ZTEST Electronics Inc.

Managementøs Discussion and Analysis
For The Nine Month Period Ended March 31, 2017
(Prepared as at May 23, 2017)

General

The following managementøs discussion and analysis (õMD&Aö) of the financial condition and results of operations of ZTEST Electronics Inc. (õZTESTö or the õCompanyö) constitutes managementøs review of the factors that affected the Companyøs interim condensed consolidated financial and operating performance for the nine months ended March 31, 2017. The MD&A was prepared as of May 23, 2017 and was approved by the Board of Directors on May 23, 2017. It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the nine months ended March 31, 2017, 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, Permatech Electronics Corporation (õPECö), 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.

Name	Position(s)
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 March 31, 2017 represented a return to more traditional operating volumes and to more traditional operating results. It had been noted previously that customers throughout the marketplace had become exceedingly reluctant to hold inventory of assembled circuit boards leading to the deferral or reduction of orders. While that temporary reduction in market demand has not resulted in any subsequent demand surge, at least not yet, current indications suggest that the market may have established its new equilibrium point. Quarterly revenues have returned to more traditional levels and are almost identical to what they had been one year ago, before this decline in market demand began.

The resurgence in quarterly revenue allowed the Company to return to profitability for the quarter and to generate improvements in liquidity, equity, and capital under management for that same period. The weakness in market demand that was prevalent earlier in the fiscal year has taken its toll however as the Company has reported a loss for the nine month period and has seen both its cash and working capital balances decline over this timeframe.

It is not unusual for cash flows to come under pressure in periods when revenues are rising since production costs often must be paid in advance of collecting from customers. Revenues for the third quarter of 2017 are more than 64% greater than in the preceding quarter and this helped to generate a net cash usage from operations of $76,086. If the indications of a more stable and traditional marketplace are accurate then this is expected to allow the Company to return to positive cash flow in the very near future.

Corporate Performance - continued

In spite of the losses incurred thus far in 2017, the Company has realized growth in its equity position and in its capital under management. This result was made possible by completing a private placement financing earlier in the year. The purpose of the private placement was to finance an investment 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 Companyøs 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 July 17, 2017.

Management will continue efforts 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 Companyøs 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) 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:				
	Mar. 2017	Dec. 2016	Sept. 2016	June 2016	Mar. 2016
Total Revenues	1,099,568	668,803	827,700	1,013,950	1,094,232
Net income (loss) from operations	33,568	(180,899)	(116,595)	(81,112)	(15,550)
Per share - basic	0.002	(0.015)	(0.011)	(0.008)	(0.001)
Net income (loss) for the period	33,569	(180,788)	(116,548)	(81,112)	(15,550)
Per share - basic	0.002	(0.015)	(0.011)	(0.008)	(0.001)
Total assets	1,954,654	1,648,537	1,535,979	1,708,698	1,843,819
Total long-term financial liabilities	52,656	62,530	72,403	82,276	92,149
Total liabilities	819,716	550,418	585,197	661,368	715,377

	For the three month periods ended:				
	Dec. 2015	Sept. 2015	June 2015	Mar. 2015	Dec. 2014
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

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

Results of Operations

Quarterly revenues returned to more traditional levels, exceeding $1M for the first time this fiscal year. At $1,099,568 the revenues were marginally greater than the revenues reported for the three months ended March 31, 2016. This makes this period the first in the past twelve months for which quarterly revenues have risen year over year. Revenues for the nine month period remain almost 19% less than they were one year ago, however the return to more traditional quarterly levels may be an indication that the recent lull in market demand has passed.

The slight increase in quarterly revenues was accompanied by a small decline in the cost of product sales providing an increase of 1.3% in the gross margin when measured as a percentage of revenue. This quarterly growth has reduced, but not eliminated, the year-to-date decline as the gross margin for the nine-month period was almost 29% of periodic revenue as compared to 33% at March 31, 2016.

The different elements of cost of product sales for the periods were as follows:

Nine month periods ended March 31	2017	2016	Change
Raw materials and supplies consumed	$ 1,197,128	$ 1,424,074	$ (226,946)
Labour costs incurred	499,866	554,433	(54,567)
Depreciation	65,818	79,816	(13,998)
Repairs and maintenance	38,349	40,806	(2,457)
Other costs	60,911	73,923	(13,012)
Net change in finished goods and work in process	(12,795)	(31,265)	18,470
Total cost of product sales	$ 1,849,277	$ 2,141,787	$ (292,510)

Three month periods ended March 31	2017	2016	Change
Raw materials and supplies consumed	$ 529,747	$ 514,733	$ 15,014
Labour costs incurred	183,523	189,067	(5,544)
Depreciation	21,949	26,790	(4,841)
Repairs and maintenance	7,066	25,265	(18,199)
Other costs	21,569	24,462	(2,893)
Net change in finished goods and work in process	(8,100)	(13,455)	5,355
Total cost of product sales	$ 755,754	$ 766,862	$ (11,108)

Raw materials and supplies consumed are considered to be quite comparable between the quarters ended March 31 2017 and March 31, 2016. The cost increase of less than 3% is not considered to be significant. From another perspective, the March 2017 quarterly costs were about $12,500 greater than they would have been if they were perfectly correlated to revenues. The results for the nine-month periods provide similarly comparable results when the costs are considered as a percentage of periodic revenues. The March 2016 costs equated to 44.5% of revenues while this figure was 46.1% at March 31, 2016. For a custom manufacturing operation like ZTESTøs, these variances are too narrow to lead to any concrete conclusions. The Company continuously promotes the supply of components as a cost-effective solution for its customers, who also have the option to contract for only the assembly of materials that they themselves supply.

Labour costs incurred represent the Companyøs labour utilization during the period. The costs for the three month period ended March 31, 2017 are almost 3% lower than at March 2016. This is attributed to a slight carry-over of management initiatives taken in the preceding quarter when labour demand was low. Those initiatives resulted in reduced labour utilization, without permanent reduction in personnel, and are the basis by which the year-to-date costs have been reduced. 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, are virtually identical in 2017, to what they were in 2016, again supporting the comparability of the two periods.

Results of Operations - continued

Depreciation costs continued to decline, with the expense for both the three month and nine month periods in 2017 being lower than for 2016. Depreciation is a function of time and the carrying value of the manufacturing equipment in use and 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 contemplated.

Repairs and maintenance costs are comparable for the nine month periods ended March 2017 and March 2016 but there is a variance in the quarters then ended. The Company conducts regular maintenance continually while repairs are conducted on an as-needed basis, or when time permits, which can sometimes result in cost fluctuations when comparing shorter time periods. No significant repairs or maintenance were deferred during the recently concluded quarter.

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 were as follows:

Nine month periods ended March 31		2017		2016		Change
Employee and consultant compensation	$	628,959	$	606,460	$	22,499
Occupancy costs		198,562		200,108		(1,546)
Professional fees		50,037		64,625		(14,588)
Shareholder services		19,399		30,543		(11,144)
Insurance		22,293		23,923		(1,630)
Other costs		44,446		47,846		(3,400)
Total selling, general and administrative	$	963,696	$	973,505	$	(9,809)

Three month periods ended March 31		2017		2016		Change
Employee and consultant compensation	$	207,505	$	201,372	$	6,133
Occupancy costs		65,603		63,468		2,135
Professional fees		12,939		14,462		(1,523)
Shareholder services		3,583		2,945		638
Insurance		7,350		7,551		(201)
Other costs		11,918		13,868		(1,950)
Total selling, general and administrative	$	308,898	$	303,666	$	5,232

Employee and consultant compensation costs are 3.0% more for the quarter ended March 31, 2017, and 3.7% more for the nine months then ended, than they were for the same periods ended March 31, 2016. These increases include a 5% increase for key management personnel, a 10% increase in fees paid to independent Directors, an increase from 2 to 3 in the number of independent Directors, and increased consulting fees attributable to services provided by the Companyøs CFO.

Occupancy costs consist primarily of rent and utility charges for the Companyøs operating facility. Basic rental charges increase by approximately 2% in January of each year. 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 Companyøs 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 March 31, 2017, with virtually all of that reduction attributable to legal fees. The 2016 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 nine month period ended March 31, 2017 which were charged as costs of the investment acquired and of the shares issued through a private placement.

Results of Operations - continued

Shareholder services for each of the quarters presented are comparable while the higher year-to-date costs for the March 2016 period are due 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 managementøs expectations.

The costs of financing were as follows:

Nine month periods ended March 31	2017	2016	Change
Interest expense ó long term	$ 3,544	$ 4,902	$ (1,358)
Interest expense ó other	503	441	62
Total financing expenses	$ 4,047	$ 5,343	$ (1,296)

Three month periods ended March 31	2017	2016	Change
Interest expense ó long term	$ 1,048	$ 1,544	$ (496)
Interest expense ó other	226	136	90
Total financing expenses	$ 1,274	$ 1,680	$ (406)

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

Interest ó other represents miscellaneous interest charges incurred. Costs are marginally higher in the recently concluded quarter due to the use of a small portion of the Companyøs bank operating line.

Liquidity

At March 31, 2017, the Company had working capital of $444,161 and current financial assets of $710,293 (June 30, 2016 - $820,395) available to settle current financial liabilities of $767,060 (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 March 31, 2017:

	Due by Mar. 2018	Due by Mar. 2020	Due by Mar. 2022	Due after Mar. 2022	Total Due
Long-term debt	39,493	52,656	-	-	92,149
Operating lease	102,989	213,448	107,743	-	424,180
All obligations	$ 142,482	$ 266,104	$ 107,743	$ -	$ 516,329

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 Companyøs investment in Conversance Inc.

The Company has a $250,000 commercial line of credit from which $35,000 (June 30, 2016 - $Nil) was drawn as at March 31, 2017. 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

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, Directorsø 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 reporting periods:

Nine month periods ended March 31		2017		2016
Salaries and benefits [1]	$	204,601	$	199,265
Consulting fees [1]		41,325		28,800
Directorsø fees [1]		27,060		21,390
Legal fees [2]		19,458		30,062
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	$	318,444	$	286,517
Share-based payments	$	26,208	$	39,805

[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 March 31 of each year:

	2017	2016
Salaries and benefits payable	9,348	13,712
Consulting fees payable	125,800	113,000
Legal fees payable	2,000	5,180

The following stock options have been issued to Directors and/or Officers of the Company and were outstanding as at March 31, 2017:

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	700,000
Stock options @ $0.15 per share	Dec. 21, 2021	200,000

During the period ended March 31, 2017 Directors exercised 400,000 stock options and 200,000 stock options were granted to a Director. Subsequent to March 31, 2017, a Director exercised 200,000 stock options at $0.05 per share and 100,000 stock options at $0.10 per share.

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	400,000	45,226
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 March 31, 2017	16,873,696	22,382,556
Common shares issued on exercise of stock options	300,000	36,245
Common shares as at the date of this document	17,173,696	$ 22,418,801

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	Mar. 2021	700,000
Warrants @ $0.06 per share	Dec. 2021	4,500,000
Stock options @ $0.15 per share	Dec. 2021	300,000
Shares reserved as at March 31, 2017		6,438,246
Stock options @ $0.10 per share	Dec. 2018	(100,000)
Stock options @ $0.05 per share	Dec. 2018	(200,000)
Shares reserved as at the date of this document		6,138,246

[1] In the 2013 fiscal year, the Companyøs shareholders approved the issuance of common shares in exchange for 100% of the Class A Special Shares outstanding. 8,246 common shares remain 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 March 31, 2017	16,873,696
Shares reserved at March 31, 2017	6,438,246
Fully diluted number of shares at March 31, 2017	23,311,942
Shares issued upon exercise of stock options	300,000
Reduction in shares reserved for stock options	(300,000)
Fully diluted number of shares at the date of this document	23,311,942

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:

	Mar. 31 2017	Mar. 31 2016
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	(400,000)		0.06	Aug. 16, 2020
Granted during the period	300,000		0.15	Dec. 21, 2021
Balance, end of the period	1,530,000		0.09	June 18, 2020
Exercised subsequent to the period	(300,000)		0.07	June 11, 2020
Balance as at the date of this document	1,230,000	$	0.09	June 20, 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:

	Mar. 31 2017	Mar. 31 2016
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

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 (õIFRSö) 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 Companyøs financial instruments are comprised of the following:

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

Financial liabilities:	*Classification*
Bank operating loan	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
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 March 31, 2017 and June 30, 2016 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 have suffered an impairment loss.

Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an assetøs 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 in an armøs 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. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset 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 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 in prior years. A reversal of an impairment loss is recognized immediately in income for the period.

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

Risk Factors

Events seemingly unrelated to the Company, or to its industry, may adversely affect its finances or operations in ways that are hard to predict or defend against. For example, credit contraction in financial markets may hamper the Companyøs ability to access credit when needed or rapid changes in foreign exchange rates may adversely affect its financial results. Finally, a reduction in credit, combined with reduced economic activity, may adversely affect businesses and industries that constitute a significant portion of the Companyøs customer base. As a result, these customers may need to reduce their purchases, or the Company may experience greater difficulty in collecting amounts due from them. Any of these events, or others caused by uncertainty in world financial markets, may have a material adverse effect on the Companyøs business, operating results, and financial condition.

In addition to the foregoing, the Company is exposed to credit risk, concentration of credit risk, interest rate risk and currency risk. The Companyøs primary risk management objective is to protect earnings and cash flow and, ultimately, shareholder value. Risk management strategies, as discussed below, are designed and implemented to ensure that the Companyøs risks and the related exposure are consistent with its business objectives and risk tolerance. There have been no changes to the risk management strategies during the current fiscal year.

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Companyøs primary exposure to credit risk is in its accounts receivable. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. It has been determined that no allowance is required, as all amounts outstanding are considered collectible. Bad debts in the amount of $1,286 (March 31, 2016 - $Nil) were recognized during the nine-month period ended March 31, 2017.

Risk Factors - continued

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 nine-month period ended March 31, 2017 the Company had 2 major customers who together represented 24% of total revenues. In the comparative period, there were 2 major customers which together represented 25% of revenues. Amounts due from major customers represented 24% of accounts receivable at March 31, 2017 (Mar. 2016 - 27%). 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 nine-month period ended March 31, 2017 the Company realized a loss on foreign exchange in the amount of $664 (Mar. 2016 ó gain of $4,396).

Sensitivity to market risks

At March 31, 2017, the Company had $92,149 (June 2016ó$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 $742 over the next twelve-month period.

At March 31, 2017, the Company had US$110,444 (June 2016óUS$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 $5,522 in future cash inflow.

At March 31, 2017, the Company had US$187,004 (June 2016óUS$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 $9,350 in future cash outflow.

At March 31, 2017, the Company had US$33,205 (June 2016óUS$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 $1,660 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 õforward-lookingö 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 õestimateö, õbelieveö, õanticipateö, õintendö, õexpectö, õplanö, õmayö, õshouldö, õwillö, 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 above under the heading õRisk Factorsö. 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.