ZTEST Electronics Inc.

Managementôs Discussion and Analysis
For The Year Ended June 30, 2023
(Prepared as at October 26, 2023)

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, 2023. The MD&A was prepared as of October 26, 2023 and was approved by the Board of Directors on October 26, 2023. It should be read in conjunction with the consolidated financial statements of the Company for the year ended June 30, 2023, 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, 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 September 30, 2022, resulting in the re-election of each of the five incumbent directors. 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 re-formed. On May 1, 2023 Zachery Dingsdale resigned from the Board for personal reasons. The resulting vacancy on the Board, and on the Audit Committee, was filled June 9, 2023, upon the appointment of Derrick Strickland. The Companyôs management is currently as follows:

Name	Position(s)
Steve Smith	Chairman, President & Chief Executive Officer
Don Beaton	Director (Independent)
K. Michael Guerreiro [1*, 3, 4, 5]	Director (Independent)
Derrick Strickland [1, 3]	Director (Independent)
Dean Tyliakos [1, 2, 4]	Director (Independent)
William R. Johnstone, LLB	Corporate Secretary
Michael D. Kindy, CPA [2]	VP Finance & Chief Financial Officer
Suren Jeyanayagam [2 ,3]	President of PEC

* Acts as Committee Chair
(1) Member of the audit committee
(2) Director of Permatech Electronics Inc.
(3) In December 2022 John Perreault retired and resigned his positions as an Officer and a Director of Permatech Electronics Corporation. Suren Jeyanayagam was appointed President of Permatech and was also appointed to fill the vacancy on the Board of Permatech.
(4) In December 2022 Dean Tyliakos was elected to the Board of Permatech, replacing K. Michael Guerreiro.
(5) Director of Conversance Inc.

Corporate Performance

The 2023 fiscal year produced many encouraging results as the Company reported near record-high annual revenues, was profitable for the second time in the past three years and enhanced both capital under management and working capital. All of this was achieved while continuing to cope with persistent, but seemingly declining, supply-chain issues.

Supply chain issues arose as a byproduct of the COVID19 pandemic, contributing to stock unavailability and escalating costs. As a custom manufacturer, inventory is traditionally acquired only to satisfy scheduled production. However, with the disruptions, some of those parts orders were not filled when expected or, when supply was certain, some parts orders were placed earlier than they traditionally would have been. Production can only proceed when 100% of the required parts are in house so each of these developments contributed to increased inventory levels.

Corporate Performance - continued

Inventory values increased almost 214% in 2023, with most of that increase arising in the first nine months. Towards the end of that nine month period it was noted that the frequency and duration of disruptions had declined and an effort was made to revert, whenever feasible, to more traditional buying patterns. While there were fewer disruptions, they are still occurring so this change could not be universally applied. However, this new emphasis, in combination with being able to proceed with certain production previously deferred by disruptions, allowed Q4 revenues to rise almost 13% over Q3 levels, and exceed Q4 2022 revenues by more than 7%, while inventory rose by only about 1%. It is expected that inventory levels will continue to fluctuate, at least in the short-term, until more of these disruptions are eliminated.

The accumulation of inventory contributed to an increase in working capital however it also had a negative impact on short-term liquidity. The purchasing of inventory utilizes cash and contributes to growth in accounts payable. Meanwhile, the deferral of production equates to a deferral in billing and collecting from customers. This is the primary reason why current financial assets declined during the year from 71.4% of current financial liabilities to 51.4%. We know that current inventory represents future revenues but the stress on liquidity will persist until more of the supply chain disruptions are eradicated, and production consistently out-paces purchasing, allowing inventory levels to decline.

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

	For the fiscal years ended:		
	June 2023	June 2022	June 2021
Total Revenues	5,702,239	4,415,275	4,009,460
Net income (loss) for the year	165,274	(266,878)	45,762
Per share - basic	0.006	(0.010)	0.002
Total assets	3,941,742	3,081,924	3,120,759
Total long-term financial liabilities	518,717	729,032	948,791
Total liabilities	2,834,331	2,198,767	2,116,323

	For the fiscal quarters ended:			
	June 2023	Mar. 2023	Dec. 2022	Sept. 2022
Total Revenues	1,797,424	1,594,507	1,141,352	1,168,956
Net income (loss) for the period	172,983	191,154	(112,126)	(86,737)
Per share - basic	0.006	0.007	(0.004)	(0.003)
Total assets	3,941,742	4,000,133	3,206,695	3,325,446
Total long-term financial liabilities	518,717	556,678	614,619	672,075
Total liabilities	2,834,331	3,088,834	2,486,550	2,493,175

	For the fiscal quarters ended:			
	June 2022	Mar. 2022	Dec. 2021	Sept. 2021
Total Revenues	1,677,062	1,326,227	781,865	630,121
Net income (loss) for the period	114,966	(20,894)	(191,338)	(169,612)
Per share - basic	0.004	(0.001)	(0.008)	(0.007)
Total assets	3,081,924	3,309,755	2,996,924	2,975,768
Total long-term financial liabilities	729,032	755,507	840,415	894,843
Total liabilities	2,198,767	2,541,563	2,207,838	2,098,545

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

Results of Operations

The final quarter of the 2023 produced the highest periodic revenue of the year. This contributed significantly to an increase of more than 29% in annual revenues, compared to the preceding year, enhanced margins, and a return to profitability. The rise in margins, from 25.6% of revenues to 30.5% of revenues, was achieved because of some economies of scale driven by the higher revenues and because of improved stability in relation to costs. As noted previously, the frequency and severity of supply chain disruptions declined in 2023, in comparison to 2022 which translated into fewer unexpected or unpredictable costs. Gross margins are impacted by many factors including, but not limited to, production volumes, product mix, and order sizes. As a result of these many factors, margins will vary from period to period. The different elements of cost of product sales for the periods ended June 30 were as follows:

Years ended	2023	2022	Change
Raw materials and supplies consumed	$ 2,808,629	$ 2,264,299	$ 544,330
Labour costs incurred	878,981	820,675	58,306
Labour subsidies received	-	(42,771)	42,771
Shipping costs	117,070	99,989	17,081
Depreciation	97,420	78,082	19,338
Other costs	71,279	57,246	14,033
Net change in finished goods and work in process	(9,913)	9,192	(19,105)
Total cost of product sales	$ 3,963,466	$ 3,286,712	$ 676,754

Three month periods ended	2023	2022	Change
Raw materials and supplies consumed	$ 844,130	$ 895,952	$ (51,822)
Labour costs incurred	247,202	229,804	17,398
Labour subsidies received	-	-	-
Shipping costs	30,423	23,752	6,671
Depreciation	24,355	17,488	6,867
Other costs	23,188	18,565	4,623
Net change in finished goods and work in process	(9,407)	28,492	(37,899)
Total cost of product sales	$ 1,159,891	$ 1,214,053	$ (54,162)

The cost of raw materials and supplies consumed during the year rose by just over 24%, even though costs were lower in Q4 2023 than they had been in Q4 2022. Throughout the first 9 months of the 2022 fiscal year there had been significant correlation between the increases in revenues and the cost of raw materials and supplies. That correlation ceased in the final quarter of 2022 when the cost impact from supply chain disruptions seemed to peak. Had those supply-chain driven costs not occurred, material costs for Q4 2022 would have been approximately 10% lower. At that lower cost figure, material costs for the 2023 fiscal year as compared to the 2022 fiscal year, and for the final quarter of each year would have been reasonably correlated with the revenue increases realized in those periods. While some cost volatility remains it is believed that the circumstances that gave rise to the anomalous costs of Q4 2022 are unlikely to recur.

Labour costs incurred rose by 7.6% in the final quarter of 2023, and by 7.1% for the 2023 fiscal year, in comparison to 2022 levels. This is reflective of the greater labour demand associated with the higher revenue base but also incorporates annual wage increases. During the first half of the 2022 fiscal year, the Company benefitted from government labour subsidy programs introduced in response to the COVID-19 pandemic. These programs ceased October 2021 and are not expected to recur.

Net change in finished goods and work in process is a measure of the change in labour costs included in inventory and is combined with labour costs incurred to determine net labour costs included in cost of product sales. Combining these shows that annual labour costs in cost of sales increased 4.7% while costs for the final quarter declined by 7.9%. Labour volumes are predicated, to the extent possible, on the labour required to facilitate customer orders. A concerted push to complete previously deferred production in the final quarter of 2022, when revenues equated to 38% of annual revenues, contributed to those higher costs. No similar push arose Q4 2023 which provided 31.5% of annual revenues.

Results of Operations - continued

Shipping costs were one of many costs that escalated in conjunction with the supply chain disruptions. Not only did shipping rates rise but the disruptions often gave rise to more frequent, lower volume shipments. With the decline in disruptions, the nature of shipments is also returning to more traditional terms, albeit at higher cost than in previous years. Shipping costs arise based on product movement, both in and out of the Companyôs facility, and are closely monitored. The increases for the 2023 periods are considered acceptable and to be less than the corresponding increases in product movement.

The Company acquired some new machinery that was put it into service at the start of the 2022 fiscal year, replacing older machinery which was removed from service. The addition of new equipment typically results in higher periodic depreciation charges over the first two years of its useful life. It is expected that depreciation charges will begin to decline in the 2024 fiscal year.

Other costs include repairs and maintenance, stencils and tooling, and packaging costs. Each of these costs is incurred on an as-needed basis, are closely monitored, and are within managementôs expectations.

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

Years ended	2023	2022	Change
Employee and consultant compensation	$ 922,013	$ 915,006	$ 7,007
Compensation subsidies received	-	(25,227)	25,227
Occupancy costs	333,804	323,349	10,455
Rent subsidies received	-	(13,923)	13,923
Professional fees	78,819	49,116	29,703
Insurance	36,912	32,673	4,239
Shareholder services	26,180	18,758	7,422
Other costs	52,638	46,738	5,900
Total selling, general and administrative	$ 1,450,366	$ 1,346,490	$ 103,876

Three month periods ended	2023	2022	Change
Employee and consultant compensation	$ 256,766	$ 220,715	$ 36,051
Compensation subsidies received	-	-	-
Occupancy costs	91,844	82,364	9,480
Rent subsidies received	-	-	-
Professional fees	20,138	7,499	12,639
Insurance	8,915	9,452	(537)
Shareholder services	4,197	3,943	254
Other costs	12,304	9,948	2,356
Total selling, general and administrative	$ 394,164	$ 333,921	$ 60,243

Employee and consultant compensation costs, which include salaries, benefits, consulting fees, and independent directorsô fees were highly comparable year over year except for the impact of the retirement of the President of Permatech at the end of 2022, the earning of performance bonuses based on the profitability of Permatech, and the termination of government subsidy programs introduced during the COVID-19 pandemic.

The Companyôs current facilities lease took effect April 1, 2021 and resulted in the recognition, and amortization, of a right of use asset. This asset is subject to amortization charges which remain consistent over the term of the lease and represent a significant element of occupancy costs for each of the periods presented. Minor fluctuations result from variable demand and rates applicable for utilities and variances in common area maintenance charges. It is anticipated that occupancy costs will remain relatively comparable from period to period until the current lease expires in March 2026.

Results of Operations - continued

Professional fees are comprised of fees for legal services as well as the costs related to the annual financial statement audit and filing of annual tax returns. Audit costs is the primary source of the increases in 2023 as market rates for financial statement audits has escalated quite dramatically over the past 2 years. The 28% increase in relation to the 2022 annual audit was accounted for in the first quarter of 2023 and the further 40% increase in relation to the 2023 annual audit was accounted for in the final quarter. It is not anticipated that these costs will rise by comparable amounts in 2024.

Shareholder services are comparable for the most recent quarter but continue to be higher on a year-to-date basis as a direct result of the annual shareholders meeting that was held September 30, 2022.

Insurance costs generally rose in 2023 reflecting higher premiums applicable to comparable business and liability policies however the final quarter is reflective of minor premium reductions realized upon the most recent renewal of business insurance. There has been no alteration in the nature of the any insurance coverages that that Company maintains.

Other costs are closely monitored, are within management expectations.

The Companyøs financing costs for the periods were as follows:

Years ended	2023	2022	Change
Interest expense ï long term	$ 7,233	$ 9,262	$ (2,029)
Interest expense ï other	5,717	5,064	653
Interest expenses ï lease liability	18,854	24,066	(5,212)
Total financing expenses	$ 31,804	$ 38,392	$ (6,588)

Three month periods ended	2023	2022	Change
Interest expense ï long term	$ 1,610	$ 2,120	$ (510)
Interest expense ï other	2,564	3,862	(1,298)
Interest expenses ï lease liability	4,207	5,542	(1,335)
Total financing expenses	$ 8,381	$ 11,524	$ (3,143)

The Company initiated new term financing in April 2021 in relation to the acquisition of new equipment and has been making all regular monthly payments. The reduction in interest costs is reflective of the declining balance of the loan. The interest rate on this loan is fixed so related interest costs will continue to decline until the loan reaches maturity April 2026.

Interest expense ï other represents interest arising from the use of the Companyøs operating line as well as miscellaneous interest charges incurred. The Company made use of its operating line at various times throughout the 2023 fiscal year as well as in the second half of the 2022 fiscal year. Rising interest rates also contributed to the expenses incurred in the most recent 2023 periods.

The Companyøs lease extension for its operating facility commenced April 1, 2021 and resulted in the recognition and amortization of a right-of-use asset and the recognition of a lease liability. That lease liability then gives rise to imputed interest costs, based on the discount rate, over the term of the lease. The imputed interest costs will continue to decline until the lease liability expires March 31, 2026.

Liquidity

At June 30, 2023 the Company had working capital of $732,326 (2022- $450,635) and current financial assets of $1,190,379 (2022- $1,050,790) available to settle current financial liabilities of $2,315,614 (2022- $1,469,735). The Company also has access to a $500,000 (2022- $500,000) bank operating line, of which $110,000 (2022- $Nil) had been drawn as of June 30, 2023.

Liquidity - continued

In addition, the Company must also address the payment of the following amounts as at June 30, 2023:

	Due by June 30: 2024	2025	2026	Due after June 2026	Total Due
Long-term debt (1)	$ 77,454	$ 95,182	$ 71,658	$ -	$ 244,294
Lease liability (1)	168,904	178,185	137,649	-	484,738
	$ 246,358	$ 273,367	$ 209,307	$ -	$ 729,032

(1) Long-term debt includes a CEBA loan in the amount of $60,000 which may be prepaid at any time. If the balance of the loan is no more than $20,000 as at December 31, 2023, the loan balance will be forgiven. If the balance is not forgiven then it will be converted to a two-year term loan, which is incorporated into these figures as presented. The Company made a $10,000 pre-payment in September 2023.

Capital Resources

The Company has a $500,000 (2022 - $500,000) commercial line of credit from which $110,000 (2022 - $Nil) was drawn as at June 30, 2023. The loan bears interest at the TD Bank prime lending rate plus 2.5%, is due upon demand, and is secured by a general security agreement covering the assets of PEC.

The Company has a term loan, the proceeds of which were used to purchase equipment. The loan was funded April 2021 in the amount of $313,748 and $184,294 remains payable at June 30, 2023. The loan bears interest at 3.386%, requires monthly payments of $5,691 blended as to principal and interest, and will mature April 2026.

The Company has a Canadian Emergency Business Account (CEBA) with a balance of $60,000 (2020 - $60,000) at June 30, 2023. This is non-interest bearing until December 2023 at which time it will be converted to a 24-month term loan bearing interest at 5%. The balance may be repaid, in whole or in part, at any time and if the CEBA balance is no more than $20,000 on December 31, 2023, the balance will be forgiven. The Company repaid $10,000 in September 2023.

The Company has not completed any financing transactions or issue any new securities since June 30, 2022.

Related Party Transactions

The Company had transactions during the periods with key management personnel. These include consulting fees paid to Steve Smith (President and CEO), consulting fees and accounting fees paid to Michael D. Kindy (CFO), Directorsô fees paid to independent Directors of the Company and its subsidiary, salaries and benefits paid to John Perreault and as an officer of PEC until his retirement December 2022 and to Suren Jeyanayagam thereafter, legal fees paid to a legal firm in which William R. Johnstone (Corporate Secretary) is a partner, and share-based payments related to key management personnel. Compensation rates are agreed to by the related parties and are predicated upon prevailing market rates. The following expenses, involving these related parties, have arisen during the reporting periods:

Years ended	2023	2022	Change
Salaries and benefits (1)	$ 165,036	$ 133,136	$ 31,900
Consulting fees (1)	144,000	144,000	-
Directorsô fees (1)	57,500	63,000	(5,500)
Legal fees (2)	20,244	23,986	(3,742)
Accounting fees (2)	6,000	4,255	1,745
Cash based expenditures	$ 392,780	$ 368,377	$ 24,403
Share-based payments	$ 54,355	$ -	$ 54,355

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

Related Party Transactions - continued

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:

	2023	2022	Change
Salaries and benefits payable	32,059	7,112	24,947
Directorsô fees payable	147,160	132,930	14,230
Consulting fees payable	632,531	497,826	134,705
Legal fees payable	33,302	36,907	(3,605)
Salaries and benefits payable	845,052	674,775	170,277

The following stock options held by Directors and/or Officers of the Company and were outstanding as at June 30, 2023 and remain outstanding as of the date of this document:

Description	Expiry Date	Number of Common Shares
Stock options @ $0.10 per share	Sep. 30, 2027	1,100,000

During the year ended June 30, 2023, no related parties exercised any stock options however 350,000 stock options, with an exercise price of $0.95, held by related parties expired.

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Common shares issued:	Quantity		Amount
Balance June 30, 2021	24,227,196	$	23,859,872
Warrants exercised	2,260,000		186,404
Stock options exercised	200,000		17,960
Balance June 30, 2023, June 30, 2022, and as at the date of this document	26,687,196	$	24,064,236

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 @ $0.10 per share	Nov. 2023	175,000
Stock options @ $0.10 per share	Sept. 2027	1,100,000
Common shares reserved June 30, 2023, and as at the date of this document		1,283,246

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

Fully diluted number of shares	Quantity
Shares issued June 30, 2023	26,687,196
Shares reserved June 30, 2023	1,283,246
Fully diluted number of shares June 30, 2023, and as at the date of this document	27,970,442

Convertible Instruments and Other Securities - continued

Additional disclosures relative to stock options are as follows:

During the year the Company granted 1,275,000 stock options, entitling the holders to exercise at a price of $0.10 per share until September 30, 2027. In accordance with the terms of those stock options, the expiry date relative to the stock options granted to a director who subsequently resigned were altered such that they will expire six months after the date of resignation. The following weighted average assumptions were used to calculate the fair value of the stock options granted during the year:

	2023	2022
Dividend yield	Nil	None granted
Risk free interest rate (%)	3.243	None granted
Expected stock volatility (%)	135.92	None granted
Expected life (years)	5	None granted

And transactions involving stock options are summarized as follows:

	Common Shares Under Option		Weighted Average Price/Option	Weighted Average Expiry Date
Balance, beginning of the year	350,000	$	0.95	Jan. 12, 2023
Stock options granted	1,275,000		0.10	Sept. 30, 2027
Stock options altered	(175,000) (1)		0.10	Sept. 30, 2027
Stock options altered	175,000 (1)		0.10	Nov. 1, 2023
Expired during the year	(350,000)	$	0.95	Jan. 12, 2023
Balance, end of the year	1,275,000 (2)	$	0.10	Mar. 17, 2027

(1) The expiry date of these options was reduced due to the resignation as a director by the holder.
(2) Directors and/or Officers and/or former directors of the Company and its subsidiary hold these options.

Financial instruments

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

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

Impairment of Investments

Non-controlling interests, which are not financial instruments, and are less than a 20% ownership interest, are considered impaired when the carrying amount exceeds the recoverable amount. Non-controlling interests, which are not financial instruments, and are equal to or exceeding a 20% ownership interest (an equity instrument) is considered impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occur after the initial recognition of the asset (a 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 prior financial periods.

Risk Factors

Events seemingly unrelated to the Company, or to its industry, may adversely affect its finances or operations in ways that are hard to predict or defend against. For example, credit contraction in financial markets may hamper the Companyôs 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 Companyôs 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 Companyôs 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 market risks. The Companyôs 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 Companyôs risks and the related exposure are consistent with its business objectives and risk tolerance. There have been no changes to the risk management strategies during the current period.

Risk Factors - continued

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Companyôs 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, 2023 and June 30, 2022**.**

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 Companyôs revenues during a reporting period. During the current year the Company had three major customers which represented 15%, 15% and 11% of total revenues. In the prior year, two major customers accounted for 19% and 15% of total revenues. Amounts due from major customers represented 39% of accounts receivable at June 30, 2023 (2022 - 21%). 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, 2023 the Company had current financial assets of $1,190,379 (2022 - $1,050,790) available to settle current financial liabilities of $2,315,614 (2022 - $1,469,735). 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 Companyôs 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 loss of $8,251 (2022 ï loss of $5,059).

Sensitivity to market risks

On June 30, 2023, the Company had:

- A bank operating loan of which $110,000 was drawn (2022 - $Nil) bears interest predicated upon the TD Bank prime lending rate. An increase of 1% in that prime lending rate would result in a reduction of $1,100 in cash flows over the next 12 months, based on the current loan balance.
- US$183,992 (2022 ï US$187,460) 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 $9,199 (2022 ï $9,373) in future cash inflow.
- US$124,491 (2022 ï US$126,498) 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 $6,225(2022 ï $6,325) 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.