

## ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2016

(Prepared as at October 25, 2016)

---

### General

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of ZTEST Electronics Inc. ("ZTEST" or the "Company") constitutes management's review of the factors that affected the Company's consolidated financial and operating performance for the year ended June 30, 2016. The MD&A was prepared as of October 25, 2016 and was approved by the Board of Directors on October 25, 2016. It should be read in conjunction with the consolidated financial statements of the Company for the year ended June 30, 2016, 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](http://www.sedar.com).

### The Company

The Company operates a single business segment involving the design, development, and assembly of printed circuit boards. The Company's shares trade on the Canadian Securities Exchange under the symbol "ZTE".

The management of the Company is comprised of the following individuals:

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

<sup>(1)</sup> Denotes member of audit committee

<sup>(2)</sup> Denotes member of compensation committee

### Corporate Performance

The 2016 fiscal year saw the Company once again generate positive cash flows, both from operations and overall, while growing revenues, and continuing to improve its liquidity position. Despite these positives there remains room for improvement as the Company sustained a loss for the year of \$0.004 per share and saw equity decline by 0.26%.

Cash management been a point of focus for the Company and 2016 represents the eleventh consecutive fiscal year for which cash flows from operations have been positive. The positive cash flows throughout this extended period have enabled the Company to significantly reduce business risks and significantly reduce its debt while investing in its future through strategic equipment additions. Cash management will continue to be a point of emphasis and it is anticipated that positive cash flows will continue.

The marketplace in which the Company operates has undergone some consolidation and contraction in the recent past and this has resulted in enhanced competition, generally smaller production runs, and customers taking delivery later in their production cycles. In spite of these challenges the Company increased its market-share in 2016 and reported a 6.7% increase in annual revenues and an 11.1% increase in gross margin. It is anticipated that there will continue to be changes in the marketplace however the Company is well positioned to meet future challenges and to maintain, and benefit from, its strong reputation.

The Company's financial health is not only good but continued to improve in 2016. Management is enthusiastic about the future and will continue efforts to grow the Company and maximize return for stakeholders while minimizing business risks. The following data may provide some additional insights relative to the Company's operating performance and financial position:

## ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2016

(Prepared as at October 25, 2016)

### Corporate Performance - continued

	For the fiscal years ended:				
	<u>June 16</u>	<u>June 15</u>	<u>June 14</u>		
Total Revenues	4,211,885	3,945,720	4,014,268		
Net loss from operations	(42,595)	(33,397)	(21,321)		
Per share - basic	(0.004)	(0.003)	(0.002)		
Net income (loss) for the year	(42,553)	560,333	(18,579)		
Per share - basic	(0.004)	0.053	(0.002)		
Total assets	1,708,698	1,770,999	2,098,100		
Total long-term financial liabilities	82,276	121,769	158,244		
Total liabilities	661,368	720,921	1,638,734		
	For the three month periods ended:				
	<u>June 16</u>	<u>Mar. 16</u>	<u>Dec. 15</u>	<u>Sept. 15</u>	<u>June 15</u>
Total Revenues	1,013,950	1,094,232	1,223,691	880,012	1,122,088
Net (loss) income from operations	(81,112)	(15,550)	66,133	(12,066)	111,838
Per share - basic	(0.008)	(0.001)	0.006	(0.001)	0.011
Net (loss) income for the period	(81,112)	(15,550)	65,452	(11,343)	111,838
Per share - basic	(0.008)	(0.001)	0.006	(0.001)	0.011
Total assets	1,708,698	1,843,819	1,890,491	1,820,333	1,770,999
Total long-term financial liabilities	82,276	92,149	102,022	111,895	121,769
Total liabilities	661,368	715,377	786,304	781,598	720,921
	For the three month periods ended:				
	<u>Mar. 15</u>	<u>Dec. 14</u>	<u>Sept. 14</u>	<u>June 14</u>	<u>Mar. 14</u>
Total Revenues	1,061,276	691,622	1,070,734	1,000,676	933,391
Net (loss) income 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 (loss) income 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

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

### Results of Operations

The 2016 and 2015 fiscal years each resulted in net losses that approximated 1% of gross product sales. The 2016 loss includes a charge of \$39,805 for share-based payments while there was no similar charge in 2015. Nonetheless, 2016 represents the third consecutive year for which operating results were just below the break-even level. While management has successfully improved the Company's financial position during this timeframe it remains intent on providing even better results through a return to profitability. There are many factors that contribute to the Company's operating results and the highlights are discussed below.

Revenues for 2016 were 6.7% greater than they were in 2015 however the inconsistency that has plagued the marketplace in recent periods continued. The Company reported revenues in its second and third quarters that exceeded the comparable periods in the 2015 fiscal year but the same was not true for the first or fourth quarters. Management is pleased with the overall result but will continue to strive to increase revenues and to achieve greater consistency from period to period.

Gross margins for 2016 were 31.3% of product sales which is an improvement over the 30.1% generated in 2015 but lags behind the 34.1% realized in 2014 and 33.9% from 2013. The altered marketplace may make comparison to 2014 and 2013 less meaningful but a return to those gross margin levels remains as a short-term goal for management. A better understanding of the margins can be achieved through review of the elements of the cost of product sales.

**ZTEST Electronics Inc.**

Management Discussion and Analysis

For The Year Ended June 30, 2016

(Prepared as at October 25, 2016)

**Results of Operations - continued**

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

Years ended	June 16	June 15	Change
Raw materials and supplies consumed	\$ 1,916,893	\$ 1,837,993	\$ 78,900
Labour costs incurred	728,021	645,467	82,554
Depreciation	106,519	132,358	(25,839)
Other costs	143,765	135,135	8,630
Net change in finished goods and work in process	(2,446)	7,524	(9,970)
Total cost of product sales	\$ 2,892,752	\$ 2,758,477	\$ 134,275

Three month periods ended	June 16	June 15	Change
Raw materials and supplies consumed	\$ 492,819	\$ 502,105	\$ (9,286)
Labour costs incurred	173,588	145,068	28,520
Depreciation	26,703	33,089	(6,386)
Other costs	29,036	35,655	(6,619)
Net change in finished goods and work in process	28,819	814	28,005
Total cost of product sales	\$ 750,965	\$ 716,731	\$ 34,234

The cost of materials consumed during the 2016 fiscal year is 4.3% higher than it was in the preceding year and it also rose to 45.5% of periodic revenues. For 2015 the costs were 44.8% of revenues, after normalizing to eliminate the impact of an anomalous transaction. During the final quarter of 2016 the costs declined in value by 1.8% but rose to 48.6% of periodic revenues as compared to 44.7% in June 2015. This increase as a percentage of revenues is contrary to a recent trend whereby material costs had been declining slightly. Material costs are incurred at the discretion of our customers who also have the option to contract assembly of materials that they themselves supply. While this customer choice leads to variances in periodic costs, particularly over shorter time periods, recent variances have remained small and well within management expectations.

Labour costs incurred have increased 12.7% for the year ended June 2016, and 19.7% for the quarter then ended, in comparison to the same periods one year earlier. These increases are primarily the result of a government approved work-share program that was in effect from mid November 2014 until the end of August 2015. Had all other factors remained equal, the cessation of this program would have provided for an annual increase of 10.3% and a quarterly increase of 20%. Annual wage increases are effective January 1 of each year and can account for the vast majority of the remaining difference in the annual results. The balance is attributable to short-term fluctuations in labour demand including the incurrence or avoidance of overtime.

The total labour costs included in cost of product sales combine the labour costs incurred with the net change in finished goods and work in process. The latter is a measurement of the change in labour costs that are included as an element of inventory. The combined figures are 11.1% higher for the year and 38.7% more for the fourth quarter. The annual figure is relatively consistent with the annual labour cost increase, which is to be expected, however the fourth quarter results reflect the short-term impact of the incurrence of overtime.

Depreciation costs continued to decline with the expense for the fourth quarter and 2016 year each being lower than they were in 2015. Depreciation is a function of time and the carrying value of the manufacturing equipment in use. Management continually evaluates equipment needs and monitors the equipment market for opportunities but there are no major equipment additions currently being investigated or considered.

## ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2016

(Prepared as at October 25, 2016)

---

### Results of Operations - continued

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

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

Years ended	June 16	June 15	Change
Employee and consultant compensation	\$ 835,846	\$ 782,492	\$ 53,354
Occupancy costs	265,967	261,829	4,138
Professional fees	84,155	62,684	21,471
Insurance	31,395	33,906	(2,511)
Shareholder services	33,419	21,742	11,677
Other costs	62,144	42,849	19,295
<b>Total selling, general and administrative</b>	<b>\$ 1,312,926</b>	<b>\$ 1,205,502</b>	<b>\$ 107,424</b>

Three month periods ended	June 16	June 15	Change
Employee and consultant compensation	\$ 229,387	\$ 191,258	\$ 38,129
Occupancy costs	65,859	65,203	656
Professional fees	19,530	15,773	3,757
Insurance	7,472	8,208	(736)
Shareholder services	2,876	1,800	1,076
Other costs	14,298	7,961	6,337
<b>Total selling, general and administrative</b>	<b>\$ 339,422</b>	<b>\$ 290,203</b>	<b>\$ 49,219</b>

Compensation costs include salaries and benefits, consulting fees and directors' fees, each of which have risen in 2016. Salaries and benefits and consulting fees each rose by more than \$25,000 in 2016 while Directors' fees increased by \$1,380. The salary and benefit increase, most of which arose in the final two quarters of the year, is primarily a return to normal levels as a government sponsored workshare program in effect throughout the final two quarters of the 2015 fiscal year did not recur. The increase in consulting fees is split almost equally between additional costs for the Company's information technology systems and additional services from the Company's CFO. Consulting fees are incurred as need dictates and this can lead to fluctuations from period to period.

Occupancy costs consist primarily of rent, common area costs, and utility charges for the Company's operating facility. Basic rental charges represented approximately 35% of the 2015 periodic expenses but increased 7.8% in January 2016 so they were almost 38% of the fourth quarter expense and 36% for all of 2016. More modest rental increases are scheduled for January 2017, 2018 and 2019 then will remain constant until the lease ends March 2021. Other occupancy costs have been declining and further savings can be anticipated as a result of the Company replacing its lighting during the year with LED.

Professional fees are comprised of the cost of legal services as well as the cost of reporting on the annual financial statements. Financial statement reporting costs rose approximately \$3,500, all of which arose in the final quarter, while legal costs increased by approximately \$18,000 earlier in the year. The increased legal costs are primarily due to the Company's shares being moved from the TSXV to the Canadian securities Exchange.

Shareholder services include the cost of public disclosures, distribution of materials to shareholders, stock exchange fees, and transfer agent fees. The increase in the 2016 annual costs is also attributed to the change in the exchange on which the Company's shares are listed.

## ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2016

(Prepared as at October 25, 2016)

### Results of Operations - continued

Other costs includes advertising and promotion expenses which are the cause of the periodic increases as the Company initiated advertising into US markets in an effort to expand its market. The remaining elements of other costs are individually insignificant, continuously monitored by management, and within expectations.

The Company's financing costs for the periods were as follows:

Years ended	June 16	June 15	Change
Interest expense ó long term (cash based)	\$ 6,300	\$ 11,164	\$ (4,864)
Interest expense ó long term (accretion)	-	4,473	(4,473)
Interest expense ó other	580	1,523	(943)
<b>Total financing expenses</b>	<b>\$ 6,880</b>	<b>\$ 17,160</b>	<b>\$ (10,280)</b>

Three month periods ended	June 16	June 15	Change
Interest expense ó long term (cash based)	\$ 1,398	\$ 1,944	\$ (546)
Interest expense ó long term (accretion)	-	101	(101)
Interest expense ó other	139	155	(16)
<b>Total financing expenses</b>	<b>\$ 1,537</b>	<b>\$ 2,200</b>	<b>\$ (663)</b>

In recent years the Company has significantly reduced its debt load such that throughout 2016 the only outstanding debt instrument was a commercial loan used to finance a 2014 equipment addition. Historically there were obligations measured at amortized cost, using the effective interest method, which gave rise to interest accretion. The lower interest costs for 2016 are reflective of the blended principal and interest payments being made on that loan until its maturity July 2019.

Interest ó other represents miscellaneous interest charges incurred although the 2015 fiscal year includes interest arising from the brief use of the Company's operating line.

### Liquidity

The Company has a working capital surplus of \$631,350, a 6% improvement over June 2015 levels. At June 30, 2016 the Company had current financial assets of \$820,395 (2015- \$802,795) available to settle current financial liabilities of \$579,092 (2015- \$599,152). The Company also has access to a \$250,000 bank operating line, which was not drawn upon as of June 30, 2016 or during the year then ended.

In addition to satisfying the cost of operations the Company must also address the payment or other settlement of the following amounts as at June 30, 2016:

	Due by June 2017	Due by June 2019	Due by June 2021	Due after June 2021	Total Due
Long-term debt	\$ 39,493	\$ 78,986	\$ 3,290	\$ -	\$ 121,769
Operating leases	<u>100,952</u>	<u>210,053</u>	<u>188,550</u>	<u>-</u>	<u>499,555</u>
	<u>\$ 140,445</u>	<u>\$ 289,039</u>	<u>\$ 191,840</u>	<u>\$ -</u>	<u>\$ 621,324</u>

### Capital Resources

The Company has a \$250,000 commercial line of credit from which nothing was drawn as at June 30, 2016 or June 30, 2015. 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.

## ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2016

(Prepared as at October 25, 2016)

---

### 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, Directors' 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:

	<u>2016</u>	<u>2015</u>
Salaries and benefits <sup>(1)</sup>	\$ 278,354	\$ 267,766
Consulting fees <sup>(1)</sup>	50,850	38,400
Directors' fees <sup>(1)</sup>	28,980	27,600
Legal fees <sup>(2)</sup>	41,963	24,080
Accounting fees <sup>(2)</sup>	7,000	-
Interest expense ó long term	-	7,407
Cash based expenditures	<u>\$ 407,147</u>	<u>\$ 365,253</u>
Share-based payments	<u>\$ 39,805</u>	<u>\$ -</u>

<sup>(1)</sup> Reported in the consolidated financial statements as an element of employee and consultant compensation.

<sup>(2)</sup> Reported in the consolidated financial statements as an element of professional fees.

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

	<u>2016</u>	<u>2015</u>
Salaries and benefits payable	\$ 17,296	\$ 6,106
Consulting fees payable	\$ 112,000	\$ 83,200
Legal fees payable	\$ 2,520	\$ 1,000

<sup>(1)</sup> Reported in the unaudited condensed interim consolidated financial statements as.

The following stock options have been issued to Directors and/or Officers of the Company and were outstanding as at June 30, 2016:

<u>Description</u>	<u>Expiry Date</u>	<u>Number of Common shares</u>
Stock options @ \$0.10 per share	Sept. 2017	130,000
Stock options @ \$0.10 per share	Dec. 2018	500,000
Stock options @ \$0.05 per share	Mar. 2021	1,000,000

1,000,000 stock options were granted and 275,000 stock options expired during the year and 300,000 stock options were exercised subsequent to June 30, 2016.

### Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

<u>Share capital</u>	<u>Quantity</u>	<u>Amount</u>
Common shares, June 30, 2015 and June 30, 2016	10,648,696	\$ 22,151,406
Stock options exercised	<u>300,000</u>	<u>36,245</u>
Common shares, as at the date of this document	<u>10,948,696</u>	<u>\$ 22,187,651</u>

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.

**ZTEST Electronics Inc.**

Management's Discussion and Analysis

For The Year Ended June 30, 2016

(Prepared as at October 25, 2016)

**Convertible Instruments and Other Securities - continued**

<u>Shares reserved</u>	<u>Expiry Date</u>	<u>Number of Common shares</u>
Common shares to be issued for Class A shares <sup>(1)</sup>		8,246
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
Stock options @ \$0.05 per share	Mar. 2021	<u>1,000,000</u>
Shares reserved as at June 30, 2016		2,038,246
Stock options @ \$0.10 per share exercised	Dec. 2018	(100,000)
Stock options @ \$0.05 per share exercised	Mar. 2021	<u>(200,000)</u>
Shares reserved as at the date of this document		<u>1,738,246</u>

<sup>(1)</sup> In the 2013 fiscal year the Company's 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 as at June 30, 2016	10,648,696
Shares reserved as at June 30, 2016	<u>2,038,246</u>
Fully diluted position as at June 30, 2016	12,686,942
Shares issued after June 30, 2016	300,000
Reduction in shares reserved after June 30, 2016	<u>(300,000)</u>
Fully diluted position as at the date of this document	<u>12,686,942</u>

Additional disclosures relative to stock options as at the date of this document are as follows:

	<u>Common Shares Under Option</u>	<u>Number of Options Vested</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
Granted Sept. 14, 2012	130,000	130,000	\$ 0.10	Sept. 14, 2017
Granted December 31, 2013	400,000	400,000	\$ 0.10	Dec. 31, 2018
Granted March 3, 2016	800,000	800,000	\$ 0.05	Mar. 3, 2021

The Company has no ability to cause these options to be exercised.

no ability to cause these options to be exercised.

	<u>Common Shares Under Option</u>	<u>Weighted Average Price/Option</u>	<u>Weighted Average Expiry Date</u>
Balance, June 30, 2015	905,000	\$ 0.10	Nov. 15, 2017
Granted during year	1,000,000	\$ 0.05	Mar. 3, 2021
Expired during year	<u>(275,000)</u>	\$ 0.10	Nov. 30, 2015
Balance, June 30, 2016	1,630,000	\$ 0.07	Mar. 23, 2020
Exercised after the end of the year	<u>(300,000)</u>	\$ 0.07	June 11, 2020
Balance, as at the date of this document	<u>1,330,000</u>	\$ 0.07	Mar. 5, 2020

Additional disclosures relative to share purchase warrants are as follows:

	<u>Number of Warrants</u>	<u>Value of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
Issued Jan. 10, 2014	400,000	<u>\$ 4,219</u>	\$ 0.10	Oct. 31, 2017

## ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2016

(Prepared as at October 25, 2016)

---

### Convertible Instruments and Other Securities - continued

	Number of <u>Warrants</u>	Weighted Average <u>Price/Warrant</u>	Weighted Average <u>Expiry Date</u>
Balance, June 30, 2015	2,400,000	\$ 0.10	June 7, 2016
Expired during the period	<u>(2,000,000)</u>	\$ 0.10	Feb. 26, 2016
Balance, June 30, 2016 and as at the date of this document	<u>400,000</u>	\$ 0.10	Oct. 31, 2017

### 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.

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 these standards 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 their adoption.

### Financial Instruments

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

<u>Financial assets:</u>	<u>Classification</u>
Cash	Fair value through profit and loss
Accounts receivable	Loans and receivables
<u>Financial liabilities:</u>	<u>Classification</u>
Bank operating loan	Other financial liabilities
Customer deposits	Other financial liabilities
Accounts payable and accrued liabilities	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.



## **ZTEST Electronics Inc.**

Management's Discussion and Analysis

For The Year Ended June 30, 2016

(Prepared as at October 25, 2016)

---

### **Financial Instruments - continued**

#### **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 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, 2016 and June 30, 2015 cash was measured at fair value and classified within Level 1 of the fair value hierarchy.

#### **Financial instruments recorded at amortized cost:**

Financial instruments recorded at amortized cost 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 for the period.

### **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.

## **ZTEST Electronics Inc.**

Management's Discussion and Analysis

For The Year Ended June 30, 2016

(Prepared as at October 25, 2016)

---

### **Risk Factors - continued**

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.

#### **Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is in its accounts receivable. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. It has been determined that no allowance is required, as all amounts outstanding are considered collectible, and no bad debts were recorded in the current or prior year.

#### **Concentration of credit risk**

Concentration of credit risk arises when one or more customers, defined as a major customer, individually account for 10% or more of the Company's revenues during a reporting period. During the current year the Company had two major customers which represented 14% and 11% of total revenues. In the prior year two major customers accounted for 13% and 12% of revenues respectively. Amounts due from major customers represented 30% of accounts receivable at June 30, 2016 (2015 - 13%). 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 current fiscal year the Company has reported a foreign exchange gain of \$3,002 (2015 ó gain of \$5,783).

#### **Sensitivity to market risks**

At June 30, 2016 the Company had \$121,769 (2015 ó \$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 \$1,037 over the next 12 month period.

At June 30, 2016 the Company had US\$86,796 (2015 ó 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 \$1,294 in future cash inflow.

At June 30, 2016 the Company had US\$114,725 (2015 ó 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 \$1,710 in future cash outflow.

At June 30, 2016 the Company had US\$51,935 (2015 ó 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 \$774 in carrying value.

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

## **ZTEST Electronics Inc.**

Management's Discussion and Analysis

For The Year Ended June 30, 2016

(Prepared as at October 25, 2016)

---

### **Forward-looking Information**

Certain statements in this MD&A may constitute "forward-looking" 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 "estimate", "believe", "anticipate", "intend", "expect", "plan", "may", "should", "will", 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 "Risk Factors". 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.