

ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Six Month Period Ended December 31, 2016

(Prepared as at February 28, 2017)

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 interim condensed consolidated financial and operating performance for the six months ended December 31, 2016. The MD&A was prepared as of February 28, 2017 and was approved by the Board of Directors on February 28, 2017. It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the six months ended December 31, 2016, and the audited consolidated financial statements 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.

The Company

ZTEST is located at 523 McNicoll Avenue, Toronto, Ontario. Through its wholly-owned subsidiary, Permotech Electronics Corporation (PEC), the Company operates a single business segment designing, developing, and assembling printed circuit boards and other electronic equipment.

The Company held its annual general meeting on December 20, 2016 resulting in the election, or re-election, of the Board members noted below. The inaugural meeting of this Board was held immediately following the annual general meeting, during which the Officers of the Company were reappointed and the subcommittees noted below were formed.

<u>Name</u>	<u>Position(s)</u>
Wojciech Drzazga ⁽¹⁾	Chairman and Chief Executive Officer
John Perreault	Director, President and Chief Operating Officer
K. Michael Guerreiro ^(2,3)	Director (Independent)
Mike Hiscott ^(1,2,3)	Director (Independent)
William J. Brown ^(1,2)	Director (Independent)
Michael D. Kindy, CPA, CA	VP Finance & Chief Financial Officer
William R. Johnstone, LLB	Corporate Secretary

⁽¹⁾ Member of the strategic planning committee

⁽²⁾ Member of the audit committee

⁽³⁾ Member of the compensation committee

Corporate Performance

The fiscal quarter ended December 31, 2016 was a challenging operational period as the inconsistencies plaguing the marketplace in recent periods had an impact once again. So far as management can determine, this is a market-wide phenomenon as customers became exceedingly reluctant to hold inventory of assembled circuit boards. This mindset led to the deferral or reduction of orders which, in combination with the typical seasonal slow-down, resulted in one of the lowest revenue quarters in the Company's history. Low revenues then led to a loss for the period and reduced cash and liquidity. There are indications that this was a temporary situation, and that customer demand may return to more traditional levels, but it would seem that market inconsistencies may well become the norm.

While managing through the operational challenges, the Company also addressed some administrative matters as it closed both a private placement financing and an investment on December 15, 2016 and then held its annual general meeting on December 20, 2016. The purpose of the private placement was to finance the acquisition of a 15.05% interest in Conversance Inc., a private Canadian technology company. Conversance is developing a proprietary technology which, if successfully commercialized, is intended to have significant applications in the rapidly expanding electronic marketplace. Although Conversance is not expected to generate any cash flow for the Company in the near future, its growth potential, and the Company's ability to fund the acquisition without the use of working capital, made it an attractive investment opportunity. The Company holds an option to increase its holdings in Conversance Inc. to 19.91% by paying \$140,000 and issuing 275,000 common shares on or before April 17, 2017.

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Corporate Performance - continued

Immediately following the annual general meeting, the Board of Directors opted to create a new Strategic Planning Committee. This new Committee will be responsible for exploring opportunities for the Company to grow its business and to evaluate investment opportunities, should they arise.

Management will continue to combat market factors, to grow the business organically, and to build value for its stakeholders while minimizing business risks and managing cash flows. The following data may provide some additional insights relative to the Company's operating performance and financial position:

	For the fiscal years ended:		
	June 2016	June 2015	June 2014
Total Revenues	4,211,885	3,945,720	4,014,268
Net income (loss) income 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:				
	Dec. 2016	Sept. 2016	June 2016	Mar. 2016	Dec. 2015
Total Revenues	668,803	827,700	1,013,950	1,094,232	1,223,691
Net income (loss) from operations	(180,899)	(116,595)	(81,112)	(15,550)	66,133
Per share - basic	(0.015)	(0.011)	(0.008)	(0.001)	0.006
Net income (loss) for the period	(180,788)	(116,548)	(81,112)	(15,550)	65,452
Per share - basic	(0.015)	(0.011)	(0.008)	(0.001)	0.006
Total assets	1,648,537	1,535,979	1,708,698	1,843,819	1,890,491
Total long-term financial liabilities	62,530	72,403	82,276	92,149	102,022
Total liabilities	550,418	585,197	661,368	715,377	786,304

	For the three month periods ended:				
	Sept. 2015	June 2015	Mar. 2015	Dec. 2014	Sept. 2014
Total Revenues	880,012	1,122,088	1,061,276	691,622	1,070,734
Net income (loss) from operations	(12,066)	111,838	(17,243)	(154,718)	26,726
Per share - basic	(0.001)	0.011	(0.002)	(0.015)	0.002
Net income (loss) for the period	(11,343)	111,838	(17,091)	438,159	27,427
Per share - basic	(0.001)	0.011	(0.002)	0.041	0.002
Total assets	1,820,333	1,770,999	1,600,781	1,715,098	1,971,431
Total long-term financial liabilities	111,895	121,769	131,642	141,516	151,388
Total liabilities	781,598	720,921	662,541	759,767	1,484,638

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

Results of Operations

Revenues for the recently concluded quarter were, simply put, not very good. They were comparable to revenues for the quarter ended December 31, 2014 but were 45% lower than revenues realized during the three months ended December 31, 2015. For the six month period, revenues to December 31, 2016 are almost 29% lower than they were for the same period one year earlier. The revenue results for this quarter are not expected to be indicative of future revenues.

When revenues decline in this manner, certain efficiencies and economies of scale get eroded, and that is impactful upon the gross margin. The margin for the quarter was 28% or down from the 34% margin realized December 2015. Gross margin percentages will fluctuate from period to period, based on certain factors, but production volume is the element with the most impact.

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Results of Operations - continued

The different elements of cost of product sales for the periods ended December 31, 2016 and December 31, 2015 are as follows:

Six month periods ended December 31	2016	2015	Change
Raw materials and supplies consumed	\$ 667,381	\$ 909,341	\$ (241,960)
Labour costs incurred	316,343	365,366	(49,023)
Depreciation	43,869	53,026	(9,157)
Repairs and maintenance	31,283	15,541	15,742
Other costs	39,342	49,461	(10,119)
Net change in finished goods and work in process	(4,695)	(17,810)	13,115
Total cost of product sales	\$ 1,093,523	\$ 1,374,925	\$ (281,402)

Three month periods ended December 31	2016	2015	Change
Raw materials and supplies consumed	\$ 271,617	\$ 536,337	\$ (264,720)
Labour costs incurred	157,540	204,616	(47,076)
Depreciation	21,949	26,554	(4,605)
Repairs and maintenance	12,628	12,545	83
Other costs	16,337	25,384	(9,047)
Net change in finished goods and work in process	1,319	5,758	(4,439)
Total cost of product sales	\$ 481,390	\$ 811,194	\$ (329,804)

Raw materials and supplies consumed declined by 49.4% during the quarter, in comparison to December 2015 amounts. This rate of decline is sufficiently similar to the revenue decline for the same periods to conclude that the cost reduction is attributable to the decline in business volumes. The Company continuously promotes the supply of components as a cost-effective solution for its customers who also have the option to contract the assembly of materials that they themselves supply.

Labour costs incurred represent the Company's labour utilization during the period. The costs for the three month period ended December 31, 2016 are consistent with Q1 costs, but are 23% lower than for the similar period ended December 31, 2015. During the 2015 period, customer demand was quite high and resulted in some overtime charges. In contrast, the demand for labour was reasonably low in 2016. There was no overtime and the Company minimized its labour utilization as much as was feasible without resulting in a permanent reduction in personnel. In spite of these managerial efforts, the labour costs included in cost of product sales for the quarter, being the aggregate of Labour costs incurred and Net change in finished goods and work in process, exceeded 23% of periodic revenues. The aggregate labour cost for the three months ended December 31, 2015 was a more traditional 17.2% of periodic revenues. Provided that labour demand increases, as is anticipated, then it is expected that these costs will trend back towards more traditional percentages.

Depreciation costs continued to decline, with the expense for both the three month and six month periods in 2016 being lower than for 2015. Depreciation is a function of time and the carrying value of the manufacturing equipment in use. No significant additions have been necessary since the end of the 2014 fiscal year. Management continually evaluates equipment needs and monitors the equipment market for opportunities but there are no substantial additions currently being investigated or being contemplated within the next year.

Repairs and maintenance costs are comparable for the three month periods ended December 2016 and December 2015 but remain higher on a year to date basis. As noted last quarter, this is attributed to low costs arising in the first quarter of fiscal 2016 as opposed to any cost being higher than usual. The Company conducts regular maintenance continually while repairs are conducted on an as-needed basis, or when time permits, which can result in cost fluctuations from period to period.

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Results of Operations - continued

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	2016	2015	Change
Employee and consultant compensation	\$ 421,454	\$ 405,088	\$ 16,366
Occupancy costs	132,959	136,640	(3,681)
Professional fees	37,098	50,163	(13,065)
Shareholder services	15,816	27,598	(11,782)
Insurance	14,943	16,372	(1,429)
Other costs	32,528	33,978	(1,450)
Total selling, general and administrative	\$ 654,798	\$ 669,839	\$ (15,041)

Three month periods ended December 31	2016	2015	Change
Employee and consultant compensation	\$ 201,959	\$ 206,884	\$ (4,925)
Occupancy costs	65,518	65,486	32
Professional fees	17,645	33,181	(15,536)
Shareholder services	13,155	11,704	1,451
Insurance	7,472	8,119	(647)
Other costs	20,744	21,878	(1,134)
Total selling, general and administrative	\$ 326,493	\$ 347,252	\$ (20,759)

Employee and consultant compensation costs were lower for the three month period ended December 31 2016, as compared to the same period for 2015, but they continue to be higher on a year to date basis. During the first quarter of the 2015 fiscal year the Company realized savings on employee compensation due to a work-share program. There was no similar savings in 2016. The figures for 2016 also include a 10% increase in fees paid to independent Directors and increased consulting fees attributable to services provided by the Company's CFO.

Occupancy costs consist primarily of rent and utility charges for the Company's 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 Company's operating facility lease runs through March 2021 and occupancy costs are expected to remain generally comparable throughout that lease term.

Professional fees have declined for each of the periods ended December 31, 2016, with virtually all of that reduction attributable to legal fees. The 2015 fees were higher as a consequence of the Company moving its share listing from the Canadian Venture Exchange to the Canadian Securities Exchange. In addition to the fees noted above, the Company incurred \$22,500 in legal fees during the three month period ended December 31, 2016 which were appropriately charged as costs of the investment acquired and of the shares issued through a private placement.

Shareholder services for the 2016 and 2015 three month periods each include all costs associated with the annual shareholders' meetings which were held in December of each year. The higher six-month expense in 2015 is attributed to the incremental costs incurred as a result of changing stock exchanges.

Insurance costs are reflective of lower premiums as insurance coverage was entirely comparable.

Other costs are individually insignificant, are continuously monitored, have not varied significantly, and are within management's expectations.

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Results of Operations - continued

The costs of financing for the periods ended December 31, 2016 and December 31, 2015 were as follows:

Six month periods ended December 31	2016	2015	Change
Interest expense ó long term	\$ 2,496	\$ 3,358	\$ (862)
Interest expense ó other	277	305	(28)
Total financing expenses	\$ 2,773	\$ 3,663	\$ (890)

Three month periods ended December 31	2016	2015	Change
Interest expense ó long term	\$ 1,192	\$ 1,600	\$ (408)
Interest expense ó other	139	153	(14)
Total financing expenses	\$ 1,331	\$ 1,753	\$ (422)

The Company has a single debt instrument outstanding, that being a commercial loan used to finance a 2014 equipment addition. The declining interest costs are the result of monthly principal payments being made.

Interest ó other represents miscellaneous interest charges incurred. It would also include interest arising from the use of the Company's bank operating line however there was no utilization of this loan during either of the periods presented.

Liquidity

At December 31, 2016, the Company had working capital of \$394,488 and current financial assets of \$471,681 (June 30, 2016 - \$820,395) available to settle current financial liabilities of \$487,888 (June 30, 2016 - \$579,092). The Company also has access to a \$250,000 bank operating line, which was not drawn upon as of September 30, 2016, or during the 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, 2016:

	Due by Dec. 2017	Due by Dec. 2019	Due by Dec. 2021	Due after Dec. 2021	Total Due
Long-term debt	39,493	62,530	-	-	102,023
Operating lease	102,310	212,769	134,679	-	449,758
All obligations	\$ 141,803	\$ 275,299	\$ 134,679	\$ -	\$ 551,781

Capital Resources

During the period the Company completed a private placement whereby it raised gross proceeds of \$225,000 through the issuance of 4,500,000 units at a price of \$0.05 per unit. Each unit was comprised of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share at a price of \$0.06 until December 15, 2021. The proceeds of this financing, after deducting costs of \$7,500, were used to fund the Company's investment in Conversance Inc.

The Company has a \$250,000 commercial line of credit from which nothing was drawn as at December 31, 2016 or June 30, 2016. 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.

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Related Party Transactions

All related party transactions involve key management personnel, whom the Company compensates for services rendered. These include salaries and benefits paid to Wojciech Drzazga (CEO) and John Perreault (President and COO), 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 paid to independent Directors, and share-based payments. Compensation rates are agreed to by the key management personnel and are predicated upon prevailing market rates. The following expenses, involving these related parties, have arisen during the six-month periods ended December 31, 2016 and December 31, 2015:

	2016	2015
Salaries and benefits ⁽¹⁾	\$ 133,147	\$ 131,241
Consulting fees ⁽¹⁾	31,725	19,200
Directors' fees ⁽¹⁾	15,280	13,800
Legal fees ⁽²⁾	18,966	24,882
Accounting fees ⁽²⁾	3,500	7,000
Legal fees accounted for as investment acquisition costs	15,000	-
Legal fees accounted for as share issuance costs	7,500	-
Cash based expenditures	\$ 225,118	\$ 196,123
Share-based payments	\$ 26,208	\$ -

⁽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, and were reported in the unaudited condensed interim consolidated financial statements as an element of accounts payable and accrued liabilities, as at December 31 of each year:

	2016	2015
Salaries and benefits payable	9,378	8,253
Consulting fees payable	116,200	103,400
Legal fees payable	29,471	18,081

The following stock options have been issued to Directors and/or Officers of the Company and were outstanding as at December 31, 2016:

Description	Expiry Date	Number of Common Shares
Stock options @ \$0.10 per share	Sept. 14, 2017	130,000
Stock options @ \$0.10 per share	Dec. 31, 2018	400,000
Stock options @ \$0.05 per share	Mar. 3, 2021	800,000
Stock options @ \$0.15 per share	Dec. 21, 2021	200,000

During the period ended December 31, 2016 a Director exercised 300,000 stock options and 200,000 stock options were granted to a Director. Subsequent to December 31, 2016, a Director exercised 100,000 stock options at \$0.05 per share.

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Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Shares issued	Quantity	Amount
Common shares as at June 30, 2016	10,648,696	\$ 22,151,406
Common shares issued on exercise of stock options	300,000	36,245
Common shares issued through private placement	4,500,000	225,000
Less: amount allocated to warrants		(101,157)
Less: costs of the offering		(7,500)
Common shares issued to acquire investment	1,325,000	69,562
Common shares as at December 31, 2016	16,773,696	22,373,556
Common shares issued on exercise of stock options	100,000	8,981
Common shares as at the date of this document	16,873,696	\$ 22,382,537

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 @ \$0.10 per share	Sept. 2017	130,000
Warrants @ \$0.10 per share	Oct. 2017	400,000
Stock options @ \$0.10 per share	Dec. 2018	400,000
Stock options @ \$0.05 per share	Dec. 2018	800,000
Warrants @ \$0.06 per share	Dec. 2021	4,500,000
Stock options @ \$0.15 per share	Dec. 2021	300,000
Shares reserved as at December 31, 2016		6,538,246
Stock options @ \$0.05 per share	Dec. 2018	(100,000)
Shares reserved as at the date of this document		6,438,246

⁽¹⁾ 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 were issued to 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 number of shares	Quantity
Shares issued at December 31, 2016	16,773,696
Shares reserved at December 31, 2016	6,538,246
Fully diluted number of shares at December 31, 2016	23,311,942
Shares issued upon exercise of stock options	100,000
Reduction in shares reserved for stock options	(100,000)
Fully diluted number of shares at the date of this document	23,311,942

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Convertible Instruments and Other Securities - continued

The following weighted average assumptions were used to calculate the fair value of the stock options granted during the period:

	Dec. 31 2016	Dec. 31 2015
Dividend yield	Nil	None issued
Risk free interest rate (%)	1.19	None issued
Expected stock volatility (%)	135.35	None issued
Expected life (years)	5	None issued

The following provides additional details with respect to stock option changes during, and subsequent to the period:

	Common Shares Under Option	Weighted Average Price per Option	Weighted Average Expiry Date
Balance, beginning of the period	1,630,000	\$ 0.07	Mar. 23, 2020
Exercised during period	(300,000)	0.07	June 11, 2020
Granted during the period	300,000	0.15	Dec. 21, 2021
Balance, end of the period	1,630,000	0.08	July 4, 2020
Exercised subsequent to the period	(100,000)	0.05	Mar. 3, 2021
Balance as at the date of this document	1,530,000	\$ 0.09	June 18, 2020

As at the date of this document the following stock options are outstanding:

	Common Shares Under Option	Exercise Price	Expiry Date
Granted September 14, 2012	130,000 ⁽¹⁾	\$ 0.10	Sept. 14, 2017
Granted December 31, 2013	400,000 ⁽¹⁾	\$ 0.10	Dec. 31, 2018
Granted March 3, 2016	700,000 ⁽¹⁾	\$ 0.05	Mar. 3, 2021
Granted December 21, 2016	200,000 ⁽¹⁾	\$ 0.15	Dec. 21, 2021
Granted December 21, 2016	100,000	\$ 0.15	Dec. 21, 2021

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

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

The following weighted average assumptions were used to calculate the fair value of the warrants issued during the period:

	Dec. 31 2016	Dec. 31 2015
Dividend yield	Nil	None issued
Risk free interest rate (%)	1.20	None issued
Expected stock volatility (%)	130.19	None issued
Expected life (years)	5	None issued

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Convertible Instruments and Other Securities - continued

The following provides additional details with respect to stock option changes during, and subsequent to the period:

	Number of Warrants	Weighted Average Price per Warrant	Weighted Average Expiry Date
Balance, beginning of the period	400,000	\$ 0.10	Oct. 31, 2017
Issued during the period	4,500,000	\$ 0.06	Dec. 15, 2021
Balance, end of the period and as at the date of this document	4,900,000	\$ 0.06	Aug. 14, 2021

As at the date of this document the following share purchase warrants are outstanding:

	Number of Warrants	Exercise Price	Expiry Date
Issued Jan. 10, 2014	400,000	\$ 0.10	Oct. 31, 2017
Issued Dec. 15, 2016	4,500,000	\$ 0.06	Dec. 15, 2021

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:

Financial assets:

Cash and cash equivalents
Restricted cash equivalents
Accounts receivable

Classification

Fair value through profit and loss
Fair value through profit and loss
Loans and receivables

Financial liabilities:

Bank operating loan
Accounts payable and accrued liabilities
Customer deposits
Long-term debt

Classification

Other financial liabilities
Other financial liabilities
Other financial liabilities
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.

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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, 2016 and June 30, 2016 cash and cash equivalents are measured at fair value and are classified within Level 1 of the fair value hierarchy.

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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.

ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Six Month Period Ended December 31, 2016

(Prepared as at February 28, 2017)

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 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. Bad debts in the amount of \$1,286 (December 31, 2015 - \$Nil) were recognized during the period ended December 31, 2016.

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 six-month period ended December 31, 2016 the Company had 1 major customer who represented 12% of total revenues. In the comparative period, there were 2 major customers which together represented 24% of revenues. Amounts due from major customers represented Nil% of accounts receivable at December 31, 2016 (Dec. 2015 - 18%). 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 loss on foreign exchange in the amount of \$720 (Dec. 2015 a gain of \$471).

Sensitivity to market risks

At December 31, 2016, the Company had \$102,023 (June 2016 \$121,769) 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 \$839 over the next 12-month period.

At December 31, 2016, the Company had US\$2,701 (June 2016 US\$86,796) 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 \$182 in future cash inflow.

At December 31, 2016, the Company had US\$58,288 (June 2016 US\$114,725) 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 \$3,933 in future cash outflow.

At December 31, 2016, the Company had US\$8,332 (June 2016 US\$51,935) included in cash. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of \$562 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.

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.

ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Six Month Period Ended December 31, 2016

(Prepared as at February 28, 2017)

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 "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.