ZTEST Electronics Inc.

Managementôs Discussion and Analysis
For The Six Month Period Ended December 31, 2015
(Prepared as at February 23, 2016)

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 six months ended December 31, 2015. The MD&A was prepared as of February 23, 2016 and was approved by the Board of Directors on February 23, 2016. It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the six months ended December 31, 2015, and the audited consolidated financial statements for the year ended June 30, 2015, 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 fiscal quarter ended December 31, 2015 was a successful period and it would appear that the Company has re-established some stability in what has been a tumultuous market-place. The market consolidation and contraction that commenced early in the 2015 fiscal year exceeded normal levels and even resulted in some of the Companyôs more significant customers relocating to the US. The fact that revenues for the period exceeded those realized before the market turmoil commenced, and that the Companyôs liquidity is as strong as it has ever been, suggest that the Company successfully withstood the proverbial storm and is stronger for it.

During the most recent period the Company added to its working capital position and added to its surplus of current financial assets in excess of financial liabilities. Working capital is now $740,603 or 63% more than December 31, 2014, when the Company first reported positive working capital. Current financial assets now exceed financial liabilities by $144,800 which is 77% better than June 2015 which was the first reporting period with any surplus. While these growth rates will not be maintained management is proud that the Company has successfully improved its liquidity during challenging times.

The most prominent negative result for the period is that the quarter produced negative cash flows from operations which ate into the positive operating cash flows generated in the preceding quarter. Operations have provided $121,310 in positive cash flow for the six month period and it is believed that this could improve going forward as higher than typical accounts receivable are converted into cash. The average age of accounts receivables remains in line with prior periods and management is not aware of any factors that would impose upon the Companyôs impeccable collections results.

Corporate Performance - continued

Management will continue efforts to grow the business and build value for its stakeholders while minimizing business risks and managing its cash flows. The following data may provide some additional insights relative to the Companyôs operating performance and financial position:

	For the fiscal years ended:		
	June 15	June 14	June 13
Total Revenues	3,945,720	4,014,268	4,601,698
Net income (loss) income from operations	(33,397)	(21,321)	141,007
Per share - basic	(0.003)	(0.002)	0.017
Net income (loss) for the year	560,333	(18,579)	148,319
Per share - basic	0.053	(0.002)	0.018
Total assets	1,770,999	2,098,100	2,176,189
Total long-term financial liabilities	121,769	158,244	45,788
Total liabilities	720,921	1,638,734	1,759,668

	For the three month periods ended:				
	Dec. 15	Sept. 15	June 15	Mar. 15	Dec. 14
Total Revenues	1,223,691	880,012	1,122,088	1,061,276	691,622
Net income (loss) from operations	66,133	(12,066)	111,838	(17,243)	(154,718)
Per share - basic	0.006	(0.001)	0.011	(0.002)	(0.015)
Net income (loss) for the period	65,452	(11,343)	111,838	(17,091)	438,159
Per share - basic	0.006	(0.001)	0.011	(0.002)	0.041
Total assets	1,890,491	1,820,333	1,770,999	1,600,781	1,715,098
Total long-term financial liabilities	102,022	111,895	121,769	131,642	141,516
Total liabilities	786,304	781,598	720,921	662,541	759,767

	For the three month periods ended:				
	Sept. 14	June 14	Mar. 14	Dec. 13	Sept. 13
Total Revenues	1,070,734	1,000,676	933,391	945,951	1,134,250
Net income (loss) from operations	26,726	(21,790)	(3,300)	(59,301)	63,070
Per share - basic	0.002	(0.002)	(0.000)	(0.006)	0.006
Net income (loss) for the period	27,427	(20,988)	(2,521)	(58,928)	63,858
Per share - basic	0.002	(0.002)	(0.000)	(0.006)	0.006
Total assets	1,971,431	2,098,100	2,190,139	1,859,824	2,102,184
Total long-term financial liabilities	151,388	158,244	177,893	18,830	32,498
Total liabilities	1,484,638	1,638,734	1,709,785	1,381,168	1,614,305

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

Results of Operations

Revenues were quite strong for the periods ended December 31, 2015 reflecting an increase of 77% in comparison to the quarter ended December 2014 and 19% in comparison to the six month period then ended. These favourable results are equally indicative of how poor the December 2014 periods were as the Company bore the impact of market consolidation and the relocation of previously significant customers to the US. Revenues for the current six month period are slightly more than 1% greater than they were for the six month period ended December 31, 2013, which was prior to this market turmoil.

Gross margins also remained reasonably strong at 34% for the quarter and 35% for the six month period. In comparison the gross margins at December 2014 were 24% for the quarter and 29% for the six months then ended. Although gross margin percentages fluctuate from period to period in accordance with changes in production volumes and product mix the 2015 figures are in line with expectations.

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	2015	2014	Change
Raw materials and supplies consumed	$ 909,341	$ 753,915	$ 155,426
Labour costs incurred	365,366	353,890	11,476
Depreciation	53,026	66,179	(13,153)
Repairs and maintenance	15,541	24,331	(8,790)
Other costs	49,461	44,929	4,532
Net change in finished goods and work in process	(17,810)	8,070	(25,880)
Total cost of product sales	$ 1,374,925	$ 1,251,314	$ 123,611

Three month periods ended December 31	2015	2014	Change
Raw materials and supplies consumed	$ 536,337	$ 303,719	$ 232,618
Labour costs incurred	204,616	157,504	47,112
Depreciation	26,554	33,089	(6,535)
Repairs and maintenance	12,545	7,911	4,634
Other costs	25,383	19,421	5,962
Net change in finished goods and work in process	5,759	3,487	2,272
Total cost of product sales	$ 811,194	$ 525,131	$ 286,063

Raw materials and supplies consumed during the quarter increased by almost 77% while year to date costs are nearly 21% higher. These increases are very similar to the 77% and 19% increase in revenues for the same periods. While it is reasonable to expect these costs to rise whenever revenues increase, the similarity between these percentages is quite coincidental. As a custom manufacturer each circuit board produced is unique causing the relative mix between component costs and selling price to differ. Furthermore, the use of turnkey services is subject to customersô discretion. The Company consistently promotes its turnkey process as a cost effective solution for each of its customers however there is no absolute correlation between revenues and costs.

Labour costs incurred represents labour costs paid during the period. Quarterly costs rose by almost 30%, year over year, while year-to-date costs rose just over 3%. The total labour costs included in cost of product sales requires the combining of labour costs incurred with the net change in finished goods and work in process. These combined figures have increased by 31% for the quarter and have actually declined by 4% for the six month period. The Company sustained a temporary, but relatively sharp, revenue decline in the December 2014 quarter and it was neither feasible not practical for periodic labour costs to be reduced by a corresponding amount. Labour costs for that period exceeded 23% of periodic revenues while the average for the preceding three fiscal years was 17.5%. A government supported work share program was initiated December 2014 but not in time to reduce the proportionately higher costs for that period. That work-share program continued until August 2015 and contributed to increases that are seemingly not in line with revenue changes for the periods. Labour costs for the most recent fiscal quarter, the first full quarter since the work-share program ended, represent 17.2% of periodic revenues and are in line with expectations.

Depreciation has no correlation with operating volumes as it is purely a function of time and the carrying value of the manufacturing equipment in use. There have been no significant acquisitions since the final quarter of the 2014 fiscal year and no major equipment additions are currently being investigated. Management remains diligent in monitoring the equipment market for opportunities that could help increase productivity or profitability.

Results of Operations - continued

Repairs and maintenance costs to December 2015 are greater than they were during the December 2014 quarter but less than they were for the six month period then ended. The Company conducts regular maintenance however the precise timing and extent of that maintenance can vary, or the requirement for individual repairs like that which arose in the September 2014 quarter, can lead to apparent inconsistency when comparing brief 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.

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

Six month periods ended December 31	2015	2014	Change
Employee and consultant compensation	$ 405,088	$ 406,620	$ (1,532)
Occupancy costs	136,640	131,900	4,740
Professional fees	50,163	28,965	21,198
Shareholder services	27,598	13,311	14,287
Insurance	16,372	17,490	(1,118)
Other costs	33,978	24,936	9,042
Total selling, general and administrative	$ 669,839	$ 623,222	$ 46,617

Three month periods ended December 31	2015	2014	Change
Employee and consultant compensation	$ 206,884	$ 196,408	$ 10,476
Occupancy costs	65,486	65,262	224
Professional fees	33,181	16,935	16,246
Shareholder services	11,704	12,278	(574)
Insurance	8,119	8,746	(627)
Other costs	21,878	17,792	4,086
Total selling, general and administrative	$ 347,252	$ 317,421	$ 29,831

Compensation costs increased by $10,476 in the current period reflecting the impact of annual compensation increases as well as the cessation of a work-share program that was initiated December 2014 and ceased August 2015. These same factors combine to make the costs for the six month periods entirely comparable.

Occupancy costs consist primarily of rent and utility charges for the Companyôs operating facility. Basic rental charges increase by approximately 2% in January of each year. The remaining variance is due to variances in utility rates and usage, property tax rates, and other common area costs associated with the lease. The Companyôs operating facility lease runs through March 2021 and occupancy costs are expected to remain generally comparable throughout that lease term.

Professional fees, which are comprised of legal fees and the cost of annual financial reporting, have risen for each of the periods ended December 2015. Financial reporting costs account for approximately $5,000 of the year-to-date increase with $16,000 attributable to legal expenses. Legal expenses, which were lower than the norm at December 2014, have now surpassed that norm. This is largely as a result of fees arising from the Company moving its share listing from the Canadian Venture Exchange to the Canadian Securities Exchange.

Shareholder services also continue to reflect the impact of relocating the Companyôs share listing although, as expected, the quarterly expenses have returned to more common levels.

Results of Operations - continued

Insurance coverages and costs remain comparable while other costs continue to reflect the impact of the Companyǿs initiation of advertising in the United States. All other aspects of other costs are individually insignificant and, in aggregate, represent less than 5% of total SG&A. These expenses are closely monitored by management and are within expectations.

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

Six month periods ended December 31	2015	2014	Change
Interest expense ï long term (cash based)	$ 3,358	$ 6,813	$ (3,455)
Interest expense ï long term (accretion)	-	4,066	(4,066)
Interest expense ï other	305	1,177	(872)
Total financing expenses	$ 3,663	$ 12,056	$ (8,393)

Three month periods ended December 31	2015	2014	Change
Interest expense ï long term (cash based)	$ 1,600	$ 3,005	$ (1,405)
Interest expense ï long term (accretion)	-	305	(305)
Interest expense ï other	153	412	(259)
Total financing expenses	$ 1,753	$ 3,722	$ (1,969)

The Company has, in recent periods, significantly reduced and simplified its debt load. At present there is a single interest bearing debt, being the commercial financing associated with the equipment addition completed in the final quarter of the 2014 fiscal year. Historically there were obligations measured at amortized cost, using the effective interest method, which gave rise to interest accretion. It is anticipated that the present debt structure will persist for the foreseeable future.

Interest ï other represents miscellaneous interest charges incurred while the December 2014 periods also include interest arising from the brief use of the operating line.

Liquidity

During the period the Company continued to grow its working capital which now amounts to $680,603 or more than 13% greater than at the start of the quarter and more than 14% higher than at the start of the fiscal year. At December 31, 2014 working capital was $453,881. At December 31, 2015 the Company had current financial assets of $931,104 available to settle current financial liabilities of $684,282 representing an improvement of $149,711 for the quarter and $43,179 for the six month period. The Company also has access to a $250,000 bank operating line, which was not drawn upon as of December 31, 2015 or during the six month period then ended.

In addition to satisfying the cost of operations the Company must also address the settlement of the following obligations as at December 31, 2015:

	Due by Dec. 2016	Due by Dec. 2018	Due by Dec. 2020	Due after Dec. 2020	Total Due
Long-term debt	39,493	78,986	23,036	-	141,515
Operating lease	99,594	207,336	215,486	26,936	549,352
All obligations	$ 139,087	$ 286,322	$ 238,522	$ 26,936	$ 690,867

Capital Resources

The Company has a $250,000 commercial line of credit from which nothing was drawn as at December 31, 2015 or June 30, 2015. 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.

Related Party Transactions

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 and accounting 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 expenses have arisen involving these related parties:

	2015	2014
Salaries and benefits (1)	$ 131,241	$ 134,540
Consulting fees (1)	19,200	12,300
Directorsô fees (1)	13,800	13,800
Legal fees (2)	24,882	8,508
Accounting fees (2)	7,000	-
Interest expense ï long term	-	6,558
Cash based expenditures	$ 196,123	$ 175,706
Share-based payments	$ -	$ -

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

	2015	2014
Salaries and benefits payable (1)	8,253	10,827
Consulting fees payable (1)	103,400	64,000
Legal fees payable (1)	18,081	5,996
Loan payable to 1114377 Ontario Inc. at prime +8% (2)	-	19,236

(1) Reported in the unaudited condensed interim consolidated financial statements as an element of accounts payable and accrued liabilities.
(2) A company controlled by the spouse of Mr. W. Drzazga, the CEO and a Director of the Company.

The following stock options have been issued to Directors and/or Officers of the Company and were outstanding as at December 31, 2015:

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

275,000 stock options expired during the period.

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Share capital	Quantity	Amount
Common shares, June 30, 2015, Dec. 31, 2015 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
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, 2015		3,033,246
Warrants expired	Feb. 2016	(1,100,000)
Shares reserved at the date of this document		1,933,246

(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	3,033,246
Fully diluted position, Dec. 31, 2015	13,681,942
Reduction in shares reserved	(1,100,000)
Fully diluted position, at the date of this document	12,581,942

Additional disclosures relative to stock options are as follows:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
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, 2015	905,000	$ 0.10	Nov. 15, 2017
Expired during period	(275,000)	$ 0.10	Nov. 30, 2015
Balance, Dec. 31, 2015 and at the date of this document	630,000	$ 0.10	Sep. 24, 2018

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

Convertible Instruments and Other Securities - continued

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, 2015 and Dec. 31, 2015	2,400,000	$ 0.10	June 7, 2016
Expired after the period	(1,100,000)	$ 0.10	Feb. 4, 2016
Balance, at the date of this document	1,300,000	$ 0.10	Sept. 20, 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, 2018, 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, 2018 and has not yet considered the potential impact of its adoption.

Financial Instruments

The Companyôs 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
Customer deposits	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.

Financial Instruments - continued

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 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 December 31, 2015 and June 30, 2015 cash and cash equivalents are measured at fair value and are classified within Level 1 of the fair value hierarchy.

Financial Instruments - continued

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 asset's or CGU's fair value less cost to sell or its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset or CGU in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset 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 Company's 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 Company's 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 Company's 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 Company's 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 Company's 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.

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 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. It has been determined that no allowance is required, as all amounts outstanding are considered collectible, and no bad debts were recorded in the periods ended December 31, 2015 or December 31, 2014**.**

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 Companyøs revenues during a reporting period. During the six month period ended December 31, 2015 the Company had 2 major customers who together represented 24% of total revenues. In the comparative period there were 2 major customers representing 32% of revenues. Amounts due from major customers represented 18% of accounts receivable at December 31, 2015 (Dec. 2014 - 35%). 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.

Market risks

The Company is exposed to interest rate risk due to obligations that have floating interest rates as well as currency risk related to cash, accounts receivable and accounts payable 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 period the Company realized a gain on foreign exchange in the amount of $471 (Dec. 2014 ï loss of $1,997).

Sensitivity to market risks

At December 31, 2015 the Company had $141,515 (June 2015ï $161,262) which bears interest at the TD Bank prime lending rate plus 1.75%. A 1% increase in the TD Bank prime lending rate as at the financial reporting date would result in additional interest expense of $1,238 over the next 12 month period.

At December 31, 2015 the Company had US$123,012 (June 2015ï US$129,966) included in accounts receivable. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $8,555 in future cash inflow.

At December 31, 2015 the Company had US$100,171 (June 2015 ï US$128,894) 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 $6,967 in future cash outflow.

At December 31, 2015 the Company had US$97,848 (June 2015ï US$20,825) included in cash. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $6,804 in carrying value.

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.

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 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.