General

The following managementës discussion and analysis (ñMD&Aò) of the financial condition and results of operations of ZTEST Electronics Inc. (ñZTESTò or the ñCompanyò) constitutes managementës review of the factors that affected the Companyës interim condensed consolidated financial and operating performance for the six months ended December 31, 2014. The MD&A was prepared as of February 24, 2015 and was approved by the Board of Directors on February 24, 2015. It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the six months ended December 31, 2014, and the audited consolidated financial statements for the year ended June 30, 2014, 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

The Company is located at 523 McNicoll Avenue, Toronto, Ontario and operates a single business segment designing, developing, and assembling printed circuit boards and other electronic equipment. The management of the Company, which has not changed since the preceding fiscal year end, is comprised of the following individuals:

Name	Position(s)
Wojciech Drzazga	Director and CEO
John Perreault [1]	Director and President
K. Michael Guerreiro [1] [2]	Director
Mike Hiscott [1] [2]	Director
Michael D. Kindy	VP Finance & CFO
William R. Johnstone	Secretary

[1] Denotes member of audit committee
[2] Denotes member of compensation committee

Corporate Performance

The period ended December 31, 2014 was less than ideal from an operational perspective however that was overshadowed by it also representing the period in which the Company formally closed the door on its past and positioned itself to focus entirely on the present and the future.

The Companyës financial position has long reflected obligations which arose prior to the inception of its current operating model. Those historical obligations provided challenges as management sought to settle them while simultaneously sustaining and growing operations. Through rigorous cash management the goal of extinguishing all historical obligations has been achieved. The period ended December 31, 2014 represents the culmination of these efforts as the last of the historical obligations were settled.

Over recent fiscal years the Company successfully repaid, often in advance of their maturity date, each of the older obligations for which interest costs were a burden upon operating results and the required monthly payments were a burden upon cash flows. By the end of the 2014 fiscal year the Companyës long term debt was comprised of new financing arranged during the year to facilitate the purchase of equipment and one historical interest bearing obligation which is scheduled to mature April 2015. In addition to long term debt, the Company had $980,383 in historical obligations which were non-interest bearing and had no fixed repayment terms. Although these obligations provided no direct burden upon operations or cash flow they provided a negative effect on the Companyës liquidity and financial position. During the period ended December 31, 2014 $980,383 in obligations were eliminated by making cash payments aggregating $166,378, for a savings of $814,005. The $980,383 in historical obligations were comprised of four elements being $665,502 in redemption value for preferred shares, $263,337 in accrued but unpaid dividends on those preferred shares, a $39,600 non-interest bearing debenture, and $11,945 in interest payable that had accrued prior to settlement of the underlying debts.

Corporate Performance - continued

During the 1999 and 2000 fiscal years the Company raised $4,829,010 through the issuance of four series of redeemable, convertible preference shares. Two of the series had been fully extinguished, and the other two partially extinguished, through share conversions or settlements negotiated with the shareholders. The remaining shareholders had opted not to convert their shares or participate in the settlements that were proposed and as a result their shares reached their mandatory redemption dates, some in 2004 and the remainder in 2007. They had an aggregate redemption value of $665,502 with no penalty or interest accruing on the unpaid redemption price. Prior to reaching their mandatory redemption dates however each of these preferred shares required monthly dividends. The Company paid these dividends to the extent it was able, but when cash constraints dictated, the dividends were accrued but were not paid. The total unpaid dividend obligation amounted to $263,337. During the period the Company presented these preferred shareholders with a proposal whereby the redemption price of $665,502 would be settled in its entirety by aggregate cash payments of $166,378 and the accrued but unpaid dividends would be waived. Each of the shareholders accepted the proposal and, in exchange for their respective cash payments, they surrendered their shares for cancellation, waived their respective dividends, and released the Company from all obligations. The accounting for this settlement had the following impact upon the Companyǿs financial statements:

	Before Settlement	After Settlement	Net Change
Share capital	$ 22,343,053	$ 22,151,406	$ 191,647
Preferred share liability	473,855	-	473,855
Redemption price for shares			665,502
Dividends payable	263,337	-	263,337
Amount subject to settlement			928,839
Cash paid in settlement			(166,378)
Amount subject to settlement			762,461
Amount attributed to contributed surplus			(222,026)
Gain on settlement of preferred shares			$ 540,435

Once settlement was reached with the preferred shareholders it was determined that there would be no similar settlement of a $39,600 previously convertible, non-interest bearing debenture or $11,945 in interest payable that had accrued during, or prior to, the 2004 fiscal year. The debenture holder opted not to exercise its conversion option and has made no effort at collection since the maturity date. The right of the creditors, and the obligation of the Company, to pay the accrued interest has never been firmly established but none of the creditors have attempted collection in over 10 years even though each entered into new financing transactions with the Company after the interest accrual dates. It was determined that, as the creditors have made no collection effort, and the age of the obligations makes any new collection efforts unenforceable should they occur, it was appropriate to account for the obligations as having been forgiven and the Company recognized a gain of $51,545.

As a result of eliminating these obligations the Company has significantly improved its liquidity position, enhanced its financial position, and by association, reduced its business risks. The Company has now eliminated its long standing working capital deficiency, grown its current ratio to 1.73:1, improved its quick ratio to 0.77:1, lowered its debt to equity ratio to 0.8:1, increased capital under management to $1,155,169 and reduced total financial liabilities to $759,767. While the Company will almost certainly face new adversities from time to time they will now, for the first time, be associated exclusively with current or future events.

Management will continue to manage and minimize business risks, to manage its cash flows, to attempt to grow the business and to build value for its stakeholders. The following data may provide some additional insights relative to the Companyǿs operating performance and financial position:

Corporate Performance - continued

	For the fiscal years ended:		
	June 14	June 13	June 12
Total Revenues	4,014,268	4,601,698	4,572,417
Net income (loss) income from operations	(21,321)	141,007	390,936
Per share - basic	(0.002)	0.017	0.055
Net income (loss) for the year	(18,579)	148,319	392,778
Per share - basic	(0.002)	0.018	0.056
Total assets	2,098,100	2,176,189	2,340,853
Total long-term financial liabilities	158,244	45,788	698,648
Total liabilities	1,638,734	1,759,668	2,416,943

	For the three month periods ended:				
	Dec. 14	Sept. 14	June 14	Mar. 14	Dec. 13
Total Revenues	691,622	1,070,734	1,000,676	933,391	945,951
Net (loss) income from operations	(154,718)	26,726	(21,790)	(3,300)	(59,301)
Per share - basic	(0.015)	0.002	(0.002)	(0.000)	(0.006)
Net income (loss) for the period	438,159	27,427	(20,988)	(2,521)	(58,928)
Per share - basic	0.041	0.002	(0.002)	(0.000)	(0.006)
Total assets	1,715,098	1,971,431	2,098,100	2,190,139	1,859,824
Total long-term financial liabilities	141,516	151,388	158,244	177,893	18,830
Total liabilities	759,767	1,484,638	1,638,734	1,709,785	1,381,168

	For the three month periods ended:				
	Sept. 13	June 13	Mar. 13	Dec. 12	Sept. 12
Total Revenues	1,134,250	1,288,374	1,127,445	1,113,223	1,072,656
Net income from operations	63,070	81,609	21,311	31,955	6,132
Per share - basic	0.006	0.008	0.003	0.004	0.004
Net income for the period	63,858	83,815	22,379	33,336	8,789
Per share - basic	0.006	0.008	0.003	0.005	0.004
Total assets	2,102,184	2,176,189	2,228,452	2,133,002	2,252,523
Total long-term financial liabilities	32,498	45,788	57,496	66,478	602,565
Total liabilities	1,614,305	1,759,668	2,036,126	2,141,525	2,299,246

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

Results of Operations

The second quarter of 2015 was a very unusual period based upon the Companyós recent history. At $691,622 quarterly revenues were the lowest they have been since the quarter ended March 2009 and the effects of the reduced revenues are prevalent throughout the results of the period. While this represents the fifth consecutive quarter for which revenues declined in comparison to the same period one year earlier there is nothing to indicate that the revenues realized in the second quarter are indicative of future periodic revenues. In fact, revenues to the date of this document suggest that the period ended March 2015 is on target to be comparable with the period ended March 2014.

During the six month period ended December 2013 the Company had a single customer that accounted for over 27% of revenues, including almost 17% of revenues for the quarter then ended. During the same periods ended December 31, 2014 no individual customer exceeded 20% of total revenues although there is one that is approaching 20% in each period. The largest individual customer for the current periods is different from the largest individual customer from one year ago, which now represents less than 5% of total revenues. This is part of the normal ebbs and flows of this industry however there has been a higher than normal level of consolidation in the industry in recent months and it is perceived that this consolidations triggered a temporary decline in business volumes.

With the decline in periodic revenues it should come as no surprise that gross margins also declined, both in value and as a percentage of sales. The imperfect correlation between revenues and costs is a contributing factor as described in the following analysis of the cost of product sales.

Results of Operations - continued

The different elements of cost of product sales for the periods ended December 31 are as follows:

Six month periods ended December 31	2014	2013	Change
Raw materials and supplies consumed	$ 753,915	$ 828,620	$ (74,705)
Labour costs incurred	353,890	356,441	(2,551)
Depreciation	66,179	61,106	5,073
Repairs and maintenance	24,331	10,073	14,258
Other costs	44,929	46,377	(1,448)
Net change in finished goods and work in process	8,070	25,799	(17,729)
Total cost of product sales	$ 1,251,314	$ 1,328,416	$ (77,102)

Three month periods ended December 31	2014	2013	Change
Raw materials and supplies consumed	$ 303,719	$ 375,115	$ (71,396)
Labour costs incurred	157,504	176,595	(19,091)
Depreciation	33,089	30,553	2,536
Repairs and maintenance	7,911	4,321	3,590
Other costs	19,421	21,901	(2,480)
Net change in finished goods and work in process	3,487	7,223	(3,736)
Total cost of product sales	$ 525,131	$ 615,708	$ (90,577)

Raw materials and supplies consumed during the quarter declined by 19% while year to date costs are 9% lower. In comparison revenues for the same periods have declined by 27% and 15%. This result does not suggest that production efficiency has declined. The result does support that a larger proportion of assemblies are being produced from components supplied by the Company as opposed to consignment items provided by customers. The Company continues to promote the turnkey process as being a cost effective solution for its customers and current results suggest that a majority of customers concur.

Labour cost incurred is a measure of labour paid for during the period and with a decrease of 11% for the quarter and 1% for the six month period. The total labour costs included in cost of product sales combine the labour costs with the net change in finished goods and work in process. The combined figures have declined by 12% for the quarter and 5% year to date which are closer to, but still lag behind, the change in revenues. The December 2014 labour costs include average annual wage increases of 2.3%, the impact of smaller average order sizes and the decline in labour efficiencies which almost always accompany temporary production declines. The Company has a good track record of managing labour supply in accordance with demand however it has also maintained certain supply levels through periods like this to be ready for foreseeable demand increases.

Depreciation costs, which are a function of time, also have no correlation with periodic revenues. Depreciation costs are higher for each of the 2014 periods as a result of the equipment additions completed during the 2014 year.

Repairs and maintenance continue to be higher on a periodic basis in 2014 with fairly substantial repairs arising in both the first and second quarters. Regular maintenance is undertaken but the timing and nature of individual repairs can skew quarterly results. It is expected that repair and maintenance costs will return to more consistent levels in future periods.

Other costs include stencils and tooling, packaging, and freight costs net of amounts recovered. Each of these costs is incurred on an as-needed basis without any specific correlation with revenues. These costs are closely monitored and are within management expectations so they will not be further elaborated upon.

Results of Operations - continued

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

Six month periods ended December 31	2014	2013	Change
Employee and consultant compensation	$ 406,620	$ 450,752	$ (44,132)
Occupancy costs	131,900	132,728	(828)
Professional fees	28,965	35,574	(6,609)
Shareholder services	13,311	13,171	140
Insurance	17,490	16,320	1,170
Other costs	24,936	26,572	(1,636)
Total selling, general and administrative	$ 623,222	$ 675,117	$ (51,895)

Three month periods ended December 31	2014	2013	Change
Employee and consultant compensation	$ 196,408	$ 205,400	$ (8,992)
Occupancy costs	65,262	64,515	747
Professional fees	16,935	22,252	(5,317)
Shareholder services	12,278	11,666	612
Insurance	8,746	8,160	586
Other costs	17,792	18,548	(756)
Total selling, general and administrative	$ 317,421	$ 330,541	$ (13,120)

Compensation costs include salaries and benefits, consulting fees and directorsô fees. A $6,721 increase in salaries and benefits for the six month period due to rate increases has been mitigated by a $4,500 decline in directorsô fees resulting from a decline from 3 independent directors to two. Consulting fees however have changed quite significantly as two consultants utilized during the 2014 fiscal periods were not retained in the current year. The bulk of the fees related to these two consultants were incurred in the first quarter of 2014 with the remainder arising during the second quarter.

Professional fees, which are comprised of legal and audit fees, have declined in each of the periods ended December 2014. While audit fees have increased about $1,100, reflecting slightly higher audit costs, legal fees have declined by $7,700 primarily as a result of lower costs associated with the 2014 annual general meeting.

Each of the other separately identified SG&A expenses have changed only nominally in value from year to year. These expenses are closely monitored by management and do not warrant detailed investigation or elaboration.

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

Six month periods ended December 31	2014	2013	Change
Interest expense ï long term (cash based)	$ 6,813	$ 9,791	$ (2,978)
Interest expense ï long term (accretion)	4,066	7,777	(3,711)
Interest expense ï other	1,177	571	606
Total financing expenses	$ 12,056	$ 18,139	$ (6,083)

Three month periods ended December 31	2014	2013	Change
Interest expense ï long term (cash based)	$ 3,005	$ 4,070	$ (1,065)
Interest expense ï long term (accretion)	305	3,906	(3,601)
Interest expense ï other	412	211	201
Total financing expenses	$ 3,722	$ 8,187	$ (4,465)

Results of Operations - continued

The Companyǿs debt has changed quite significantly over the last 18 months. At June 30, 2013 the Company had long term debt with a face value of $461,242, a weighted average interest rate of 6.62%, and a carrying value of $451,839. These debts were outstanding throughout most of the ensuing six months, until two debentures matured in December 2013. By December 31, 2013, following the maturity of these debentures, the Company long term debt with a face value of $107,707, a weighted average interest rate of 6.96%, and a carrying value of $106,079. The disparity between face value and carrying value had been reduced by $7,777 representing the accretion expensed for the period.

By June 30, 2014 the Company had acquired new equipment and had financed the acquisition with new long term debts. As a result the long term debt at that date had a face value of $285,406, a weighted average interest rate of 8.11%, and a carrying value of $281,933. In July 2014 the Company obtained commercial financing for its recent equipment acquisition and retired the previously arranged financing. The commercial financing provided a lower interest rate and does not result in future interest accretion. As a consequence, the long term debt at December 31, 2014 had a face value of $200,244, a weighted average interest rate of 5.35%, and a carrying value of $199,838. In this instance the disparity between face value and carrying value had been reduced by $4,066 representing the accretion expensed for the period.

Interest expense ï long term is expected to continue to decline. The face value of existing debt is only $406 more than the carrying value therefore future accretion expense will be minimal. Furthermore the weighted average interest rate, already at a historical low, will decline even further as the highest rate obligation will mature April 2015 the TD Bank reduced its prime lending rate by 0.15% on January 28, 2015.

Interest ï other includes miscellaneous interest charges incurred as well as interest arising from the use of the operating line. The Company had utilized a portion of the operating line at times during the period causing a small increase in this interest cost for the period.

Liquidity

During the period the Company extinguished its working capital deficiency and now has a working capital surplus of $453,881. At December 31, 2014 the Company had current financial assets of $473,655 available to settle current financial liabilities of $618,251 and also has access to a $250,000 bank operating line, which was not drawn upon as of December 31, 2014.

The Company utilizes long term debt as a means of financing new equipment acquisitions. In July 2014 the Company obtained a commercial term loan and used the proceeds of this loan to pay out $200,000 in long-term financing that had been obtained January 2014, from related parties, to finance an equipment purchase.

In addition to satisfying the cost of operations the Company must also address the payment or other settlement of the following amounts as at December 31, 2014:

	Due by Dec. 2015	Due by Dec. 2017	Due by Dec. 2019	Due after Dec. 2019	Total Due
Long-term debt	58,322	78,986	62,530	-	199,838
Operating leases	92,351	201,904	212,769	134,679	641,703
All obligations	$ 150,673	$ 280,890	$ 275,299	$ 134,679	$ 841,541

Capital Resources

The Company has a $250,000 commercial line of credit from which nothing was drawn as at December 31, 2014 and $25,000 was drawn as at June 30, 2014. The loan bears interest at the prime lending rate plus 2.5%, is due upon demand, and is secured by a general security agreement covering the assets of PEC.

Capital Resources – continued:

During the period this line of credit was restructured to increase the interest rate from the prime lending rate plus 0.5% and to remove the requirement for term deposit security. The $250,000 term deposit, previously classified as restricted cash equivalents, became available for general use on July 7, 2014.

Related Party Transactions

The Company has an outstanding loan payable to 1114377 Ontario Inc., a company which is controlled by the spouse of Mr. W. Drzazga, the CEO and a Director of the Company. At its inception the loan provided the Company with cash for working capital purposes. The interest rate charged on the loan is consistent with the rates that were being charged to the Company by non-related parties for similar debts as at the date the loan originated.

The Company compensates its key management personnel for services rendered. These include salaries and benefits paid to Wojciech Drzazga (CEO) and John Perreault (President), consulting fees paid to Michael D. Kindy (CFO), legal fees paid to a legal firm in which William R. Johnstone (Corporate Secretary) is a partner, Directorsô fees, and share-based payments. The Compensation rates are agreed to by the key management personnel and are predicated upon prevailing market rates.

The following balances are due to related parties as at December 31 of each year:

	2014	2013
Loan payable to 1114377 Ontario Inc. at prime +8% (1)	19,236	68,106
Salaries and benefits payable	10,827	1,947
Consulting fees payable (2)	64,000	25,600
Legal fees payable (2)	5,996	3,155

(1) This is the face value of this obligation. It is reported in the unaudited condensed interim consolidated financial statements at a discounted value. At the time the funds were advanced the creditor was granted an option to acquire a 24% interest in PEC for $200,000 on or before May 1, 2015.

(2) Reported in the unaudited condensed interim consolidated financial statements as an element of accounts payable and accrued liabilities.

The following expenses have arisen as a result of transactions involving the related parties defined above:

	2014	2013
Salaries and benefits (1)	$ 134,540	$ 124,713
Consulting fees (1)	12,300	21,379
Directorsô fees (1)	13,800	18,300
Legal fees (2)	8,508	16,224
Interest expense ï long term	6,558	4,933
Cash based expenditures	$ 175,706	$ 185,549
Share-based payments	$ -	$ 49,705

(1) Reported in the unaudited condensed interim consolidated financial statements as an element of employee and consultant compensation.

(2) Reported in the unaudited condensed interim consolidated financial statements as an element of professional fees.

The following stock options have been issued to Directors and/or Officers of the Company and were outstanding as at December 31, 2014:

Related Party Transactions - continued

Description	Expiry Date	Number of Common shares
Stock options @ $0.10 per share	Nov. 2015	275,000
Stock options @ $0.10 per share	Sept. 2017	130,000
Stock options @ $0.10 per share	Dec. 2018	500,000

There are also 300,000 stock options being held by the estate of a former Director. These options have exercise prices ranging from $0.10 to $0.15 and have an expiry date of April 27, 2015.

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Share capital	Quantity	Amount
Common shares, June 30, 2014, Dec. 31, 2014 and as at the date of this document	10,648,696	$ 22,343,053

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

Shares reserved	Expiry Date	Number of Common shares
Common shares to be issued for Class A shares (1)		8,246
Stock options @ $0.15 per share	Apr. 2015	200,000
Stock options @ $0.10 per share	Apr. 2015	100,000
Stock options @ $0.10 per share	Nov. 2015	275,000
Warrants @ $0.10 per share	Feb. 2016	1,100,000
Warrants @ $0.10 per share	Mar. 2016	900,000
Stock options @ $0.10 per share	Sept. 2017	130,000
Warrants @ $0.10 per share	Oct. 2017	400,000
Stock options @ $0.10 per share	Dec. 2018	500,000
Shares reserved, Dec. 31, 2014 and as at the date of this document		3,613,246

(1) In the 2013 fiscal year the Companyôs shareholders approved the issuance of 99,454 common shares in exchange for 100% of the Class A Special Shares outstanding. 91,208 common shares have been issued, representing the entitlement of the identifiable Class A shareholders. 8,246 common shares have been reserved to be issued if and when the remaining Class A shareholders identify themselves to the Company.

Fully diluted position	
Shares issued	10,648,696
Shares reserved	3,613,246
Fully diluted position, Dec. 31, 2014 and as at the date of this document	14,261,942

Convertible Instruments and Other Securities - continued

Additional disclosures relative to stock options are as follows:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted March 11, 2013	200,000 [(2)]	200,000	$ 0.15	Apr. 27, 2015
Granted December 31, 2013	100,000 [(2)]	100,000	$ 0.10	Apr. 27, 2015
Granted Nov. 30, 2010	275,000 [(1)]	275,000	$ 0.10	Nov. 30, 2015
Granted Sept. 14, 2012	130,000 [(1)]	130,000	$ 0.10	Sept. 14, 2017
Granted December 31, 2013	500,000 [(1)]	500,000	$ 0.10	Dec. 31, 2018

All stock options have vested. The Company has no ability to cause these options to be exercised.

	Common Shares Under Option	Weighted Average Price/Option	Weighted Average Expiry Date
Balance, June 30, 2014, Dec. 31, 2014 and as at the date of this document	1,205,000	$ 0.11	Mar. 28, 2017

(1) Directors and/or Officers of the Company hold these options.

(2) Options are held by the estate of a former Director. The expiry dates were amended to be one year following the date of death.

Additional disclosures relative to share purchase warrants are as follows:

	Number of Warrants	Value of Warrants	Exercise Price	Expiry Date
Issued Mar. 24, 2011	900,000	$ 38,818	$ 0.10	Mar. 24, 2016
Issued Feb. 4, 2013	1,100,000	37,859	$ 0.10	Feb. 4, 2016
Issued Jan. 10, 2014	400,000	4,219	$ 0.10	Oct. 31, 2017
		$ 80,896		

	Number of Warrants	Weighted Average Price/Warrant	Weighted Average Expiry Date
Balance, June 30, 2014, Dec. 31, 2014 and as at the date of this document	2,400,000	$ 0.10	June 7, 2016

Changes in Accounting Policy

The accounting policies followed by the Company are established in accordance with International Financial Reporting Standards (IFRS) and once policies are established they will not, as a matter of policy, be revised unless IFRS changes. There were no changes in accounting policy during the current period.

Accounting Standards Effective For Future Periods

IFRS 9, *Financial Instruments:* effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of the financial statements for their assessment of the amounts, timing and uncertainty of future cash flows. Management anticipates that this standard will be adopted in the Company's financial statements for the year beginning July 1, 2018 and has not yet considered the potential impact of its adoption.

IFRS 15, *Revenue from Contracts with Customers:* effective for annual periods beginning on or after January 1, 2017, with early adoption permitted, replaces existing revenue standards and interpretations with a single standard and provides additional guidance on revenue recognition for contracts with customers. Management anticipates that this standard will be adopted in the Company's financial statements for the year beginning July 1, 2017 and has not yet considered the potential impact of its adoption.

Financial Instruments

The Companyøs financial instruments are comprised of the following:

Financial assets:	*Classification*
Cash and cash equivalents	Fair value through profit and loss
Restricted cash equivalents	Fair value through profit and loss
Accounts receivable	Loans and receivables

Financial liabilities:	*Classification*
Bank operating loan	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Dividends payable	Other financial liabilities
Preferred shares	Other financial liabilities
Long-term debt	Other financial liabilities

Fair value through profit and loss:

Financial assets are designated as fair value through profit and loss if they were acquired principally for the purpose of selling in the short term. Fair value through profit and loss assets are recognized and carried at their fair value.

Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Other financial liabilities:

Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial instrument 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 payments through the expected life of the financial instrument to the net carrying amount on initial recognition. Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

Impairment of financial assets:

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the assets have been negatively impacted.

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in income for the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through income for the period to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial Instruments - continued

Financial instruments recorded at fair value:
Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of June 30, 2014 and 2013 cash and cash equivalents and restricted cash are measured at fair value and are classified within Level 1 of the fair value hierarchy.

Financial instruments recorded at amortized cost:
Financial instruments recorded at amortized cost on the consolidated statement of financial position are amortized using the market rates of interest prevailing at the inception of the financial instrument applied to expected future cash flows. The amortized cost is recomputed in the event that the underlying terms, and therefore the expected future cash flows, of the financial instrument are altered with any change in the amortized cost being charged to income of the period. Dividends payable and preferred shares are each carried at historical cost as the future cash flows cannot be reasonably estimated.

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 or cash generating unit (CGU) have suffered an impairment loss. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or groups of assets. Where such an indication exists, the recoverable amount of the asset or CGU is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an assetôs or CGUôs 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 or CGU 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 or CGU. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU 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 or CGU 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 or CGU in prior years. A reversal of an impairment loss is recognized immediately in income for the period.

The Company has assessed the assets of all its operating entities and has determined that there is no impairment of its non-financial assets.

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 Companyøs 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 Companyøs 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 Companyøs 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 Companyøs 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 Companyøs 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 year.

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 Companyøs 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. Bad debt experience has not been significant and it has been determined that no allowance is required as all amounts outstanding are considered collectible.

Concentration of credit risk
Concentration of credit risk arises when a significant portion of the financial assets subject to credit risk arise from a single or limited number of sources. During the current period, no single customer accounted for more than 20% of total revenue (Dec. 31, 2013 ï 1 customer at 27%). The Company monitors the relationship with all customers closely and ensures that every customer is subject to the same risk management criteria.

Liquidity risk
Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. At December 31, 2014 the Company had current financial assets of $473,655 available to settle current financial liabilities of $618,251. The Company also has an unutilized bank operating line of $250,000 available. The Company manages its liquidity risk through the management of its capital *(note 15)* 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 Companyøs reputation.

Market risks
The Company is exposed to interest rate risk and currency risk. The interest rate risk arises from the bank operating loan for which interest is charged at the prime lending rate of the TD Bank plus 2.5%. Currency risk relates to accounts receivable and accounts payable denominated in US dollars and the potential for future cash flows to fluctuate because of changes in foreign exchange rates. Credit risk is minimized through the reduction of debt when cash flow permits. Currency risk is closely monitored but not actively managed. During the period the Company incurred a loss on foreign exchange in the amount of $1,997 (Dec. 2013 ï $3,332).

Sensitivity to market risks
The impact of changes in the prime lending rate of the TD Bank are dependent upon the amount drawn from the bank operating loan and the duration for which it is outstanding. There was no amount drawn from the bank operating loan as at December 31, 2014.

At December 31, 2014 the Company had US$27,475 (June 30, 2014 ï US$99,330) 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 $228 in future cash inflow.

Risk Factors - continued

Sensitivity to market risks - continued
At December 31, 2014 the Company had US$141,870 (June 30, 2014 ï US$233,439) 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 $1,177 in future cash outflow.

The existence of both accounts receivable and accounts payable denominated in US$ does not serve as a hedge with respect to currency risk.

Based upon observations of recent market trends management believes that each of these outcomes is possible but most likely exceed the Companyøs immediate market risk exposures.

Forward-looking Information

Certain statements in this MD&A may constitute ñforward-lookingò statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and its subsidiary, or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this report, the words ñestimateò, ñbelieveò, ñanticipateò, ñintendò, ñexpectò, ñplanò, ñmayò, ñshouldò, ñwillò, the negative thereof or other variations thereon or comparable terminology are intended to identify forward-looking statements. Such forward-looking statements reflect the current expectations of the management of the Company with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results, performance or achievements to differ materially from those expressed or implied by those forward-looking statements, such as reduced funding, long sales cycles, currency and interest rate fluctuations, increased competition and general economic and market factors and including the risk factors summarized below 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.