply issues on production scheduling. These costs had been mitigated, to a degree, by government subsidy programs introduced in response to the COVID-19 pandemic. These programs ceased October 2021.

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 $201,622 for the most recent quarter, as compared to $188,688 the year before, representing an increase of 6.9%. For 2022, aggregate costs were $571,571 year to date, as compared to $560,405, representing a 2.0% increase. In each instance the rise in aggregate costs is less than, but still comparable to, the rise in labour costs incurred.

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 managementõs expectations. Freight rates have risen since the onset of the pandemic and there have been incremental costs incurred due to the supply-chain disruption. That disruption has caused the Company to seek alternate sources of supply, often delivering fewer parts in a particular shipment without a pro-rata cost reduction. Higher shipping rates may persist but it is anticipated that aggregate shipping costs will decline whenever more traditional purchasing channels return to their previous levels of dependability.

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

Nine-month periods:	2022	2021	Change
Employee and consultant compensation	$ 694,291	$ 598,121	$ 96,170
Compensation subsidies received	(25,227)	(60,742)	35,515
Occupancy costs	240,985	195,500	45,485
Rent subsidies received	(13,923)	(13,162)	(761)
Professional fees	41,617	67,161	(25,544)
Shareholder services	14,815	24,112	(9,297)
Insurance	23,221	24,421	(1,200)
Other costs	36,790	33,635	3,155
Total selling, general and administrative	$ 1,012,569	$ 869,046	$ 143,523

Three-month periods:	2022	2021	Change
Employee and consultant compensation	$ 237,810	$ 209,023	$ 28,787
Compensation subsidies received	-	(16,403)	16,403
Occupancy costs	78,849	63,344	15,505
Rent subsidies received	-	(7,085)	7,085
Professional fees	9,425	18,162	(8,737)
Shareholder services	4,169	8,595	(4,426)
Insurance	7,311	7,368	(57)
Other costs	9,429	9,922	(493)
Total selling, general and administrative	$ 346,993	$ 292,926	$ 54,067

Results of Operations - continued

Employee and consultant compensation costs, which include salaries, benefits, consulting fees, and independent directorsô fees, rose more than 16% in comparison to one year prior, including an increase exceeding 13% 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. It is anticipated that costs for the current periods are indicative of costs to be anticipated in future periods.

Occupancy costs have risen in 2022 as a direct consequence of the lease extension that took effect April 1, 2021. 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 payments required under that extension are higher than they had been under the former lease which translates into higher monthly amortization charges. All other elements of occupancy costs are comparable between the two periods with the exception of related government subsidies which ceased October 2021.

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 declined. A significant portion of legal fees relate to matters of corporate administration and governance for which there was additional requirements during the comparable periods, including a shareholdersô meeting held January 2021.

Shareholder services have declined in the current periods, primarily due to the comparative amounts including costs related to the shareholders meeting held January 2021 and certain regulatory filings associated with the two new directors elected at that meeting.

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

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

Nine-month periods:		2022		2021		Change
Interest expense ï long term	$	7,142	$	-	$	7,142
Interest expense ï other		1,202		466		736
Interest expense ï lease liability		18,524		1,511		17,013
Total financing expenses	$	26,868	$	1,977	$	24,891

Three-month periods:		2022		2021		Change
Interest expense ï long term	$	2,223	$	-	$	2,223
Interest expense ï other		936		142		794
Interest expense ï lease liability		5,863		127		5,736
Total financing expenses	$	9,022	$	269	$	8,753

The Company initiated new term financing in relation to the acquisition of new equipment. The loan was funded in April 2021 resulting in interest expense-long term 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 interest arising from the use of the Companyøs operating line as well as miscellaneous interest charges incurred. The Company made use of its operating line during the third quarter of 2022 but did not in any of the prior periods presented.

Results of Operations - continued

As noted previously, the Companyõs 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 March 31, 2022, the Company had working capital of $336,432 (June 30, 2021 ï $549,988) and current financial assets of $856,892 (June 30, 2021 ï $1,211,771) available to settle current financial liabilities of $1,756,056 (June 30, 2021 ï $1,167,532). The Company also has access to a $500,000 bank operating line, of which $140,000 (June 30, 2021 ï $Nil) had been drawn as of March 31, 2022.

In addition to satisfying the cost of operations the Company must also address the settlement of the following obligations as at March 31, 2022:

	Due by Mar. 2023	Due by Mar. 2024	Due by Mar. 2025	Due after Mar. 2025	Total Due
Long-term debt (1)	$ 60,437	$ 69,653	$ 94,257	$ 95,797	$ 320,144
Lease liability	146,709	156,365	166,353	359,446	828,873
	$ 200,341	$ 221,778	$ 248,832	$ 594,150	$ 1,202,621

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

Capital Resources

The Company has a $500,000 commercial line of credit from which $140,000 (June 30, 2021 - $Nil) was drawn as at March 31, 2022. 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 $260,144 remains payable at March 31, 2022. 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 and accounting fees paid to Michael D. Kindy (CFO), Directorsô fees paid to independent Directors of the Company and its subsidiary, salaries and benefits paid to John Perreault and as an officer of PEC, legal fees paid to a legal firm in which William R. Johnstone (Corporate Secretary) is a partner, and share-based payments related to key management personnel. Compensation rates are agreed to by the related parties and are predicated upon prevailing market rates. The following expenses, involving these related parties, have arisen during the reporting periods:

Related Party Transactions - continued

Nine-month periods ended March 31		2022		2021
Salaries and benefits [1]	$	99,471	$	100,740
Consulting fees [1]		108,000		107,069
Directorsô fees [1]		47,250		28,750
Legal fees [2]		22,803		40,336
Accounting fees [2]		4,255		3,700
Cash based expenditures	$	281,779	$	280,595
Share-based payments	$	-	$	-

[1] Charged to net income as an element of employee and consultant compensation.
[2] Charged to net income as an element of professional fees.

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

		2021		2020
Salaries and benefits payable	$	7,113	$	6,969
Consulting and Director fees payable [1]	$	579,006	$	412,551
Legal fees payable621,685	$	35,566	$	72,178

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

The following stock options have been issued to Directors and/or Officers of the Company and were outstanding as at March 31, 2022:

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

[1] The expiry date of these options has been extended in accordance with the terms of the stock options agreements.

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Common shares	Quantity	Amount
Common shares as at June 30, 2021	24,227,196	$23,859,872
Warrants exercised	2,260,000	186,404
Stock options exercised	200,000	17,960
Balance at March 31, 2022 and as at the date of this document	26,687,196	$24,064,236

Convertible Preferred Shares	Quantity		Amount
Balance June 30, 2021	-	$	-
Shares issued to acquire investment in Conversance Inc.	1,250,000		1
Balance March 31, 2022 and as at the date of this document	1,250,000	$	1

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

Convertible Instruments and Other Securities - continued

Shares reserved	Expiry Date	Number of Common Shares
Common shares to be issued for Class A shares [1]		8,246
Conversion of Series 1 Preference shares	June 2022	1,250,000
Stock options @ $0.95 per share	Jan. 2023	350,000
Shares reserved at March 31, 2022 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.
[2] The expiry date of these options has been extended in accordance with the terms of the stock options agreements.

Fully diluted number of shares	Quantity
Shares issued at March 31, 2022 and as at the date of this document	26,687,196
Shares reserved at March 31, 2022 and as at the date of this document	1,608,246
Fully diluted number of shares at March 31, 2022 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) [1]		0.05	Aug. 26, 2021
Balance at March 31, 2022 and as at the date of this document	350,000	$	0.95	Jan. 12, 2023

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

	Common Shares Under Option		Exercise Price	Expiry Date
Granted January 12, 2018	350,000 [1]	$	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.
[2] Directors and/or Officers of the Company hold these options.

No stock options were granted during the period ended March 31, 2022 or during the year ended June 30, 2021.

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 at March 31, 2022 and as at the date of this document	-	$	-	-

No warrants were issued during the period ended March 31, 2022 or during the year ended June 30, 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*
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 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. 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 previous fiscal periods.

Risk Factors

Events seemingly unrelated to the Company, or to its industry, may adversely affect its finances or operations in ways that are hard to predict or defend against. For example, credit contraction in financial markets may hamper the Companyꞌs 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 Companyꞌs 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 Companyꞌs 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 Companyꞌs 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 Companyꞌs 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 Companyꞌs primary exposure to credit risk is in its accounts receivable. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. It has been determined that no allowance is required, as all amounts outstanding are considered collectible. The Company incurred no bad debts during any of the periods presented.

Concentration of credit risk

Concentration of credit risk arises when one or more customers, defined as a major customer, individually account for 10% or more of the Companyꞌs revenues during a reporting period. During the nine-month period ended March 31, 2022 the Company had three major customers who represented 16%, 15% and 10% of total revenues. In the comparative period, there were two major customers which represented 21% and 15% of revenues. Amounts due from major customers represented 43% of accounts receivable at March 31, 2022 (Mar. 31, 2021 - 48%). The loss of a major customer, or significant curtailment of purchases by such customer, could have a material adverse effect on the Company's results of operations and financial condition. The Company monitors the relationship with all customers closely and ensures that every customer is subject to the same risk management criteria.

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. At March 31, 2022 the Company had current financial assets of $919,892 (June 2021 - $1,211,771) available to settle current financial liabilities of $1,756,056 (June 2021 - $1,167,532). The Company also has a bank operating line available in the mount of $500,000 of which $140,000 (June 2021 - $Nil) had been utilized at March 31, 2022. 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 Companyꞌs 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 $3,834 (Mar. 31, 2021 – gain of $1,853).

Risk Factors - continued

Sensitivity to market risks

At March 31, 2022, the Company had:

- A bank operating loan, of which $140,000 had been drawn (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 $1,400 in additional interest expense over the next 12 month period.
- US$141,454 (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 $7,073 in future cash inflow.
- US$205,416 (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 $10,271 in future cash outflow.

Based upon observations of recent market trends management believes that each of these outcomes is possible.

Forward-looking Information

Certain statements in this MD&A may constitute ñforward-lookingò statements that involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and its subsidiary, or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this report, the words ñestimateò, ñbelieveò, ñanticipateò, ñintendò, ñexpectò, ñplanò, ñmayò, ñshouldò, ñwillò, the negative thereof or other variations thereon or comparable terminology are intended to identify forward-looking statements.

Such forward-looking statements reflect the current expectations of the management of the Company with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results, performance or achievements to differ materially from those expressed or implied by those forward-looking statements, such as reduced funding, long sales cycles, currency and interest rate fluctuations, increased competition and general economic and market factors and including the risk factors summarized above under the heading ñRisk Factorsò. New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those expressed or implied in such forward-looking statements.

Given these risks and uncertainties, readers should not place undue reliance on forward-looking statements as a prediction of actual results. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure readers that actual results will be consistent with these forward-looking statements. The forward-looking statements contained in this MD&A speak only as of the date hereof. The Company does not undertake or assume any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.