ZTEST Electronics Inc.
Managementôs Discussion and Analysis
For The Three Month Period Ended March 31, 2015
(Prepared as at May 27, 2015)

General

The following managementôs discussion and analysis (ñMD&Aò) of the financial condition and results of operations of ZTEST Electronics Inc. (ñZTESTò or the ñCompanyò) constitutes managementôs review of the factors that affected the Companyôs interim condensed consolidated financial and operating performance for the nine months ended March 31, 2015. The MD&A was prepared as of May 27, 2015 and was approved by the Board of Directors on May 27, 2015. It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the nine months ended March 31, 2015, 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 recently concluded quarter provided a return to a more traditional revenue figure and to positive cash flows from operations but also resulted in a small loss from operations and saw the implementation of a new work-share program that will run for most of the remainder of the year unless production volumes warrant its cessation.

The marketplace that the Company serves has been experiencing significant merger and acquisition activity in recent years. This includes the acquisition of some of the Companyôs customers by U.S. based entities and the redistribution of much of the demand from these customers to U.S. based competitors. Much of the relocated demand was from customers that previously represented a significant portion of the Companyôs business, often individually exceeding 20% of periodic revenues. Customers that were the largest individual customers in terms of quarterly revenue for the past 12 fiscal quarters collectively represent less than 10% of revenues for the nine month period ended March 31, 2015. While this reflects favourably upon the Companyôs ability to attract new business, the replacement of established high volume business with newer business, having generally smaller production runs, can also provide less consistent operating results, at least in the shorter term.

The Company maintains the belief that its reputation for the reliable provision of top quality products and service will enable it to continue to secure and retain new business and to return to consistent profitability and positive cash flow. Management continues to manage and minimize business risks and to build value for its stakeholders. The following data may provide some additional insights relative to the Companyôs 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:				
	Mar. 15	Dec. 14	Sept. 14	June 14	Mar. 14
Total Revenues	1,061,276	691,622	1,070,734	1,000,676	933,391
Net income (loss) from operations	(17,243)	(154,718)	26,726	(21,790)	(3,300)
Per share - basic	(0.002)	(0.015)	0.002	(0.002)	(0.000)
Net income (loss) for the period	(17,091)	438,159	27,427	(20,988)	(2,521)
Per share - basic	(0.002)	0.041	0.002	(0.002)	(0.000)
Total assets	1,600,781	1,715,098	1,971,431	2,098,100	2,190,139
Total long-term financial liabilities	131,642	141,516	151,388	158,244	177,893
Total liabilities	662,541	759,767	1,484,638	1,638,734	1,709,785

	For the three month periods ended:				
	Dec. 13	Sept. 13	June 13	Mar. 13	Dec. 12
Total Revenues	945,951	1,134,250	1,288,374	1,127,445	1,113,223
Net income (loss) from operations	(59,301)	63,070	81,609	21,311	31,955
Per share - basic	(0.006)	0.006	0.008	0.003	0.004
Net income (loss) for the period	(59,828)	63,858	83,815	22,379	33,336
Per share - basic	(0.006)	0.006	0.008	0.003	0.005
Total assets	1,859,824	2,102,184	2,176,189	2,228,452	2,133,002
Total long-term financial liabilities	18,830	32,498	45,788	57,496	66,478
Total liabilities	1,381,168	1,614,305	1,759,668	2,036,126	2,141,525

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

Results of Operations

The recently concluded fiscal quarter included a return of revenues to more traditional levels, albeit with tighter margins and a small loss from operations. Revenues for the period amounted to $1,061,276 representing a 53% increase relative to the preceding quarter and almost 14% ahead of Q3 2014. This represents the first time in six fiscal quarters that revenues increased in comparison to the same period one year earlier. Due largely to the anomalous low experienced in the second quarter, revenues for the nine months period remain $189,960, or 6%, behind 2014 levels. Although the Company has successfully secured new business, essentially replacing production that has departed to the U.S., we lack sufficient data to speculate as to whether the marketplace has stabilized or whether the revenue results of the current period signify the end of a revenue contraction period.

Results of Operations - continued

Although revenues for the quarter exceeded revenues from one year earlier the gross margins realized during the current three and nine month periods fell short of those realized during the comparable periods ended March 31, 2014. Gross margin for the quarter were 25.5% of product sales, as compared to 34.0% last year. The results for the nine month periods are similar with the 2015 gross margin equating to 27.7% of product sales while in 2014 the percentage was 35.5%. Gross margins have generally fluctuated from period to period in accordance with overall business volumes and the relative volumes of turnkey and non-turnkey production however these factors alone do not fully explain the current results.

Third quarter results include the sale of materials to departing customers. Transactions of this nature are part of normal business operations, but rarely of this magnitude. The revenues derived from this during the quarter were $128,514 and the materials cost was $125,257. If the effects of these transactions were removed from quarterly results then quarterly revenues would have been almost identical to Q3 2014. Also, the gross margins realized would have been 28.7% for the quarter and 28.9% on a year to date basis. While this explains a portion of the disparity in the gross margin percentages the remaining difference can be determined through a review of the cost of product sales.

The cost of product sales for the periods ended March 31was as follows:

Nine month periods:	2015	2014	Change
Raw materials and supplies consumed	$ 1,335,888	$ 1,186,794	$ 149,094
Labour costs incurred	500,399	557,487	(57,088)
Depreciation	99,269	91,660	7,609
Repairs and maintenance	33,220	16,230	16,990
Other costs	66,260	74,279	(8,019)
Net change in finished goods and work in process	6,710	17,551	(10,841)
Total cost of product sales	$ 2,041,746	$ 1,944,001	$ 97,745

Three month periods:	2015	2014	Change
Raw materials and supplies consumed	$ 581,973	$ 358,174	$ 223,799
Labour costs incurred	146,509	201,046	(54,537)
Depreciation	33,090	30,554	2,536
Repairs and maintenance	8,889	6,157	2,732
Other costs	21,331	28,025	(6,694)
Net change in finished goods and work in process	(1,360)	(8,248)	6,888
Total cost of product sales	$ 790,432	$ 615,708	$ 174,724

For the three month and nine month periods ended March 31, 2015 the cost of raw materials consumed exceeded those from the similar periods ended March 31, 2014. As noted previously, the figures for the most recent quarter include materials with a cost of $125,257 which were sold to departing customers. If these transactions were excluded then material costs would have increased by $98,542 for the quarter and by $23,837 year to date. More telling however is that these costs approximate 43% of periodic revenues for the periods ended March 2015 as opposed to 38% and 39% respectively for the three and nine month periods ended March 2014. The increase in materials costs signify that a larger proportion of assemblies are being produced from components supplied by the Company as opposed to consignment items provided by customers. Although turnkey work provides lower average gross margins than pure assembly work, the Company continues to promote the turnkey process as being a cost effective solution for its customers. This remains at the discretion of the customer however so the mix between turnkey and assembly will vary from period to period.

Results of Operations - continued

Labour cost incurred is a measure of labour paid for during the period and reflects a decrease of 27% for the quarter and 10% for the nine month period, with almost all of the year to date decrease having arisen in the most recent quarter. In December 2014 the Company implemented a government approved work-share program which, generally speaking, results in a 20% reduction in work hours and the corresponding payroll costs without any permanent reduction in the work force. This provided the cost savings realized during the period without impeding the Companyὸs ability to react to increased labour demand, should it arise. The current program has been approved for a period of 6 months and may be extended, should demand warrant it. Management will continue to monitor labour demand and program availability and will manage this cost appropriately under those parameters.

The total labour costs included in cost of product sales combine the labour cost incurred with the net change in finished goods and work in process. The combined figures have declined by 25% for the quarter and 12% year to date. These costs also declined as a percentage of periodic revenues falling to 15.6% of adjusted quarterly revenues and 18.8% year to date, from 20.6% and 19.1% for the same periods ended March 2014. The results for the 9 month periods are relatively comparable with the 2014 figure being a little higher reflecting slightly higher labour demand, including the incurrence of some overtime costs. As revenue for the current period, adjusted to eliminate the direct sale of components, is virtually identical to revenues for Q3 2014, and we have already established that a greater proportion of revenues in the current period resulted from the component element of turnkey sales, it follows that total labour costs would have declined. Furthermore, the aforementioned higher labour demand and overtime costs were incurred during the third quarter of 2014 helping to push costs for that period higher as a percentage of revenues.

Depreciation expense continues to be higher in 2015 than it had been in 2014. Depreciation has no correlation with revenues as it is purely a function of time and the carrying value of the manufacturing equipment in use. The higher costs in 2015, which result from an equipment addition completed in January 2014, serve to have a negative impact upon the gross margin percentages realized in these periods.

Repair and maintenance costs also continue to be higher in 2015 than they were in 2014 and to suppress gross margin percentage. The majority of the year to date disparity arose from a fairly substantial repair completed in the first quarter although recurring maintenance has also proven to be a little more expensive in the current year. The Company will continue its program of regular maintenance and will undertake additional repair and maintenance whenever it may be warranted.

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.

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

Nine month periods ended March 31	2015	2014	Change
Employee and consultant compensation	$ 591,234	$ 641,951	$ (50,717)
Occupancy costs	196,626	200,692	(4,066)
Professional fees	46,911	61,108	(14,197)
Shareholder services	19,942	22,997	(3,055)
Insurance	25,698	24,950	748
Other costs	34,888	37,087	(2,199)
Total selling, general and administrative	$ 915,299	$ 988,785	$ (73,486)

Results of Operations - continued

Three month periods ended March 31	2015	2014	Change
Employee and consultant compensation	$ 184,614	$ 191,199	$ (6,585)
Occupancy costs	64,726	67,964	(3,238)
Professional fees	17,946	25,534	(7,588)
Shareholder services	6,631	9,826	(3,195)
Insurance	8,208	8,630	(422)
Other costs	9,952	10,515	(563)
Total selling, general and administrative	$ 292,077	$ 313,668	$ (21,951)

Compensation costs include salaries and benefits, consulting fees and directorsô fees. The decrease realized for the nine month period relates to a $6,750 reduction in directorsô fees and the non-recurrence of $44,000 in fees paid to outside consultants in 2014 to investigate certain business opportunities. During the three month period there was a $2,250 reduction in directorsô fees, a $7,250 reduction in salaries and benefits and a $3,100 increase in computer related consulting services. The reduction in directorsô fees results from the number of independent directors declining from 3 to 2. The reduction in salaries and benefits comes as the effects of the work-share program, combined with lower sales commissions and employee benefit costs, more than offsets pay rate changes that took effect the beginning of the calendar year.

Occupancy costs consist primarily of rent and utility charges for the Companyøs operating facility. Basic rental charges increase by approximately 2% in January of each year but these have been offset by reductions in utility charges. The lease for the Companyøs operating facility runs through March 2021 and these costs are expected to remain generally comparable throughout that lease term.

Professional fees, comprised of legal and audit fees, continued to trend lower in the current year. Audit costs have remained comparable however legal fees have declined. In Q3 2014 the Company incurred fees relative to arranging equipment financing from related parties and investigating certain business opportunities and no similar transactions arose in Q3 2015. The additional cost reduction realized on a year to date basis has been attributed primarily to lower costs associated with the 2014 annual general meeting in comparison to the meeting held in the prior year.

Shareholder services include the cost of public disclosures, distribution of materials to shareholders, stock exchange fees, and transfer agent fees. The nature and cost of these services has remained reasonably comparable from period to period except that filing fees incurred in 2014 in relation to the related party financing did not recur in the current period.

The remaining elements of SG&A expenses have changed only nominally in value from period to period. These expenses are closely monitored by management and do not warrant detailed investigation or elaboration.

The Companyøs financing costs for the periods were as follows:

Nine month periods ended March 31	2015	2014	Change
Interest expense ï long term (cash based)	$ 9,220	$ 15,594	$ (6,374)
Interest expense ï long term (accretion)	4,372	8,437	(4,065)
Interest expense ï other	1,368	3,117	(1,749)
Total financing expenses	$ 14,960	$ 27,148	$ (12,188)

Results of Operations - continued

Three month periods ended March 31	2015	2014	Change
Interest expense ï long term (cash based)	$ 2,407	$ 5,803	$ (3,396)
Interest expense ï long term (accretion)	306	660	(354)
Interest expense ï other	191	2,335	(2,144)
Total financing expenses	$ 2,904	$ 8,798	$ (5,894)

The Company has been extremely diligent with respect to retiring its long-term debt in recent periods and this has resulted in significant reductions in long term interest costs and on the associated cash flow burden. In the first nine months of this fiscal year the Company reduced its long term debt from 4 obligations aggregating $281,933 with a weighted average interest rate of 8.06% to 2 obligations aggregating $175,909 having a weighted average interest cost of 4.77%. One of the obligations remaining at March 31, 2015 matured in April 2015 thereby reducing this to a single obligation bearing interest at the TD Bank prime lending rate (currently 2.85%) plus 1.75%. Given the favourable lending terms associated with this remaining obligation there are no immediate plans to retire that debt ahead of its scheduled maturity in July 2019.

Interest expense ï other includes any interest incurred except that related to long term debt. Interest arising in 2015 relates to modest use of the Companyœs operating loan facility plus the financing costs associated with paying its insurance policy monthly. In addition to these sources of other interest the Company also paid interest on a note payable from December 2013 through March 2014 giving rise to additional costs in that period. That note payable was extinguished in June 2014.

Liquidity

During the preceding period the Company extinguished its working capital deficiency and now has a working capital surplus of $460,172, up a modest 1% for the quarter. At March 31, 2015 the Company had current financial assets of $600,440 available to settle current financial liabilities of $530,899. This surplus of $69,541 represents an improvement of $214,137 during the quarter. The Company also has access to a $250,000 bank operating line, which was not drawn upon as of March 31, 2015, to help fund working capital requirements.

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 that loan to pay out $200,000 in loans 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 March 31, 2015:

	Due by Mar. 2016	Due by Mar. 2018	Due by Mar. 2020	Due after Mar. 2020	Total Due
Long-term debt [(1)]	44,368	78,986	52,656	-	176,010
Operating leases	94,162	203,262	213,448	107,743	618,615
All obligations	$ 138,530	$ 282,248	$ 266,104	$ 107,743	$ 794,625

[(1)] This represents the face value of long-term debt. It is reported in the unaudited condensed interim consolidated financial statements at discounted value aggregating $175,909.

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.

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 March 31 of each year:

	2015	2014
Loan payable to 1114377 Ontario Inc. at prime +8% (1)	$ 4,875	$ 58,818
Loan payable to 1114377 Ontario Inc. at 9% (2)	$ -	$ 150,000
Loan payable to Michael D. Kindy at 9% (2)	$ -	$ 50,000
Salaries and benefits payable (3)	$ 6,455	$ 1,065
Consulting fees payable (3)	$ 74,600	$ 36,200
Legal fees payable (3)	$ 2,000	$ 10,695

(1) This is the face value of this obligation. It is reported in the unaudited condensed interim consolidated financial statements at the discounted value of $4,774 (2014 - $57,496).

(2) This is the face value of this obligation. It was settled in its entirety in July 2014, upon receipt of a new commercial term loan. The creditor was granted 3warrants for each $1 loaned to the Company as additional compensation for having advanced these funds. Each warrant has an exercise price of $0.10 and an expiry date of October 31, 2017.

(3) 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:

	2015	2014
Salaries and benefits (1)	$ 200,865	$ 186,582
Consulting fees (1)	28,800	31,838
Directorsô fees (1)	20,700	27,450
Legal fees (2)	16,588	34,143
Interest expense ï long term	7,261	11,418
Cash based expenditures	$ 274,215	$ 291,431
Share-based payments	$ -	$ 49,705

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

Related Party Transactions - continued

(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 March 31, 2015:

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 were 300,000 stock options held by the estate of a former Director, having exercise prices ranging from $0.10 to $0.15, which expired 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	10,648,696	$ 22,343,053
Less: paid up capital of preferred shares redeemed	-	(191,646)
Common shares, Mar. 31, 2015 and as at the date of this document	10,648,696	$ 22,151,406

Preferred shares	Quantity	Amount
Series A preferred shares	166,667	$ 160,000
Series C preferred shares	288,858	505,501
		665,501
Less: amount accounted for as paid in capital		(191,646)
Liability element of preferred shares at June 30, 2014		473,855
Preferred shares redeemed		(473,855)
Preferred shares as at Mar. 31, 2015 and as at the date of this document		$ -

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 as at Mar. 31, 2015		3,613,246
Stock options ï expired	Apr. 2015	(300,000)
Shares reserved as at the date of this document		3,313,246

Convertible Instruments and Other Securities - continued

(1) In the 2013 fiscal year the Companyøs 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 as at Mar. 31, 2015	14,261,942
Reduction in shares reserved due to expiry of options	(300,000)
Fully diluted position as at the date of this document	13,961,942

Additional disclosures relative to stock options are as follows:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
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 are held by Directors and Officers of the Company and 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, Mar. 31, 2015 and June 30, 2014	1,205,000	$ 0.108	Mar. 28, 2017
Expired after March 31, 2015	(300,000)	$ 0.132	Apr 27, 2015
Balance as at the date of this document	905,000	$ 0.100	Nov. 15, 2017

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, Mar. 31, 2015 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 Companyös 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.

Financial Instruments - continued

Impairment of financial assets - continued:
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 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 March 31, 2015 and June 30, 2014 cash and restricted cash equivalents 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 assetös or CGUös 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 armös 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.

Impairment of non-financial assets - continued

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 (Mar. 31, 2014 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 March 31, 2015 the Company had current financial assets of $600,440 available to settle current financial liabilities of $530,899. 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 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.

<u>Risk Factors - continued</u>

<u>Market risks</u>

The Company is exposed to interest rate risk and currency risk. The interest rate risk arises from the bank term loan for which interest is charged at the prime lending rate of the TD Bank plus 1.75% and 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 realized a gain on foreign exchange in the amount of $5,867 (Mar. 2014 ï loss of $826).

<u>Sensitivity to market risks</u>

At March 31, 2015 there was no amount drawn from the bank operating loan and a balance of $171,135 outstanding on the bank term loan. A 0.50% increase in the TD Bank prime lending rate would result in $768 in additional interest on long-term debt over the next 12 months.

At March 31, 2015 the Company had US$89,784 (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 $5,714 in future cash inflow.

At March 31, 2015 the Company had US$86,868 (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 $5,529 in future cash outflow.

The existence of both accounts receivable and accounts payable denominated in US$ do 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 Companyõs immediate market risk exposures.

<u>Forward-looking Information</u>

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.