ZTEST Electronics Inc.

Consolidated Financial Statements

June 30, 2021 and 2020

(Stated in Canadian Dollars)

Wasserman
Ramsay

Chartered Professional Accountants

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Independent Auditors' Report

To the Shareholders of
ZTEST Electronics Inc.:

Opinion

We have audited the consolidated financial statements of ZTEST Electronics Inc. (the "Company"), which comprise the consolidated statement of financial position as at June 30, 2021 and 2020, and the consolidated statements of changes in equity, comprehensive loss, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises:

- Management’s Discussion and Analysis

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management’s Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor’s report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

<u>Auditor’s Responsibilities for the Audit of the consolidated Financial Statements</u>

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Kevin Ramsay.

Wasserman Ramsay

Chartered Professional Accountants
Licensed Public Accountants

Markham, Ontario
October 28, 2021

Consolidated Statements of Financial Position
(Stated in Canadian Dollars)
June 30, 2021 and 2020

		2021		2020
Assets				
Current assets				
Cash	$	557,013	$	220,403
Accounts receivable		654,758		512,068
Inventories *(note 3)*		488,333		732,961
Prepaid expenses		17,416		18,781
		1,717,520		1,484,213
Equipment *(note 4)*		580,807		210,918
Right-of-use asset *(note 5)*		822,430		112,099
Investments *(note 6)*		1		1
	$	3,120,758	$	1,807,231
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities *(note 11)*	$	959,507	$	898,237
Customer deposits		1		25,000
Current portion of lease liability *(note 8)*		149,092		79,296
Current portion of long-term debt *(note 9)*		58,932		-
		1,167,532		1,002,533
Lease liability *(note 8)*		643,568		-
Long-term debt *(note 9)*		305,223		40,000
		2,116,323		1,042,533
Shareholders' Equity				
Share capital *(note 10)*		23,859,872		23,613,546
Warrants *(note 10)*		53,052		217,665
Contributed surplus *(note 10)*		1,650,929		1,538,667
Deficit		(24,559,418)		(24,605,180)
		1,004,435		764,698
	$	3,120,758	$	1,807,231

The accompanying notes are an integral part of these consolidated financial statements

Approved by the Board:

Signed: " Steve Smith" — Director

Signed: "K. Michael Guerreiro" — Director

ZTEST Electronics Inc.

Consolidated Statement of Changes in Equity
(Stated in Canadian Dollars)
June 30, 2021

	Share Capital	Warrants	Contributed, Surplus	Deficit	Total
Balance, June 30, 2019	$ 23,394,174	$ 182,956	$ 1,533,373	$ (23,786,443)	$ 1,324,060
Shares for debt	153,450	-	-	-	153,450
Private placement	65,922	40,003	-	-	105,925
Warrants expired	-	(5,294)	5,294	-	-
Net loss for the year	-	-	-	(818,737)	(818,737)
Balance, June 30, 2020	23,613,546	217,665	1,538,667	(24,605,180)	764,698
Preferred shares issued	1	-	-	-	1
Preferred shares redeemed	(1)	-	-	-	(1)
Stock options exercised	17,961	-	(7,961)	-	10,000
Warrants exercised	228,365	(44,390)	-	-	183,975
Warrants expired	-	(120,223)	120,223	-	-
Net income for the period	-	-	-	45,762	45,762
Balance, June 30, 2021	**$ 23,859,872**	**$ 53,052**	**$ 1,650,929**	**$ (24,559,418)**	**$ 1,004,435**

The accompanying notes are an integral part of these consolidated financial statements

ZTEST Electronics Inc.

Consolidated Statements of Comprehensive Income (Loss)
(Stated in Canadian Dollars)
For the years ended June 30, 2021 and 2020

		2021		2020
Product sales	**$**	**4,009,460**	$	3,888,898
Cost of product sales (*note 3*)		**2,777,945**		2,660,103
		1,231,515		1,228,795
Expenses				
Selling, general and administrative *(note 12)*		**1,174,408**		1,262,788
Interest expense - long-term debt		**2,439**		5
Interest expense - lease liability *(note 8)*		**8,304**		7,141
Interest expense - other		**599**		5,608
Financing fees *(note 11)*		**-**		16,181
Depreciation of equipment		**5,046**		4,688
Foreign exchange (gain) loss		**(5,043)**		13,486
		1,185,753		1,309,897
Income (loss) before other income and provisions, and income taxes		**45,762**		(81,102)
Other income and provisions				
Interest income		**-**		4
Equity in loss of Conversance Inc. *(note 6)*		**-**		(54,549)
Provision for impairment of Conversance Inc. *(note 6)*		**-**		(683,090)
		-		(737,635)
Income (loss) before provision for income taxes		**45,762**		(818,737)
Provision for income taxes *(note 13)*		**-**		-
Net income (loss) and comprehensive income (loss) for the year	**$**	**45,762**	**$**	(818,737)
Net income (loss) per share				
Basic	**$**	**0.00**	$	(0.04)
Fully diluted	**$**	**0.00**	$	(0.04)
Weighted average shares outstanding				
Basic		**24,227,196**		21,704,385
Fully diluted		**25,907,107**		21,704,385

The accompanying notes are an integral part of these consolidated financial statements

ZTEST Electronics Inc.

Consolidated Statements of Cash Flows
(Stated in Canadian Dollars)
For the years ended June 30, 2021 and 2020

		2021		2020
Cash flow from operating activities				
Net income (loss) for the year	**$**	**45,762**	$	(818,737)
Items not involving cash				
Depreciation of equipment		**43,331**		52,198
Depreciation of right of use asset		**118,542**		102,798
Imputed interest on lease liability		**8,304**		7,141
Equity in loss of Conversance Inc.		**-**		54,549
Provision for impairment of Conversance Inc.		**-**		683,090
		215,939		81,039
Changes in non-cash working capital items				
Accounts receivable		**(142,690)**		79,507
Inventories		**244,628**		(96,067)
Prepaid expenses		**1,365**		(10,821)
Customer deposits		**(24,999)**		25,000
Accounts payable and accrued liabilities		**61,270**		194,365
		355,513		273,023
Cash flow from investing activities				
Purchase of equipment		**(413,220)**		(4,140)
Cash flow from financing activities				
Repayment of bank operating loan, net		**-**		(150,000)
Proceeds of long-term debt		**333,748**		40,000
Repayment of long-term debt		**(9,593)**		(3,291)
Repayment of lease obligation		**(123,813)**		(107,742)
Proceeds from share issuances		**193,975**		105,925
		394,317		(115,108)
Increase in cash		**336,610**		153,775
Cash, beginning of year		**220,403**		66,628
Cash, end of year	**$**	**557,013**	$	220,403

Supplemental Disclosure of Cash Flow Information:
During the year the Company had cash flows arising from interest and income taxes paid as follows:

Interest	**$**	**2,361**	$	5,624
Income taxes	**$**	**-**	$	-

The accompanying notes are an integral part of these consolidated financial statements

1. Business of the Company

ZTEST Electronics Inc. ("the Company") amalgamated under the laws of Ontario and carries on business at 523 McNicoll Avenue, Toronto, Ontario designing, developing, and assembling printed circuit boards and other electronic equipment. The Company's shares trade on the Canadian Securities Exchange ("CSE") under the symbol "ZTE".

2. Significant Accounting Policies

Statement of compliance

The Company has prepared these consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on October 28, 2021.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of presentation and going concern considerations

These consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting, except for cash flow information, and in accordance with IFRS applicable to a "going concern". Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. If the going concern assumption were not appropriate for these consolidated financial statements then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

Basis of consolidation

These consolidated financial statements include the accounts of the Company as well as the following subsidiaries' assets and liabilities and revenues and expenses, arising subsequent to the date of acquisition:

Permatech Electronics Corporation ("PEC")	- 100%	owned
Twenty49 Ltd	- 100%	owned (inactive)
Northern Cross Minerals Inc.	- 66.7%	owned (inactive)

Significant accounting judgments and estimates

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and also in future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant estimates and judgments include, but are not limited to, the assessment of the Company as a going concern, recoverability of inventory, the inputs used in applying the Black-Scholes valuation model, and the recognition and valuation of deferred tax amounts.

Financial instruments

The Company's financial instruments are comprised of the following:

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

2. Significant Accounting Policies - continued

Financial instruments - continued

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 – The amount at which a financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit losses.

The effective interest method - The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to the net carrying amount on initial recognition.

Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss.

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

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

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the amount, net of the estimated costs to complete assemblies and sell them, which the Company expects to realize from the sale of inventory in the ordinary course of business. An assessment of net realizable value is completed at the end of each reporting period and any resulting write-downs, or recovery of previous write-downs, are reflected in income for the period. Current assessments have determined that net realizable values equal or exceed the corresponding costs and accordingly all inventories are currently carried at cost.

Investments

Non-controlling interests, which are not financial instruments, and are less than a 20% ownership interest, are initially recorded at the cost of acquisition plus any directly attributable transaction costs. Subsequent to the acquisition date the investment is carried at amortized value, representing the initial carrying value net of any impairment provisions. An investment of this type is considered impaired when its carrying amount exceeds its recoverable amount.

Non-controlling interests, which are not financial instruments, and are equal to or exceeding a 20% ownership interest (an equity instrument), are initially recorded at the cost of acquisition plus any directly attributable transaction costs. Subsequent to the acquisition date the investment is adjusted for the post-acquisition change in the investor's share of the investee's net assets and for any impairment provisions.

2. Significant Accounting Policies - continued

Investments - continued

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.

Equipment

Equipment is stated at cost. Depreciation is provided over the related assets' estimated useful lives using the following methods and annual rates:

Computer equipment	-	30%	declining balance
Office equipment	-	20%	declining balance
Manufacturing equipment	-	20%	declining balance
Leasehold improvements	-	10 years	straight-line

The Company reviews the estimated useful lives, residual values and depreciation method at the end of each reporting period, accounting for the effect of any changes in estimate on a prospective basis.

Revenue recognition

Revenue is recognized when the risks and rewards of ownership pass to the customer, the amount of revenue can be measured reliably, and the ability to collect is reasonably assured, which typically arises when the product is delivered.

Share based payment transactions

The fair value of share options granted to employees is recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black Scholes option pricing model, after considering the terms and conditions upon which the options were granted. At the end of each financial reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Foreign exchange

As at the transaction date all asset, liability, revenue, and expense amounts denominated in foreign currencies are translated into Canadian dollars using the exchange rate in effect as at that date. At the end of each financial reporting period all monetary assets and liabilities are translated into Canadian dollars using the exchange rate in effect as at that date. The resulting foreign exchange gains and losses are included in income for the period.

Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in profit and loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

(Stated in Canadian Dollars)

2. Significant Accounting Policies - continued

Income taxes - continued

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in profit and loss and comprehensive (loss) income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At the end of each financial reporting period, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Income (loss) per share

The Company presents basic and diluted income (loss) per share data for its common shares, calculated by dividing the income (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the financial reporting period. Diluted income (loss) per share is determined by adjusting the income (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

Stock options and warrants outstanding are excluded from the computation of diluted income (loss) per share if their inclusion would increase the income per share, or decrease the loss per share, or if their exercise price exceeds the average market price of the Company's shares for the financial reporting period.

Segment disclosure

The Company has a single location and operating segment accordingly, all revenues are generated in Canada and all assets are located in Canada.

3 Inventories

The carrying value of inventories is comprised of:

	2021	2020
Raw materials and supplies [(1)]	**$ 432,917**	$ 684,648
Work in process	**31,859**	29,511
Finished goods	**23,557**	18,802
	$ 488,333	$ 732,961

[(1)] Raw materials and supplies is presented net of provisions for obsolete and/or slow-moving items in the amount of $4,373 (2020 - $28,517). Management makes estimates of future demand when establishing appropriate provisions. To the extent that actual inventory losses differ from these estimates both inventories and net income (loss) will be affected.

Inventory utilization during the year was as follows:

	2021	2020
Raw materials and supplies used	**$ 1,998,385**	$ 1,868,875
Labour costs *(note 15)*	**637,884**	647,450
Shipping costs	**66,619**	60,750
Depreciation	**38,285**	47,509
Repairs and maintenance	**11,327**	24,765
Stencils and tooling	**26,077**	22,095
Packaging costs	**6,470**	10,000
Net change in finished goods and work in process	**(7,102)**	(21,341)
Cost of product sales	**$ 2,777,945**	$ 2,660,103

(Stated in Canadian Dollars)

4. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Cost:					
Balance, June 30, 2019	$ 185,048	$ 71,277	$ 2,594,244	$ 84,143	$ 2,934,712
Additions	1,370	-	2,770	-	4,140
Balance, June 30, 2020	186,418	71,277	2,597,014	84,143	2,938,852
Additions	5,703	-	407,517	-	413,220
Balance, June 30, 2021	**$ 192,121**	**$ 71,277**	**$ 3,004,531**	**$ 84,143**	**$ 3,352,072**

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Accumulated Depreciation:					
Balance, June 30, 2019	$ (178,902)	$ (70,242)	$ (2,357,490)	$ (69,102)	$ (2,675,736)
Depreciation	(2,050)	(207)	(47,627)	(2,314)	(52,198)
Balance, June 30, 2020	(180,952)	(70,449)	(2,405,117)	(71,416)	(2,727,934)
Depreciation	(2,330)	(165)	(38,522)	(2,314)	(43,331)
Balance, June 30, 2021	**$ (183,282)**	**$ (70,614)**	**$ (2,443,639)**	**$ (73,730)**	**$ (2,771,265)**
Carrying Amounts:					
June 30, 2020	$ 5,466	$ 828	$ 191,897	$ 12,727	$ 210,918
June 30, 2021	**$ 8,839**	**$ 663**	**$ 560,892**	**$ 10,413**	**$ 580,807**

5. Right of use asset

The Company occupies its operating facility under a lease that expired March 31, 2021, but was extended during the period to March 31, 2026. In each instance, the resulting right-of-use asset was recorded at cost equal to the present value of the remaining lease payments, plus a refundable deposit paid at the inception of the lease. Subsequent to initial recording, the carrying value of the right-of-use asset is equal to cost less accumulated depreciation and, if any, impairment losses and remeasurement of the lease liability. Depreciation is calculated on a straight-line basis over the remaining lease term and charged to net income as an element of occupancy costs *(note 12)*. There have been no impairment losses and no remeasurement of the lease liability.

Cost recognized upon adoption of IFRS 16	$ 214,897
Depreciation recorded as an element of occupancy costs	(102,798)
Balance at June 30, 2020	112,099
Cost recognized upon extension of the lease	828,873
Depreciation recorded as an element of occupancy costs	(118,542)
Balance at June 30, 2021	$ **822,430**

6. Investments

The Company holds a non-controlling interest in Conversance Inc., a private Canadian technology company. The shares of Conversance Inc. are subject to a hold period and, unless permitted under securities legislation, the shares may not be traded before the date that is four months and a day after the issuer becomes a reporting issuer in any province or territory.

(Stated in Canadian Dollars)

6. Investments - continued

Conversance Inc. is engaged in the development of its proprietary technology and has not yet produced any revenues. The timing of such revenues, if any, is not currently determinable. The absence of cash flows, or the ability to predict when any may arise, made it infeasible for the Company to ascertain the value of Conversance Inc. as a going concern as at June 30, 2020. Accordingly, a provision for impairment was recognized to reduce the carrying value of the investment to $1. Should future circumstances warrant doing so, this provision may be reversed, but only to the extent that the carrying value of the investment at the time of reversal does not exceed the carrying value that would have resulted had the provision not been recorded.

During the year ZTEST entered into an agreement with the founder and majority shareholder of Conversance Inc. whereby ZTEST issued 1,250,000 Convertible First Preferred Shares Series 1 to that majority shareholder in exchange for 25,000 Class A common shares of Conversance Inc. The ZTEST Series 1 shares would have been automatically converted to common shares of ZTEST if, and only if, Conversance had completed an arm's length financing by June 30, 2021 whereby at least 130,139 Class A shares were issued at a price of at least $10 per Class A share. No such financing occurred therefore the preferred shares were redeemed for an aggregate price of $1 and the 25,000 Class A common shares of Conversance Inc. were to be returned to the majority shareholder. However, the Class A shares were not returned and a replacement agreement was executed subsequent to the year end. This replacement agreement, which is subject to the issuance of a press release and the filing of documentation with the Canadian Securities Exchange, replaced the 1,250,000 Convertible First Preferred Shares Series 1 shares with 1,250,000 Convertible First Preferred Shares Series 2 shares and the expiry date was extended to June 30, 2022. The trigger for automatic conversion to common shares on a 1:1 basis remained unchanged.

ZTEST retains its right to maintain its 25.29% interests by subscribing for the requisite number of Class A common shares of Conversance, at the same price and payment terms applicable to any financing. As an additional element of the expired transaction ZTEST had been granted an option by Conversance Inc., to acquire 75,000 Class A common shares from treasury, in exchange for a cash payment of $1,000,000. This option was set to expire December 31, 2022 but the replacement agreement extended that expiry to June 30, 2023.

		2021		2020
296,250 Class A common shares, representing a 25.29% interest	**$**	**1,129,762**	$	1,129,762
Equity in post-acquisition loss		**(152,109)**		(152,109)
Impairment provision		**(977,652)**		(977,652)
Aggregate investment	**$**	**1**	$	1

Subsequent to the financial reporting date, Conversance 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. It is expected that Conversance will first upgrade the existing Cannamerx platform then replace it with a new platform developed from the Conversance proprietary technology. Conversance will receive additional shares of Cannamerx upon completion of these objectives as well as when Cannamerx achieves a certain level of operations based upon these new platforms. Based upon the current share structure of Cannamerx, the issuance of these additional shares would provide Conversance with a controlling interest.

7. Bank operating loan

The Company has a line of credit, which was not drawn upon as at June 30, 2021 or June 30, 2020. It may be drawn to a maximum of $250,000, 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.

(Stated in Canadian Dollars)

8. Lease liability

The Company occupies its operating facility under a lease that was extended during the period to March 31, 2026. A refundable deposit of $35,000 was paid at the inception of the lease. Upon adoption of IFRS 16, and at the time of the lease extension, a lease liability was recorded based equal to the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate, which was determined to be 5.7% for the initial lease and 3.386% for the lease extension. The lease liability is subsequently reduced by the lease payments paid and increased by interest imputed at the discount rate as follows:

Present value of lease payments remaining upon adoption of IFRS 16	$	179,897
Lease payments paid during period		(107,742)
Interest imputed at 5.7%		7,141
Balance at June 30, 2020		79,296
Lease payments paid during period		(123,813)
Interest imputed at 5.7%		8,304
Present value of lease payments upon lease extension		828,873
Balance at June 30, 2021		792,660
Less current portion		(149,092)
	$	**643,568**

9. Long-Term Debt

		2021		2020
Canadian Emergency Business Account (CEBA), non-interest bearing until December 31, 2022 then 5% per annum, payable monthly until maturity December 31, 2025. Principal repayments are not required until maturity. The principal amount may be pre-paid in whole or in part at any time without penalty. Provided the loan balance is no more than $20,000 as at December 31, 2022 the remaining balance of the loan will be forgiven.	**$**	**60,000**	$	40,000
Term loan bearing interest at 3.386% matures April 2026. Monthly payments of $5,691, blended as to principal and interest, are required until maturity.		**304,155**		-
		364,155		40,000
Less: Current portion		**58,932**		-
	$	**305,223**	$	40,000

The minimum annual future principal repayments are as follows:

2022	$	58,932
2023		70,929
2024		83,011
2025		85,192
2026		66,091
Remaining		-
	$	364,155

(Stated in Canadian Dollars)

10. Share Capital

Authorized:

Unlimited	Common shares
Unlimited	Preferred shares in one or more series.
1,250,000	Convertible Preferred Shares Series 1, redeemable, non-voting, with no dividend rights. These shares were subject to a triggering event, the occurrence of which would have resulted in these shares being automatically converted into 1,250,000 common shares, however this triggering event did not occur and the shares were redeemed for the aggregate redemption price of $1.

Issued:

	2021	2020
Common shares	**$ 23,859,872**	$ 23,613,546

Common shares:	Number of Shares [1]	Amount
Balance June 30, 2019	21,103,696	$ 23,394,174
Shares issued in settlement of debt [2]	1,023,000	153,450
Private placement [3]	750,000	65,922
Balance June 30, 2020	22,876,696	$ 23,613,546
Warrants exercised	1,150,500	228,365
Stock options exercised	200,000	17,961
Balance June 30, 2021	24,227,196	**$ 23,859,872**

[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] In accordance with agreements between the Company and its Chief Executive Officer and a former Director, the Company issued 1,023,000 common shares, valued at $0.15 per share, in settlement of amounts aggregating $153,450 that were due them as at December 31, 2019.

[3] The Company completed a private placement whereby an aggregate of 750,000 working capital units were issued for gross proceeds of $112,500. Each unit consisted of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one additional common share of the Company at a price of $0.25 until twelve months following the closing date. The Company paid finders' fees of $1,575, incurred other costs of $5,000, attributed a value of $38,756 to the common share purchase warrants, and issued 10,500 broker warrants valued at $1,247. Each broker warrant entitles the holder to acquire one common share of the Company for $0.15 until February 28, 2021.

Details of warrants outstanding:

	Number of Warrants	Amount
Balance June 30, 2019	3,641,700	$ 182,956
Warrants issued via private placement	750,000	38,756
Broker warrants issued via private placement	10,500	1,247
Warrants expired	(23,800)	(5,294)
Balance June 30, 2020	4,378,400	$ 217,665
Warrants exercised	(1,150,500)	(44,390)
Warrants expired	(867,900)	(120,223)
Balance June 30, 2021	2,360,000 [1]	**$ 53,052**

(Stated in Canadian Dollars)

10. Share Capital - continued

	Number of Warrants		Exercise Price	Expiry Date
Issued Dec. 15, 2016	2,360,000 [(1)]	$	0.06	Dec. 15, 2021

	Number of Warrants		Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning of year	4,378,400	$	0.15	Aug. 30, 2021
Exercised during the year	(1,150,500)	$	0.16	Jul. 14, 2021
Expired during the year	(867,900)	$	0.40	Jan. 17, 2021
End of year	2,360,000 [(1)]	$	0.06	Dec. 15, 2021

(1) 540,000 warrants, including 100,000 held by a related party, were exercised subsequent to the financial reporting date.

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

	2021	2020
Dividend yield	**None issued**	Nil
Risk free interest rate (%)	**None issued**	1.27
Expected stock volatility (%)	**None issued**	119.88
Expected life (years)	**None issued**	1.0

Details of options outstanding:

	Common Shares Under Option		Weighted Average Price/Option	Weighted Average Expiry Date
Balance, beginning of the year	1,000,000	$	0.55	Sep. 2, 2021
Exercised during the year	(200,000)	$	0.05	Mar. 3, 2021
Expired during the year	(250,000)	$	0.79	Jul. 26, 2020
Balance, end of the year	550,000	$	0.62	May 9, 2022

	Common Shares Under Option	Number of Options Vested		Exercise Price	Expiry Date
Granted Mar. 3, 2016	200,000 [(1, 2)]	200,000	$	0.05	Mar. 3, 2021
Granted January 12, 2018	350,000 [(1)]	350,000	$	0.95	Jan. 12, 2023

(1) Directors and/or Officers of the Company hold these options.
(2) The expiry date of these options was extended in accordance with the terms of the stock options agreements. Each of these options was exercised subsequent to the financial reporting date.

No stock options were granted during the years ended June 30, 2021 or June 30, 2020.

Share based payment transactions and contributed surplus
The Company has a stock option plan. The aggregate number of common shares reserved for issuance under this plan cannot exceed 20% of the aggregate number of common shares of the Company that are issued and outstanding. The Company has granted options for the purchase of common shares to employees, directors, officers and other service providers. The fair values of stock options granted have been determined using the Black-Scholes model and are added to contributed surplus as follows:

		2021		2020
Contributed surplus, beginning of year	**$**	**1,538,667**	$	1,533,373
Stock options exercised		**(7,961)**		-
Warrants expired		**120,223**		5,294
Contributed surplus, end of year	**$**	**1,650,929**	$	1,538,667

(Stated in Canadian Dollars)

11. Related Party Transactions and Balances

The Company had transactions during the period with key management personnel and with 1114377 Ontario Inc., a company controlled by the spouse of a former director of PEC. The service agreement with 1114377 Ontario Inc. was terminated July 31, 2020.

All expenses and period end balances with related parties are at exchange amounts established and agreed to by the related parties. All transactions with related parties are in the normal course of operations and have been carried out on the same terms as those accorded to unrelated parties.

Description		**2021**		2020
Employee and consultant compensation	**$**	**325,674**	$	446,773
Professional fees		**48,786**		38,547
Finance fees		**-**		16,181
Professional fees classified as share issuance costs		**-**		5,000
	$	**374,461**	$	506,411
Stock-based compensation	**$**	**-**	$	-

As at June 30, 2021 $517,217 (2020 - $359,210) was payable to key management personnel and included in accounts payable and accrued liabilities. During the 2020 fiscal year, $153,450 owing to related parties was settled through the issuance of 1,023,000 common shares of the Company.

12. Selling, general and administrative expenses

Selling, general and administrative expenses are comprised of the following amounts:

		2021		2020
Employee and consultant compensation *(notes 11 and 16)*	**$**	**744,373**	$	841,418
Occupancy costs *(note 5)*		**248,043**		266,277
Insurance		**32,376**		33,197
Professional fees *(note 11)*		**79,412**		64,067
Shareholder services		**28,783**		16,377
Other		**41,421**		41,452
	$	**1,174,408**	$	1,262,788

13. Income Taxes

Current Income Taxes

A reconciliation of combined federal and provincial corporate income taxes at the Company's effective tax rate of 26.50% (2020 – 26.50%) is as follows:

		2021		2020
Net income (loss) before income taxes	**$**	**45,762**	$	(818,737)
Expected income tax recovery	$	**12,127**	$	(216,965)
Expenses not deductible for income tax purposes		**804**		195,474
Change in tax benefits not recognized		**(12,931)**		21,491
Income tax expense	**$**	**-**	$	-

(Stated in Canadian Dollars)

13. Income Taxes – continued

Deferred Tax
The following table summarizes the components of deferred tax:

		2021		2020
Deferred tax assets:				
Non-capital losses carried forward	$	**27,768**	$	24,508
Deferred tax liabilities:				
Temporary timing differences		**(27,768)**		(24,508)
Net deferred tax liabilities	**$**	**-**	$	-

Unrecognized Deferred Tax Assets
Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

		2021		2020
Inventory	$	**4,373**	**$**	28,527
Share issuance costs		**23,799**		41,876
Property, plant and equipment		**34,132**		39,429
Resource related expenditures		**349,050**		349,050
Scientific research and experimental development		**1,050,618**		1,050,618
Non-capital loss carry-forwards		**2,166,546**		1,921,405
Net capital loss carry-forwards		**15,592,989**		15,592,989

Share issue costs expire from 2022-2023 and non-capital loss carry-forwards expire as disclosed below. The remaining deductible temporary differences may be carried forward indefinitely but net capital loss carry-forwards can only be used to reduce capital gains. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

Tax Loss Carry-Forwards
The potential income tax benefits resulting from the application of income tax losses have not been recognized in these consolidated financial statements. The following losses, which may be subject to verification by Canada Revenue Agency, will expire at the end of the taxation years as follows:

Year		
2030	$	174,603
2031		508,773
2032		14,862
2033		76,561
2034		125,170
2035		136,504
2036		69,013
2037		184,366
2038		294,158
2039		344,141
2040		246,499
2041		279,798
	$	2,454,448

14. Capital disclosures

The Company's objective when managing capital is to ensure its ability to meet operating commitments as they become due and to provide return for shareholders. This is achieved by continuously monitoring actual and projected cash flows and making adjustments to capital as necessary. Except for the repayment terms associated with long-term debt instruments, there are no externally imposed capital requirements.

	2021	2020
Long-term debt	**$ 364,155**	$ 40,000
Share capital	**23,859,873**	23,613,546
Warrants	**53,052**	217,665
Contributed surplus	**1,650,929**	1,538,667
Deficit	**(24,559,418)**	(24,605,180)
Net capital under management	**$ 1,368,591**	$ 804,698

15. Financial risk factors

The Company is exposed in varying degrees to the following financial instrument related risks:

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 Company's 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 years ended June 30, 2021 and June 30, 2020.

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 Company's revenues during a reporting period. During the current year the Company had two major customers which represented 21% and 13% of total revenues. In the prior year, two major customers accounted for 20% and 19% of total revenues. Amounts due from major customers represented 22% of accounts receivable at June 30, 2021 (2020 - 17%). 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 June 30, 2021 the Company had current financial assets of $1,211,771 (2020 - $732,471) available to settle current financial liabilities of $1,167,532 (2020 - $1,002,533). 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 Company's 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 fiscal year, the Company has reported a foreign exchange gain of $5,043 (2020 – loss of $13,486).

15. Financial risk factors - continued

Sensitivity to market risks

At June 30, 2021 the Company had:

- A bank operating loan that had not been drawn upon (June 30, 2020 - $Nil) which bears interest predicated upon the TD Bank prime lending rate. Based upon the current amount due on the operating loan, a 1% increase in the TD Bank prime lending rate would have no impact upon interest expense – other over the next 12 month period.
- US$175,397 (June 30, 2020 – US$61,399) included in accounts receivable. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $8,770 in future cash inflow.
- US$103,251 (June 30, 114,337 –US$114,337) included in accounts payable. A 5% decrease in the value of the Canadian dollar relative to the US dollar would result in an increase of $5,163 in future cash outflow.

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

16. COVID-19

On January 30, 2020 the World Health Organization (WHO) declared COVID-19 a global health emergency and on March 11, 2020 they declared it a pandemic. These WHO declarations were soon followed by announcements of numerous restrictions by domestic and international governments affecting the way people could interact and how business was conducted. Many of these restrictions remain in place as of the financial reporting date.

As a contract manufacturer, the Company met the Ontario definition of an essential business thus allowing it to continue operations. The Company encouraged certain personnel to work from home and took steps to facilitate physical distancing and other safety measures for those for whom working from home was not feasible. To the date of the approval of these unaudited condensed consolidated financial statements, the Company, including its subsidiaries and investee company, have operated free of positive tests for COVID-19.

The health and safety of our personnel is our top priority however continuing to operate free of COVID-19 infections does not ensure that there will be no related implications to the business. The present and future economic effects of COVID-19 cannot be accurately predicted at this time. This includes the potential impact the pandemic may have on the Company's suppliers and customers as well as the market risks described in note 14. Although these potential effects cannot be quantified, the Company anticipates that COVID-19 could have an adverse impact on its business, results of operations, financial position and cash flows throughout 2021.

To help mitigate the uncertainty created by COVID-19, the Company has availed itself of subsidies made available to it by the Canadian Federal government. The Company obtained subsidy under the Canada Emergency Business Account (CEBA), the Canada Emergency Wage Subsidy (CEWS), and the Canada Emergency Rent Subsidy (CERS). During the year, the Company obtained CEBA benefit in the form of a $20,000 loan expansion *(note 9)* which is interest free, and requires no repayment prior to December 31, 2022. Also during the year, the Company obtained CERS benefits of $23,386 which has been applied to reduce Occupancy costs *(note 12)* and CEWS benefit during the year in the amount of $222,388 which has been applied to reduce Labour costs *(note 4)* and Employee and consultant compensation *(note 12)*. The Company will continue to monitor all government subsidies and will make application wherever it satisfies the eligibility criteria.

ZTEST Electronics Inc.

Managementôs Discussion and Analysis
For The Year Ended June 30, 2021
(Prepared as at October 28, 2021)

General

The following Managementôs Discussion and Analysis (ñMD&Aò) of the financial condition and results of operations of ZTEST Electronics Inc. (ñZTESTò or the ñCompanyò) constitutes managementôs review of the factors that affected the Companyôs consolidated financial and operating performance for the year ended June 30, 2021. The MD&A was prepared as of October 28, 2021 and was approved by the Board of Directors on October 28, 2021. It should be read in conjunction with the consolidated financial statements of the Company 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, 3]	Director (Independent)
Dean Tyliakos [1]	Director (Independent)
Don Beaton	Director (Independent)
Michael D. Kindy, CPA, CA [2]	VP Finance & Chief Financial Officer
William R. Johnstone, LLB	Corporate Secretary
John Perreault [2]	Officer of PEC

[*] Acts as Committee Chair
[1] Member of the audit committee
[2] Director of Permatech Electronics Inc.
[3] Director of Conversance Inc.

Corporate Performance

All of fiscal 2021, and continuing right up to present, was dominated by the uncertainties caused by, and repercussions arising from, the COVID-19 pandemic. The Company has operated continuously throughout the pandemic but the way in which people interact and business is conducted has been altered dramatically. All personnel that can feasibly work remotely continue to do so, and safety measures remain in place to provide a safe workplace for those that can not. The Company is proud of how its personnel have conducted themselves throughout this pandemic and that there have been no positive cases of COVID-19 at its facility.

Although the Companyôs operating facility has remained COVID-free, that should not imply that the pandemic 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 impacted the Companyôs 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

As alluded to above, the Company has been, and continues to be, the beneficiary of government subsidies made available to qualifying companies as a result of COVID-19. During the period, the Company was a beneficiary of the Canadian Emergency Wage Subsidy (CEWS). The Canadian Emergency rent Subsidy (CERS), and the recipient of a further advance under the Canadian Emergency Business Account (CEBA). CERS and CEWS are government subsidies while CEBA is an interest-free loan until December 31, 2022, a portion of which may be forgiven if adequate repayment has been made by December 31, 2022. Each of these government programs have been made available to qualifying companies as a result of COVID-19.

The Company received a CEBA benefit of $40,000 during fiscal 2020 and this was increased by $20,000 in fiscal 2021. The CEBA balance of $60,000 is included in long-term debt. During fiscal 2021 the Company received CEWS in the amount of $222,388 and CERS of $23,386. Each of these subsidies were included in net income for the year the reduction of labour costs included in cost of product sales as well as employee compensation and occupancy costs included in selling, general and administrative expenses. The Company continues to monitor government subsidy programs, and to make application for any subsidies for which it meets the qualification criteria.

During the third quarter of 2021 the Company completed negotiations on a 5-year extension of the lease on its operating facility. The Company believes itself to be well located, in a facility that meets all of its requirements, and welcomed the extension that went into effect April 1, 2021 and extends to March 31, 2026. In accordance with IFRS 16 this lease extension has resulted in the Company recognizing a new right of use asset in the amount of $828,873, with a corresponding lease obligation. This amount, which was determined by discounting the lease payments to be made over the term of the lease extension, has significantly increased the Companyøs total assets, total liabilities, and current financial liabilities. The amortization charges related to the new right of use asset, and the imputed interest on the new lease obligation, both exceed the amounts that arose from the expired lease, and will have a comparatively negative impact upon future operating results.

Also during the third fiscal quarter, the Company placed an order for a new manufacturing machine and negotiated a new bank term loan equivalent to approximately 75% of the purchase price. The loan was funded in April 2021, facilitating adherence to the payment terms for the purchase. The machinery was released from the manufacturer in Singapore, delivered late June, and installed early July. The new machine, which is expected to enhance the Companyøs production capabilities and generate renewed customer interest, is faster, more economical, and has a broader scope of operations than the machine it replaced. The term loan has a term of 5 years, and bears interest at 3.386%. It is anticipated that the incremental depreciation charges and interest costs will have a comparatively negative impact upon future operating results.

In addition to these operational achievements, the Company also issued 1,350,500 common shares and 1,250,000 Series 1 preference shares during the year. The common shares were issued upon the exercise of warrants and stock options and generated cash proceeds of $193,975. The preference shares were issued to the founder and majority shareholder of Conversance Inc. (ñConversanceò) in exchange for 25,000 Class A shares (2.13%) of Conversance. This transaction was conditional, with the 25,000 shares remaining in escrow pending the occurrence of certain events at Conversance on or before June 30, 2021. Due primarily to negotiations that Conversance was engaged in, these required events did not occur, resulting in the redemption of the Series 1 preferred shares for $1. However, while these negotiations were underway, ZTEST and the majority shareholder of Conversance agreed to revisit this agreement. On October 28 a replacement agreement was executed, honouring all of the basic terms of the expired agreement except that, subject to the issuance of a press release and the filing of documentation with the Canadian Security Exchange, the 1,250,000 Series 1 preferred shares have been replaced by 1,250,000 Series 2 preferred shares and the expiry date has been extended to June 30, 2022. If conversion of the Series 2 preferred shares to 1,250,000 common shares occurs, ZTEST would hold a 27.43% interest in Conversance, based upon the number of shares currently outstanding. Through this replacement agreement, the option that ZTEST holds to acquire 75,000 shares of Conversance for $1,000,000 was also extended from December 31, 2022 to June 30, 2023.

As a result of the aforementioned negotiations, Conversance 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. It is expected that Conversance will first upgrade the existing Cannamerx platform then replace it with a new platform developed from the Conversance proprietary technology. Conversance will receive additional shares of Cannamerx upon completion of these objectives as well as when Cannamerx achieves a certain level of operations based upon these new platforms. Based upon the current share structure of Cannamerx, the issuance of these additional shares would provide Conversance with a controlling interest.

As a result of the yearøs operations, and the issuance of shares, ZTEST experienced growth in capital under management and enhanced its liquidity position. Capital under management, which is comprised of shareholdersô equity plus armøs length long-term debt, increased by over 70% while working capital rose by more than 14%. In addition, current financial assets rose from being equivalent to 73% of current financial liabilities at the start of the year to marginally exceeding current financial liabilities at the end of the year. This enhanced liquidity position and the increased capital under management place the Company in a good position should the incremental costs from the lease extension and new machinery not be offset in the immediate future by otherwise enhanced operating results. The Company will continue its efforts to navigate the risks of COVID-19 while striving to further enhance the Companyøs liquidity and financial position. The following data may provide some additional insights relative to the Companyøs financial position and its operating performance:

	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:			
	June 2021	Mar. 2021	Dec. 2020	Sept. 2020
Total Revenues	1,045,365	1,037,388	873,206	1,053,501
Net income (loss) from operations	9,997	(23,906)	(22,215)	81,886
Per share - basic	0.000	(0.001)	(0.001)	0.004
Net income (loss) for the period	9,997	(23,906)	(22,215)	81,886
Per share - basic	0.000	(0.001)	(0.001)	0.004
Total assets	3,120,759	2,878,943	1,792,632	1,841,370
Total long-term financial liabilities	948,791	-	60,000	40,000
Total liabilities	2,116,323	1,884,504	935,862	994,785

	For the fiscal quarters ended:			
	June 2020	Mar. 2020	Dec. 2019	Sept. 2019
Total Revenues	1,077,137	1,102,355	828,703	880,703
Net income (loss) from operations	178,572	(13,191)	(148,254)	(98,229)
Per share - basic	0.008	(0.001)	(0.007)	(0.005)
Net income (loss) for the period	(511,798)	(24,194)	(162,103)	(120,642)
Per share - basic	(0.024)	(0.001)	(0.008)	(0.006)
Total assets	1,807,231	2,306,150	2,120,412	2,314,453
Total long-term financial liabilities	40,000	-	26,809	54,201
Total liabilities	1,042,533	1,029,654	1,079,097	1,111,035

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

Results of Operations

Revenues for the 2021 fiscal year were just over 3% greater than they had been during the prior fiscal year, with the first half of 2021 outperforming 2020 by 6.7% and the final half of 2021 lagging 2020 results by about 4.4%. In the second half of 2021 the Company began be significantly impacted by escalating delivery times resulting from the world-wide shortage of electronic components. This shortage is having an impact on a multitude of industries, in many different countries, and is expected to persist for many months. The Company has orders in-house that it simply cannot complete until the components arrive.

Had it not been for a higher than average final month, it is likely that 2021 revenues would have been more similar to, or even marginally less than, 2020 revenues. The Company had made many of its customers aware that production was going to be interrupted briefly in the month of July 2021 to facilitate the installation of new machinery. While installations should proceed without unplanned difficulties, that is never certain. Production was accelerated in advance of the interruption to ensure that scheduled deliveries of completed products would be accommodated however certain customers opted for delivery earlier than scheduled. This resulted in revenues, which otherwise would have been realized during Q1 2022, being recognized in June 2021. The installation of the new machinery proceeded successfully, as scheduled, and production was only interrupted for a couple days.

Although revenues were 3.1% greater in 2021 than they had been in 2020, the gross margins realized in each year were almost identical. To more accurately analyse these margins, it is beneficial to eliminate the effects of government subsidies received. During 2021 the Company realized a gross margin of $1,231,515, after giving effect to government subsidies received in the amount of $143,164. Without these subsidies the margins would have been $1,088,351, representing 27.1% of periodic revenues. The corresponding gross margins for 2020 would have been $1,123,666 and 28.9% of periodic revenues, without the $105,129 in subsidies received. Prior to the COVID-19 pandemic the Company had been making a concerted effort to increase its gross margins and that effort was reflected in the 2020 results. The onset of the pandemic has not only negated much of this effort but has also impacted directly upon component costs, delivery costs, labour management, and other elements of cost of product sales that generated negative impact upon gross margin. Management will continue investigating all product costs and alternatives for enhancing margins as a percentage of periodic revenues however this is expected to be challenging until supply of components becomes more predictable.

The different elements of cost of product sales, and the changes realized, are as follows:

Years ended	June 21	June 20	Change
Raw materials and supplies consumed	$ 1,998,385	$ 1,868,875	$ 129,510
Labour costs incurred	637,884	647,450	(9,566)
Depreciation	38,285	47,509	(9,224)
Other costs	110,493	117,610	(7,117)
Net change in finished goods and work in process	(7,102)	(21,341)	14,239
Total cost of product sales	$ 2,777,945	$ 2,660,103	$ 117,842

Three month periods ended	June 21	June 20	Change
Raw materials and supplies consumed	$ 500,967	$ 553,743	$ (52,776)
Labour costs incurred	176,784	78,743	98,041
Depreciation	9,572	11,891	(2,319)
Other costs	29,247	26,426	2,785
Net change in finished goods and work in process	5,703	(4,506)	10,209
Total cost of product sales	$ 772,273	$ 666,027	$ 106,246

Results of Operations - continued

The cost of raw materials and supplies consumed have risen in 2021, both in value and as a percentage of periodic revenues. In fiscal 2021 these costs were just under 50% of periodic revenues while in 2020 they were just over 48%. Customers always have a choice between supplying required components themselves or having them supplied by the Company and the availability of this choice contributes to variances in these costs from one period to the next. Furthermore, aside from the disruptive effect that COVID-19 has had on the supply of components, it has also impacted upon the cost of supply, driving costs higher. Both in spite of these challenges, and because of them, management consistently promotes the benefits customers will derive from the Companyôs 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, net of subsidies, for the two fiscal years were quite comparable although there were certainly variances in the individual fiscal quarters. The most significant variance is attributable to the timing of government subsidies received which are netted against these costs. For the 2020 fiscal year the Company received subsidies in the amount of $105,129, all of which arose in the final fiscal quarter. If not for those subsidies then the costs for the final quarter would have been $183,872 while the costs for the year would have been $752,579. In comparison, subsidies for fiscal 2021 were $143,164, with $31,054 arising in the final quarter. Eliminating these would increase costs to $781,048 for the year, including $207,838 in the final quarter. This means that gross labour costs were 3.8% higher in 2021 than they had been in 2020 and that virtually all of that increase arose in the final quarter, when production was increased to compensate for the down-time that would arise upon installation of the new equipment.

The net change in finished goods and work in process is a measure of the change in labour costs included in inventory. Similar to gross labour costs, we see that most of the increase for the 2021 fiscal year arose in the final quarter. Just like labour costs rose due to increased production, these costs rose in the fourth quarter due to the shipments that were accelerated into the month of June.

Depreciation is a function of time and the carrying value of the manufacturing equipment in use. The new machine arrived in June but was not installed and put into operation until July so no depreciation was recorded during the 2021 fiscal year. However, this new equipment will give rise to higher depreciation costs 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. These costs are comparable for the reported periods and are within management expectations.

Selling, general and administrative expenses for the periods ended June 30 were as follows:

Years ended	June 21	June 20	Change
Employee and consultant compensation	$ 744,373	$ 841,418	$ (97,045)
Occupancy costs	248,043	266,277	(18,234)
Professional fees	79,412	64,067	15,345
Insurance	32,376	33,197	(821)
Shareholder services	28,783	16,377	12,406
Other costs	41,421	41,452	(31)
Total selling, general and administrative	$ 1,174,408	$ 1,262,788	$ (88,380)

Three month periods ended	June 21	June 20	Change
Employee and consultant compensation	$ 206,994	$ 131,281	$ 75,713
Occupancy costs	65,705	62,357	3,348
Professional fees	12,251	13,001	(750)
Insurance	7,955	8,527	(572)
Shareholder services	4,671	4,150	521
Other costs	7,786	8,045	(259)
Total selling, general and administrative	$ 305,362	$ 227,361	$ 78,001

Results of Operations - continued

Employee and consultant compensation costs, which include salaries, benefits, consulting fees, and independent directorsô fees. Employee compensation has been reduced by CEWS benefits received in each period presented. During 2021 the Company received subsidy of $79,224, including $18,482 in the fourth quarter. For the 2020 fiscal year subsidies amounted to $59,406, all of which arose in the final quarter. This tells us that, on a pre-subsidy basis, gross costs were $77,227 lower in 2021 despite costs being $34,789 higher in the fourth quarter. Employee compensation declined in the year, but rose in the final quarter, due to a performance bonus earned in 2021 by senior management of PEC, an employee who retired at the start of the pandemic was not replaced until the third quarter of 2021, and a promotion that occurred at the end of the second quarter of 2021 effectively replacing another who had reduced their workweek and remuneration by more than 50% at the end of the 2020 fiscal year. In addition to this there was an increase in fees paid to independent directors in 2021, in part because there were more directors that qualified for these fees and in part because certain fees were waived during the final quarter of 2020.

Occupancy costs appear to have been $18,234 lower in 2021 than they had been in 2020 however this apparent reduction is due to CERS subsidy of $23,386 that was received during 2021, while no subsidies were received in 2020. The increase in pre-subsidy costs in 2021 is a direct result of the new lease extension that took effect at the start of the fourth quarter. This is most evident when comparing figures for the fourth quarter where the 2021 costs, even net of $10,224 in subsidy, exceeded the costs incurred in the same period of 2020. At the start of the 2020 fiscal year the Company recognized a right of use asset in the amount of $214,897 based on discounting monthly lease payments of $8,979 for twenty-one months. The lease extension requires monthly lease payments that average $15,015 over a sixty-month period and resulted in recognizing a right of use asset valued at $863,873. It therefore follows that the higher monthly payments, and greater amount of amortization applicable to the right of use asset, will result in higher periodic costs.

Professional fees are comprised of fees for legal services, costs for income tax filings, and a prorated portion of the estimated cost of the upcoming audit of the annual financial statements. Audit fees and tax filing fees have remained comparable while legal costs have risen during 2021. A significant portion of legal fees relate to matters of corporate administration and governance for which there was additional requirement during the first three quarters of 2021, including work related to the shareholders meeting held January 2021 and facilitating the issuance of preferred shares in conjunction with the proposed acquisition of shares of Conversance Inc. during the first fiscal quarter.

Shareholder services have risen in the current periods, primarily as a result of 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 Companyôs financing costs for the periods were as follows:

Years ended	June 21	June 20	Change
Interest expense ï long term	$ 2,439	$ 5	$ 2,434
Interest expenses ï lease liability	8,304	7,141	1,163
Interest expense ï other	599	5,608	(5,009)
Financing fees	-	16,181	(16,181)
Total financing expenses	$ 11,342	$ 28,935	$ (17,593)

Three month periods ended	June 21	June 20	Change
Interest expense ï long term	$ 2,439	$ -	$ 2,439
Interest expenses ï lease liability	6,793	1,247	5,546
Interest expense ï other	133	401	(268)
Financing fees	-	3,889	(3,889)
Total financing expenses	$ 9,365	$ 5,537	$ 3,828

Results of Operations - continued

The Company had a single long-term debt instrument, which matured in the first month of the 2020 fiscal year, such that there was virtually no expense incurred during that year. There also was no expense incurred for the first three fiscal quarters of 2021. This changed when the new equipment term loan was funded in April 2021. This loan has a term of sixty months so it should be expected that the results for the most recent fiscal quarter will be relatively indicative of future periods.

The Company recognizes imputed interest on its lease liability. The original lease liability matured March 2021 the declining balance of that liability throughout 2020 and the first three quarters of 2021 resulted in fairly modest interest charges. The new lease extension took effect April 1, 2021 and the higher balance of that obligation gives rise to greater interest charges. This liability has a term of sixty months so it should be expected that the results for the most recent fiscal quarter will be relatively indicative of future periods.

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

The Company was subject to an agreement with a related party whereby it could offer to sell specific accounts receivable to that related party at a discount from the face value of the receivable. That discount was accounted for as financing fees at the time of the sale. The agreement was terminated July 2020.

Liquidity

At June 30, 2021 the Company had working capital of $549,988 (2020- $481,680) and current financial assets of $1,211,771 (2020- $732,471) available to settle current financial liabilities of $1,167,532 (2020- $1,002,533). The Company also has access to a $250,000 bank operating line, of which $Nil had been drawn as of June 30, 2021 or June 30, 2020.

In addition, the Company must also address the payment of the following amounts as at June 30, 2021:

	Due by June 30:					Due after	Total
	2022	2023	2024	2025	2026	June 2026	Due
Long-term debt	$ 58,932	$ 70,929	$ 83,011	$ 85,192	$ 66,091	$ -	$ 364,155
Lease liability [1]	149,092	158,830	168,904	178,185	137,649	-	792,660
	$ 208,024	$ 229,759	$ 251,915	$ 263,377	$ 203,740	$ -	$ 1,156,815

(1) The Company signed a lease extension for its operating facility covering a five-year period that commenced April 1, 2021.

Capital Resources

The Company has a $250,000 commercial line of credit from which $Nil was drawn as at June 30, 2021 and June 30, 2020. The loan bears interest at the TD Bank prime lending rate plus 2.5%, is due upon demand, and is secured by a general security agreement covering the assets of PEC.

The Company has a term loan, the proceeds of which were used to purchase equipment. The loan was funded during the year in the amount of $313,748 of which $304,155 remains payable at June 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.

<u>Capital Resources - continued</u>

The Company has not completed any financing transactions since June 30, 2020 however it did complete the following transactions related to its securities:

- 1,250,000 Convertible Preferred Shares Series 1 were issued in exchange for 25,000 Class A shares of Conversance Inc. If Conversance Inc. had caused certain events to take place on or before June 30, 2021 then these shares would have been automatically converted into common shares of the Company. Those events did not happen so the 1,250,000 Convertible Preferred Shares Series 1 were redeemed for the aggregate redemption price of $1. The 25,000 Class A shares of Conversance were to be returned to the former owner however a new arrangement was negotiated subsequent to the year end date.
- 1,150,500 common shares were issued upon the exercise of warrants for proceeds of $183,975
- 200,000 common shares were issued upon the exercise of stock options for proceeds of $10,000
- Subsequent to June 30, 2021, 200,000 common shares were issued upon the exercise of stock options for proceeds of $10,000, 540,000 common shares were issued upon the exercise of warrants for proceeds of $32,400 and 1,250,000 Convertible Preferred Shares Series 2 were issued in exchange for 25,000 Class A shares of Conversance Inc.

<u>Related Party Transactions</u>

The Company had transactions during the periods with key management personnel and with 1114377 Ontario Inc., a company controlled by the spouse of a former Director of PEC. These include consulting fees paid to Steve Smith (President and CEO), consulting fees and accounting fees paid to Michael D. Kindy (CFO), Directorsô fees paid to independent Directors of the Company and its subsidiary, salaries and benefits paid to John Perreault and Wojciech Drzazga [3] as officers of PEC, legal fees paid to a legal firm in which William R. Johnstone (Corporate Secretary) is a partner, financing fees paid to 1114377 Ontario Inc., and share-based payments related to key management personnel. Compensation rates are agreed to by the related parties and are predicated upon prevailing market rates. The following expenses, involving these related parties, have arisen during the reporting periods:

Years ended	June 21	June 20	Change
Salaries and benefits [1]	$ 136,189	$ 265,543	$ (129,354)
Consulting fees [1]	141,985	162,000	(20,015)
Directorsô fees [1]	47,500	19,230	28,270
Legal fees [2]	45,087	34,957	10,130
Accounting fees [2]	3,700	3,500	200
Financing fees [4]	-	16,181	(16,181)
Legal fees accounted for as share issuance costs	-	5,000	(5,000)
Cash based expenditures	$ 374,461	$ 506,411	$ (131,950)
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.
(3) Wojciech Drzazga was CEO of PEC until June 14, 2020.
(4) The agreement with 1114377 Ontario Inc. was terminated July 2020.

The following balances are due to related parties, and were reported in the consolidated financial statements as an element of accounts payable and accrued liabilities, as at June 30 of each year:

	2021	2020	Change
Salaries and benefits payable	9,801	10,669	(868)
Directorsô fees payable [1]	72,280	37,397	34,883
Consulting fees payable [1]	379,614	276,773	102,841
Legal fees payable	55,522	33,831	21,691
Salaries and benefits payable	517,217	358,670	158,547

(1) During the 2020 fiscal year, the Company settled $153,500 owing to these related parties in exchange for 1,023,000 common shares.

Related Party Transactions - continued

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

Description	Expiry Date	Number of Common Shares
Stock options @ $0.05 per share [1]	Mar. 3, 2021	200,000
Stock options @ $0.95 per share	Jan. 12, 2023	350,000

[1] The expiry date of these options was extended in accordance with the terms of the stock options agreements. These options were exercised subsequent to June 30, 2021.

During the year ended June 30, 2021, 200,000 stock options with an exercise price of $0.95 that were held by a former Director of the Company expired, 200,000 options with an exercise price of $0.05 were exercised, and no new stock options were granted.

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Common shares issued:	Quantity	Amount
Balance as at June 30, 2019	21,103,696	$ 23,394,174
Issued through private placement, net of costs [1]	750,000	65,922
Issued in settlement of debts	1,023,000	153,450
Balance as at June 30, 2020	22,876,696	23,613,546
Warrants exercised	1,150,500	228,365
Stock options exercised	200,000	17,961
Balance as at June 30, 2021	24,227,196	23,859,872
Warrants exercised	540,000	44,539
Stock options exercised	200,000	17,961
Balance as at the date of this document	24,967,196	$ 23,922,372

[1] Costs include findersô fees, legal and brokerage fees, and the value of the associated warrants and/or broker warrants as determined using the Black-Scholes valuation model.

Preference shares issued:	Quantity	Amount
Balance as at June 30, 2019 and 2020	Nil	$ -
Series 1 shares issued to acquire shares of Conversance Inc.	1,250,000	1
Series 1 shares redeemed	(1,250,000)	(1)
Balance at June 30, 2021	Nil	-
Series 2 shares issued to acquire shares of Conversance Inc.	1,250,000	1
Balance as at the date of this document	1,250,000	$ 1

The Company has the following common shares reserved to satisfy the potential exercise of the following:

Common shares reserved:	Expiry Date	Common Shares
To be issued for Class A shares [1]		8,246
Stock options @ $0.05 per share	Mar. 2021	200,000
Warrants @ $0.06 per share	Dec. 2021	2,360,000
Stock options @ $0.95 per share	Jan. 2023	350,000
Common shares reserved as at June 30, 2021		2,918,246

Convertible Instruments and Other Securities - continued

Common shares reserved as at June 30, 2021		2,918,246
Stock options @ $0.05 per share - exercised	Mar. 2021	(200,000)
Warrants @ $0.06 per share - exercised	Dec. 2021	(540,000)
Shares reserved for conversion of Series 2 preferred shares		1,250,000
Common 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 at June 30, 2021	24,227,196
Shares reserved at June 30, 2021	2,918,246
Fully diluted number of shares at June 30, 2021	27,145,442
Shares issued after June 30, 2021	740,000
Change in shares reserved after June 30, 2021	510,000
Fully diluted number of shares as at the date of this document	28,395,442

Additional disclosures relative to stock options are as follows:

No stock options were granted during the years ended June 30, 2020 or June 30, 2021, or after the fiscal year end. The following provides additional details with respect to stock option changes:

	Common Shares Under Option		Weighted Average Price per Option	Weighted Average Expiry Date
Balance at June 30, 2020	1,000,000	$	0.55	Sep. 2, 2021
Exercised during the year	(200,000)		0.05	Mar. 3, 2021
Expired during the year	(250,000)		0.79	July 26, 2020
Balance at June 30, 2021	550,000		0.62	May 9, 2022
Exercised after the end of the year	(200,000)		0.05	Mar. 3, 2021
As at the date of this document	350,000		0.95	Jan. 12, 2023

As at the date of this document, the following stock options, each of which has vested and are held by Directors and/or Officers of the Corporations, are outstanding. The Company has no ability to cause these options to be exercised:

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

Additional disclosures relative to share purchase warrants are as follows:

The following weighted average assumptions were used to calculate the fair value of the warrants issued during the years ended June 30:

	2021	2020
Dividend yield	None issued	Nil
Risk free interest rate (%)	None issued	1.27
Expected stock volatility (%)	None issued	119.88
Expected life (years)	None issued	1.0

Convertible Instruments and Other Securities - continued

The following provides additional details with respect to warrant changes:

	Number of Warrants		Weighted Average Price per Warrant	Weighted Average Expiry Date
Balance at June 30, 2020	4,378,400	$	0.15	Aug. 30. 2021
Exercised during the year	(1,150,500)	$	1.16	Jul. 14, 2021
Expired during the year	(867,900)	$	0.40	Jan. 17, 2021
Balance at June 30, 2021	2,360,000	$	0.06	Dec. 15, 2021
Exercised after the year	(540,000)	$	0.06	Dec. 15, 2021
Balance as at the date of this document	1,820,000	$	0.06	Dec. 15, 2021

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*
Bank operating loan	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Customer deposits	Amortized cost
Lease liability	Amortized cost
Long-term debt	Amortized cost

Amortized cost ï The amount at which a financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit losses.

The effective interest method - The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to the net carrying amount on initial recognition.

Impairment of Non-financial Assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss.

Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an 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.

Impairment of Non-financial Assets - continued

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

Impairment of Investments

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

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

During the period there were no loss events nor any events that would cause a reversal, in whole or in part, of the impairment provision recognized during 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 Companyĝs 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 Companyĝs 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 Companyĝs 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 Companyĝs 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 Companyĝs 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 Companyĝs 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 years ended June 30, 2021 and June 30, 2020.

Risk Factors - continued

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 Companyõs revenues during a reporting period. During the current year the Company had two major customers which represented 21% and 13% of total revenues. In the prior year, two major customers accounted for 20% and 19% of total revenues. Amounts due from major customers represented 22% of accounts receivable at June 30, 2021 (2020 - 17%). 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 June 30, 2021 the Company had current financial assets of $1,211,771 (2020 - $732,471) available to settle current financial liabilities of $1,167,532 (2020 - $1,002,533). The Company manages its liquidity risk through the management of its capital which incorporates the continuous monitoring of actual and projected cash flows to ensure that it has sufficient liquidity to meet its operating commitments without incurring unacceptable losses or risking damage to the 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 fiscal year, the Company has reported a foreign exchange gain of $5,043 (2020 ï loss of $13,486).

Sensitivity to market risks

At June 30, 2021 the Company had:

- A bank operating loan that had not been drawn upon (June 30, 2020 - $Nil) which bears interest predicated upon the TD Bank prime lending rate. Based upon the current amount due on the operating loan, a 1% increase in the TD Bank prime lending rate would have no impact upon interest expense ï other over the next 12 month period.
- US$175,397 (June 30, 2020 ï US$61,399) included in accounts receivable. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $8,770 in future cash inflow.
- US$103,251 (June 30, 114,337 ï US$114,337) included in accounts payable. A 5% decrease in the value of the Canadian dollar relative to the US dollar would result in an increase of $5,163 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.

Forward-looking Information - continued

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.