General

The following managementõs discussion and analysis (ñMD&Aò) of the financial condition and results of operations of ZTEST Electronics Inc. (ñZTESTò or the ñCompanyò) constitutes managementõs review of the factors that affected the Companyõs consolidated financial and operating performance for the year ended June 30, 2017. The MD&A was prepared as of October 24, 2017 and was approved by the Board of Directors on October 24, 2017. It should be read in conjunction with the consolidated financial statements of the Company for the year ended June 30, 2017, 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 (ñPECò), the Company operates a single business segment designing, developing, and assembling printed circuit boards and other electronic equipment. The Companyõs shares trade on the Canadian Securities Exchange under the symbol "ZTE".

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

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 2017 fiscal year was a tale of two significantly different six-month periods. The final three quarters of the 2016 fiscal year had provided reasonably strong, albeit declining, revenues. This decline continued into the first quarter of 2017 and then peaked during the second quarter. It was noted throughout this period that there was a market-wide decline in demand as customers were deferring or reducing orders in order to reduce inventory of assembled circuit boards. The results of the third and fourth quarters of 2017 suggest that the desired decline in inventories may have been achieved as the Companyõs revenues not only returned to more traditional levels but also exceeded revenues for the comparable periods of 2016.

The Companyõs revenues and its results of operations followed similar patterns. The Company reported losses from operations in each of the first two quarters and income from operations in each of the last two quarters. The revenue decline, and the resulting net loss to December 31, 2016 exceeded the revenue recovery, and net income generated, in the final six months. As a consequence, revenues declined 10.8% in 2017 and resulted in a net loss from operations of $0.014 per share.

The Company also reported a net loss for the year of $0.035 per share, after having recorded an impairment provision of $294,562 during the final quarter. That impairment provision equals the Companyõs investment in Conversance Inc. (ñCIò), a private Canadian technology company. CI is in early-stage development of a proprietary technology which, if successfully commercialized, is intended to have significant applications in the rapidly expanding electronic marketplace. Consistent with most early-stage developers, CI currently generates no revenues. This absence of cash generation makes valuation of the Companyõs investment in CI extremely difficult, and highly subjective. It was therefore deemed appropriate to record an impairment provision and reduce the carrying value of the investment to $Nil.

Corporate Performance - continued

The Companyôs investment in CI, comprised of 155,000 foundersô shares representing a 15.05% interest, was acquired for a payment of $210,000 plus the issuance of 1,325,000 common shares. The $210,000 payment was funded using the proceeds from a private placement financing which raised gross proceeds of $225,000. The Company perceived the investment in this early-stage venture to be a potentially lucrative opportunity however participation was reliant upon the ability to fund it without the use of working capital. CIôs technology development continues as at the date of this document, and is expected to continue for the foreseeable future, but there is no assurance that this development will result in the technology attaining commercial value.

The following data may provide some additional insights relative to the Companyôs operating performance and financial position:

	For the fiscal years ended:		
	June 2017	June 2016	June 2015
Total Revenues	3,754,883	4,211,885	3,945,720
Net loss from operations	(203,576)	(42,595)	(33,397)
Per share - basic	(0.014)	(0.004)	(0.003)
Net loss for the year	(497,881)	(42,553)	560,333
Per share - basic	(0.035)	(0.004)	0.053
Total assets	1,783,512	1,708,698	1,770,999
Total long-term financial liabilities	42,784	82,276	121,769
Total liabilities	862,688	661,368	720,921

	For the three month periods ended:				
	June 2017	Mar. 2017	Dec. 2016	Sept. 2016	June 2016
Total Revenues	1,158,812	1,099,568	668,803	827,700	1,013,950
Net income (loss) from operations	60,350	33,568	(180,899)	(116,595)	(81,112)
Per share - basic	0.004	0.002	(0.015)	(0.011)	(0.008)
Net income (loss) for the period	(234,114)	33,569	(180,788)	(116,548)	(81,112)
Per share - basic	(0.014)	0.002	(0.015)	(0.011)	(0.008)
Total assets	1,783,512	1,954,654	1,648,537	1,535,979	1,708,698
Total long-term financial liabilities	42,784	52,656	62,530	72,403	82,276
Total liabilities	862,688	819,716	550,418	585,197	661,368

	For the three month periods ended:				
	Mar. 2016	Dec. 2015	Sept. 2015	June 2015	Mar. 2015
Total Revenues	1,094,232	1,223,691	880,012	1,122,088	1,061,276
Net income (loss) from operations	(15,550)	66,133	(12,066)	111,838	(17,243)
Per share - basic	(0.001)	0.006	(0.001)	0.011	(0.002)
Net income (loss) for the period	(15,550)	65,452	(11,343)	111,838	(17,091)
Per share - basic	(0.001)	0.006	(0.001)	0.011	(0.002)
Total assets	1,843,819	1,890,491	1,820,333	1,770,999	1,600,781
Total long-term financial liabilities	92,149	102,022	111,895	121,769	131,642
Total liabilities	715,377	786,304	781,598	720,921	662,541

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

Results of Operations

As acknowledged previously, revenues for the 2017 year were 10.8% lower than 2016 revenues, however cost of product sales declined only 8.8%. This resulted in a decline in the gross margin from 31.3% of revenues for the year in 2016 to 29.8% in 2017. Once again, the 2017 decline is attributed to the first six months of the year as the gross margin generated in the final quarter was 32.0% of revenues and this arose following a third quarter in which the margin had been 31.3%.

The inconsistency that has plagued the marketplace in recent periods has resulted in inconsistent periodic revenues but it is the market consolidation that has resulted in enhanced pressure on gross margins. Although the margins realized in the final two quarters of 2017 are consistent with the 2016 margins, they continue to lag behind the approximately 34% margins realized in the 2013 and 2014 fiscal years before the market turmoil commenced. There is little doubt that the market shift to shorter production runs, and more aggressive competition in the market, have combined to make the return to historical margin levels more difficult. Management is pleased with the return to 2016 levels but will always continue striving for enhanced margins.

A better understanding of the margins achieved can be obtained through review of the elements of the cost of product sales. The different elements of cost of product sales, and the changes realized, are as follows:

Years ended	June 17	June 16	Change
Raw materials and supplies consumed	$ 1,712,277	$ 1,916,893	$ (204,616)
Labour costs incurred	688,893	728,021	(39,128)
Depreciation	87,767	106,519	(18,752)
Repairs and maintenance	52,296	50,625	1,671
Other costs	90,269	93,140	(2,871)
Net change in finished goods and work in process	5,932	(2,446)	8,378
Total cost of product sales	$ 2,637,434	$ 2,892,752	$ (255,318)

Three month periods ended	June 17	June 16	Change
Raw materials and supplies consumed	$ 515,149	$ 492,819	$ 22,330
Labour costs incurred	189,027	173,588	15,439
Depreciation	21,949	26,703	(4,754)
Repairs and maintenance	14,247	9,819	4,428
Other costs	29,058	19,217	9,841
Net change in finished goods and work in process	18,727	28,819	(10,092)
Total cost of product sales	$ 788,157	$ 750,965	$ 37,192

The cost of materials consumed declined in value during the 2017 fiscal year in comparison to 2016, but rose, very marginally, when considered as a percentage of revenues. The 2017 costs equate to 45.60% of revenues for the year while the 2016 costs were 45.51% for a variance of less than 0.1%. This result indicates that, when considered over the twelve month fiscal year, the material costs were quite consistent. This same consistency does not appear when considering shorter periods, such as a single fiscal quarter. Costs for the final quarter of 2017 were 4.5% greater than they had been during the fourth quarter of 2016, yet the 2017 costs were lower than 2016 when computed as a percentage of periodic revenues. Material costs are incurred at the discretion of our customers, who also have the option to contract assembly of materials that they themselves supply. Management has consistently promoted the benefits customers may derive from our provision of the necessary materials. However, the availability of choice generally leads to variances in periodic costs, particularly over shorter time periods.

Results of Operations - continued

Given the annual materials cost consistency noted above, one may initially anticipate that labour costs may also be quite comparable over the same period. This is not necessarily the case however, as far more than immediate demand has to be considered when managing labour. Even when other influential factors remain consistent, the need to maintain critical labour mass during slow periods, and the ability to achieve productivity gains during peak periods, will provide changes in labour costs that are more moderate than the changes in revenue. There were no significant other influential factors during the periods ended June 30, 2017 and results are within expectations as the annual cost decline of 10.7% is slightly less than the 10.9% decline in revenues and the 8.9% rise in quarterly costs is less than the 14.3% improvement in revenues. Management continually strives to match labour supply with labour demand and these results are reflective of that effort.

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, a measure of the change in labour costs included in inventory. Since any excess labour capacity, or short-term decline in labour efficiency would be reflected in this aggregate figure, it should be expected that the change in total labour costs included in cost of product sales would be less correlated with changes in revenue. Consistent with this expectation, the costs for the year declined by 4.2% and costs for the quarter rose by 2.6%.

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. Consequently, depreciation costs continued to decline for the fourth quarter and for the 2017 fiscal year compared to 2016. Management continually evaluates equipment needs and monitors the equipment market for opportunities, but there are no major equipment additions currently being investigated.

Repairs and maintenance costs are marginally higher for the three month and twelve month periods ended June 30, 2017 than they had been for the comparable periods one year earlier. The Company conducts maintenance continually while repairs are conducted on an as-needed basis, or when time permits. These practices can sometimes result in cost fluctuations when comparing shorter time periods. The increase for the year of less that 4% is reflective of inflationary factors and the equipment being one year older. No significant repairs or maintenance were either completed or 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 managementøs expectations.

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

Years ended	June 17	June 16	Change
Employee and consultant compensation	$ 852,682	$ 835,846	$ 16,836
Occupancy costs	262,472	265,967	(3,495)
Professional fees	56,074	84,155	(28,081)
Insurance	29,643	31,395	(1,752)
Shareholder services	22,117	33,419	(11,302)
Other costs	55,224	62,144	(6,920)
Total selling, general and administrative	$ 1,278,212	$ 1,312,926	$ (34,714)

Results of Operations - continued

Three month periods ended		June 17		June 16		Change
Employee and consultant compensation	$	223,723	$	229,387	$	(5,664)
Occupancy costs		63,910		65,859		(1,949)
Professional fees		6,037		19,530		(13,493)
Insurance		7,350		7,472		(122)
Shareholder services		2,718		2,876		(158)
Other costs		10,778		14,298		(3,520)
Total selling, general and administrative	$	314,516	$	339,422	$	(24,906)

Employee and consultant compensation costs are 2.0% higher for the 2017 fiscal year, and are 2.5% lower for the final quarter, than they were for the same periods ended June 30, 2016. The 2017 expenses include a 5% increase for key management personnel, a 10% increase in fees paid to independent Directors, and an increase mid-year from 2 to 3 independent Directors. The final quarter of 2016 included a small bonus for key management personnel. No such bonus was paid in 2017, which accounts for the year over year decline.

Occupancy costs consist primarily of rent, common area costs, and utility charges for the Companyôs operating facility. Basic rental charges increased by 2.7% in January 2017 (7.8% January 2016) and represented approximately 38% of the annual occupancy costs in 2017 (36% in 2016). The remaining variance is due to variances in utility rates and usage, property tax rates, and other common area costs associated with the lease. The Companyôs operating facility lease runs through March 2021 and occupancy costs are expected to remain generally comparable throughout that lease term.

Professional fees have declined for each of the periods ended June 30, 2017 with reductions in both legal fees and audit fees. The Company changed auditors prior to the commencement of the 2017 annual audit and this resulted in fees that are approximately $10,000 less than they were for 2016. The estimated cost of the annual audit is pro-rated throughout the year. Therefore, this entire cost reduction was recognized during the final quarter of 2017. The 2016 legal fees included costs resulting from the Company having moved its share listing from the Canadian Venture Exchange to the Canadian Securities Exchange. No similar costs arose in 2017. In addition to the fees noted above, the Company incurred $22,500 in legal fees in 2017 of which $15,000 was charged to the investment in Conversance Inc. and $7,500 to share capital as costs to complete the private placement.

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

Shareholder services include the cost of public disclosures, distribution of materials to shareholders, stock exchange fees, and transfer agent fees. The higher costs for the 2016 fiscal year are attributed to the incremental costs incurred as a result of changing stock exchanges.

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

The Companyôs financing costs for the periods were as follows:

Years ended		June 17		June 16		Change
Interest expense ï long term	$	4,505	$	6,300	$	(1,795)
Interest expense ï other		858		580		278
Total financing expenses	$	5,363	$	6,880	$	(1,517)

Results of Operations - continued

Three month periods ended	June 17	June 16	Change
Interest expense ï long term	$ 961	$ 1,398	$ (437)
Interest expense ï other	355	139	216
Total financing expenses	$ 1,316	$ 1,537	$ (221)

The Company has a single debt instrument outstanding, being a commercial term loan used to finance a 2014 equipment acquisition. The term loan, which matures July 2019, has a declining balance due as a result of monthly principal repayments. This declining balance due results in lower interest costs.

Interest ï other represents miscellaneous interest charges incurred. Costs are marginally higher in the recently concluded quarter due to the short-term use of a small portion of the Companyös bank operating line.

Liquidity

At June 30, 2017 the Company had working capital of $538,184 (2016- $631,350) and current financial assets of $830,960 (2016- $820,395) available to settle current financial liabilities of $819,904 (2016- $579,092). The Company also has access to a $250,000 bank operating line, which was not drawn upon as of June 30, 2017 or June 30, 2016.

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, 2017:

	Due by June 2018	Due by June 2020	Due by June 2022	Due after June 2022	Total Due
Long-term debt	$ 39,493	$ 42,784	$ -	$ -	$ 82,277
Operating leases	103,668	214,128	80,807	-	398,603
	$ 143,161	$ 256,912	$ 80,807	$ -	$ 480,880

Capital Resources

During the year 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 Companyös investment in Conversance Inc.

The Company has a $250,000 commercial line of credit from which $Nil (June 30, 2016 - $Nil) was drawn as at June 30, 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, Directorsô 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:

Related Party Transactions - continued

Year ended June 30		2017		2016
Salaries and benefits	$	271,627	$	278,354
Consulting fees		50,925		50,850
Directorsô fees		38,940		28,980
Legal fees		27,574		41,963
Accounting fees		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	$	415,066	$	407,147
Share-based payments	$	26,208	$	39,805

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

	2017	2016
Salaries and benefits payable	9,601	17,296
Consulting fees payable	136,700	112,000
Legal fees payable	7,835	2,520

The following stock options have been issued to Directors and/or Officers of the Company and were outstanding as at June 30, 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	300,000
Stock options @ $0.05 per share	Mar. 3, 2021	500,000
Stock options @ $0.15 per share	Dec. 21, 2021	200,000

During the year ended June 30, 2017 Directors exercised 700,000 stock options and 200,000 stock options were granted to a Director. 130,000 stock options expired subsequent to June 30, 2017.

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	700,000		81,471
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 June 30, 2017	17,173,696		22,418,782
Warrants @ $0.10 per share, exercised	100,000		11,055
Common shares as at the date of this document	17,273,696	$	22,429,837

Convertible Instruments and Other Securities - continued

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	300,000
Stock options @ $0.05 per share	Mar. 2021	500,000
Warrants @ $0.06 per share	Dec. 2021	4,500,000
Stock options @ $0.15 per share	Dec. 2021	300,000
Shares reserved as at June 30, 2017		6,138,246
Warrants @ $0.10 per share, exercised	Oct. 2017	(100,000)
Stock options @ $0.10 per share, expired	Sept. 2017	(130,000)
Shares reserved as at the date of this document		5,908,246

(1) In the 2013 fiscal year, the Companyôs 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 June 30, 2017	17,173,696
Shares reserved at June 30, 2017	6,138,246
Fully diluted number of shares at June 30, 2017	23,311,942
Reduction in shares reserved for stock options	(130,000)
Fully diluted number of shares at the date of this document	23,181,942

Additional disclosures relative to stock options are as follows:

The following weighted average assumptions were used to calculate the fair value of the stock options granted during the years ended June 30:

	2017	2016
Dividend yield	Nil	Nil
Risk free interest rate (%)	1.19	0.68
Expected stock volatility (%)	135.35	112.77
Expected life (years)	5	5

Convertible Instruments and Other Securities - continued

The following provides additional details with respect to stock option changes since June 30, 2016:

	Common Shares Under Option		Weighted Average Price per Option	Weighted Average Expiry Date
Balance at June 30, 2016	1,630,000	$	0.07	Mar. 23, 2020
Exercised during year	(700,000)		0.06	Jul. 19 2020
Granted during the period	300,000		0.15	Dec. 21, 2021
Balance at June 30, 2017	1,230,000		0.09	June 20, 2020
Expired subsequent to June 30, 2017	(130,000)		0.10	Sept. 14, 2017
Balance as at the date of this document	1,100,000	$	0.09	Oct. 17, 2020

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

	Common Shares Under Option		Exercise Price	Expiry Date
Granted December 31, 2013	300,000 (1)	$	0.10	Dec. 31, 2018
Granted March 3, 2016	500,000 (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.

Additional disclosures relative to share purchase warrants are as follows:

The following weighted average assumptions were used to calculate the fair value of the warrants issued during the years ended June 30:

	2017	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

The following provides additional details with respect to changes in warrants since June 30, 2016:

	Number of Warrants		Weighted Average Price per Warrant	Weighted Average Expiry Date
Balance at June 30, 2016	400,000	$	0.10	Oct. 31, 2017
Issued during the year	4,500,000		0.06	Dec. 15, 2021
Balance at June 30, 2016	4,900,000		0.06	Aug. 14, 2021
Exercised subsequent to June 30, 2017	(100,000)		0.10	Oct. 31, 2017
Balance as at the date of this document	4,800,000	$	0.06	Sep. 11, 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	300,000	$	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 Companyø financial instruments are comprised of the following:

Financial assets:	Classification
Cash	Fair value through profit and loss
Accounts receivable	Loans and receivables
Financial liabilities:	**Classification**
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.

Impairment of financial assets:
Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the assets have been negatively impacted.

Financial Instruments - continued

Impairment of financial assets - continued:
Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in income for the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through income for the period to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial instruments recorded at fair value:
Financial instruments recorded at fair value 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, 2017, and June 30, 2016 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.

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 assetφs 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 armφs 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.

Impairment of Non-financial Assets - continued

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 each of its operating entities and has determined that the fair value of its investment in Conversance Inc. *(note 5)* is not currently determinable resulting in an impairment provision of $294,562 to reduce the carrying value of the investment to $Nil.

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 Companyœs 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 Companyœs 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 Companyœs 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 Companyœs 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 Companyœs 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 Companyœs 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. The Company incurred bad debts of $1,286 (2016 - $Nil) during the year ended June 30, 2017.

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 Companyœs revenues during a reporting period. During the current year the Company had one major customer which represented 14% of total revenues. In the prior year two major customers accounted for 14% and 11% of revenues respectively. Amounts due from major customers represented 11% of accounts receivable at June 30, 2017 (2016 - 30%). 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 an obligation that has a floating interest rate as well as currency risk related to cash, accounts receivable, prepaid expenses, customer deposits 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 $7,705 (2016 ï gain of $3,002).

Risk Factors - continued

Sensitivity to market risks

At June 30, 2017 the Company had $82,277 (2016 ï $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 $642 over the next 12 month period.

At June 30, 2017 the Company had US$46,339 (2016 ï 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 $705 in carrying value.

At June 30, 2017 the Company had US$3,488 (2016 ï US $3,257) included in prepaid expenses. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a recognition of $53 in additional future expenses.

At June 30, 2017 the Company had US$56,360 (2016 ï 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 $857 in future cash inflow.

At June 30, 2017 the Company had US$63,707 (2016 ï US $Nil) included in customer deposits. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $969 in future revenue.

At June 30, 2017 the Company had US$195,669 (2016 ï 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 $2,976 in future cash outflow.

Based upon observations of recent market trends management believes that each of these outcomes is possible.

Forward-looking Information

Certain statements in this MD&A may constitute ñforward-lookingò statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and its subsidiary, or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this report, the words ñestimateò, ñbelieveò, ñanticipateò, ñintendò, ñexpectò, ñplanò, ñmayò, ñshouldò, ñwillò, the negative thereof or other variations thereon or comparable terminology are intended to identify forward-looking statements. 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 ñRisk Factorsò. New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those expressed or implied in such forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements contained in this MD&A speak only as of the date hereof. The Company does not undertake or assume any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.