

**ZTEST Electronics Inc.**

**Consolidated Financial Statements**

**June 30, 2017 and 2016**

**(Stated in Canadian Dollars)**



Chartered Accountants

## Independent Auditors' Report

### To the Shareholders of ZTEST Electronics Inc.:

We have audited the accompanying consolidated financial statements of ZTEST Electronics Inc. and its subsidiaries, which comprise the consolidated statement of financial position as at June 30, 2017 and the consolidated statements of changes in equity, comprehensive loss and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

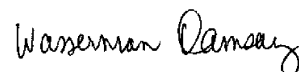
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of ZTEST Electronics Inc. and its subsidiaries as at June 30, 2017, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Other matter

The consolidated financial statements as at June 30, 2016 and for the year then ended were audited by another firm of Chartered Accountants who expressed an unmodified opinion on them in their report dated October 25, 2016.



Markham, Ontario  
October 24, 2017

Chartered Accountants  
Licensed Public Accountants

## ZTEST Electronics Inc.

### Consolidated Statements of Financial Position

(Stated in Canadian Dollars)

June 30, 2017 and 2016

	2017	2016
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 186,994	\$ 293,643
Accounts receivable	643,966	526,752
Inventories (note 3)	512,026	375,266
Prepaid expenses	15,102	14,781
	<b>1,358,088</b>	<b>1,210,442</b>
Lease deposit (note 8)	35,000	35,000
Equipment (note 4)	390,424	463,256
	<b>\$ 1,783,512</b>	<b>\$ 1,708,698</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Customer deposits	\$ 83,151	\$ -
Accounts payable and accrued liabilities (note 10)	697,260	539,599
Current portion of long-term debt (note 7)	39,493	39,493
	<b>819,904</b>	<b>579,092</b>
Long-term debt (note 7)	42,784	82,276
	<b>862,688</b>	<b>661,368</b>
<b>Commitment (note 8)</b>		
<b>Shareholders' Equity</b>		
Share capital (note 9)	22,418,782	22,151,406
Warrants (note 9)	105,376	4,219
Contributed surplus (note 9)	955,168	952,327
Deficit	(22,558,502)	(22,060,622)
	<b>920,824</b>	<b>1,047,330</b>
	<b>\$ 1,783,512</b>	<b>\$ 1,708,698</b>

The accompanying notes are an integral part of these consolidated financial statements

Approved by the Board:

Signed: "Wojciech Drzazga"

Director

Signed: "John Perreault"

Director

**ZTEST Electronics Inc.****Consolidated Statement of Changes in Equity**

(Stated in Canadian Dollars)

*June 30, 2017*

	Share Capital	Warrants	Contributed, Surplus	Deficit	Total
Balance, June 30, 2015	\$ 22,151,406	\$ 80,896	\$ 835,845	\$ (22,018,069)	\$ 1,050,078
Warrants expired	-	(76,677)	76,677	-	-
Share-based payments	-	-	39,805	-	39,805
Net loss for the year	-	-	-	(42,553)	(42,553)
Balance, June 30, 2016	22,151,406	4,219	952,327	(22,060,622)	1,047,330
Stock options exercised	81,471	-	(36,471)	-	45,000
Private placement, net	116,343	101,157	-	-	217,500
Shares issued as consideration for investment	69,562	-	-	-	69,562
Share-based payments	-	-	39,312	-	39,312
Net loss for the year	-	-	-	(497,880)	(497,880)
Balance, June 30, 2017	<b>\$ 22,418,782</b>	<b>\$ 105,376</b>	<b>\$ 955,168</b>	<b>\$ (22,558,502)</b>	<b>\$ 920,824</b>

*The accompanying notes are an integral part of these consolidated financial statements*

**ZTEST Electronics Inc.****Consolidated Statements of Comprehensive Loss**

(Stated in Canadian Dollars)

*For the years ended June 30, 2017 and 2016*

	2017	2016
<b>Product sales</b>	\$ 3,754,883	\$ 4,211,885
<b>Cost of product sales</b> (note 3)	<b>2,637,434</b>	2,892,752
	<b>1,117,449</b>	1,319,133
<b>Expenses</b>		
Selling, general and administrative (note 11)	1,278,212	1,312,926
Stock-based compensation (notes 9 and 10)	39,312	39,805
Interest expense - long-term debt	4,505	6,300
Interest expense - other	858	580
Depreciation of equipment	5,843	5,119
Foreign exchange gain	(7,705)	(3,002)
	<b>1,321,025</b>	1,361,728
<b>Loss before other income and provisions, and income taxes</b>	<b>(203,576)</b>	(42,595)
<b>Other income and provisions</b>		
Interest income	258	42
Impairment provision (note 5)	(294,562)	-
	<b>(294,304)</b>	42
<b>Loss before provision for income taxes</b>	<b>(497,880)</b>	(42,553)
Provision for income taxes (note 12)	-	-
<b>Net loss and comprehensive loss for the year</b>	<b>\$ (497,880)</b>	<b>\$ (42,553)</b>
<b>Net loss per share</b>		
Basic	\$ (0.04)	\$ (0.00)
Fully diluted	\$ (0.04)	\$ (0.00)
<b>Weighted average shares outstanding</b>		
Basic	14,158,696	10,648,696
Fully diluted	14,158,696	10,648,696

*The accompanying notes are an integral part of these consolidated financial statements*

## ZTEST Electronics Inc.

### Consolidated Statements of Cash Flows

(Stated in Canadian Dollars)

For the years ended June 30, 2017 and 2016

	2017	2016
<b>Cash flow from operating activities</b>		
Net loss for the year	\$ (497,880)	\$ (42,553)
Items not involving cash		
Stock-based compensation	39,312	39,805
Depreciation of equipment	93,611	111,638
Impairment provision	294,562	-
Changes in non-cash working capital items		
Accounts receivable	(117,214)	163,634
Inventories	(136,760)	7,279
Prepaid expenses	(321)	(4,710)
Customer deposits	83,151	(19,683)
Accounts payable and accrued liabilities	157,661	(9,119)
	<b>(83,878)</b>	<b>255,033</b>
<b>Cash flow from investing activities</b>		
Purchase of equipment	(20,779)	(34,306)
Investment in Conversance	(225,000)	-
	<b>(245,779)</b>	<b>(34,306)</b>
<b>Cash flow from financing activities</b>		
Repayment of long-term debt	(39,492)	(39,493)
Proceeds from share issuances	262,500	-
	<b>223,008</b>	<b>(39,493)</b>
<b>Increase in cash</b>	<b>(106,649)</b>	<b>181,234</b>
<b>Cash, beginning of year</b>	<b>293,643</b>	<b>112,409</b>
<b>Cash, end of year</b>	<b>\$ 186,994</b>	<b>\$ 293,643</b>

#### Supplemental Disclosure of Cash Flow Information:

During the year the Company had cash flows arising from interest and income taxes paid as follows:

Interest	\$ 5,475	\$ 6,995
Income taxes	\$ -	\$ -

*The accompanying notes are an integral part of these consolidated financial statements*

# ZTEST Electronics Inc.

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## Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2017 and 2016

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### 1. Business of the Company

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ZTEST Electronics Inc. (the Company) amalgamated under the laws of Ontario and carries on business at 523 McNicoll Avenue, Toronto, Ontario designing, developing, and assembling printed circuit boards and other electronic equipment. The Company's shares trade on the Canadian Securities Exchange under the symbol "ZTE".

### 2. Significant Accounting Policies

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#### Statement of compliance

The Company has prepared these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on October 24, 2017.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

#### Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting, except for cash flow information.

#### Basis of consolidation

These consolidated financial statements include the accounts of the Company as well as the following subsidiaries' assets and liabilities and revenues and expenses, arising subsequent to the date of acquisition:

Permatech Electronics Corporation (PEC)	- 100% owned
Northern Cross Minerals Inc.	- 66.7% owned (inactive)

#### Changes in accounting policies

The Company's accounting policies will typically change only when there is a relevant change in IFRS. There were no changes in IFRS during the current year that were required to be adopted by the Company.

#### Significant accounting judgments and estimates

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and also in future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant estimates and judgments include, but are not limited to, the recoverability of inventory and the recognition and valuation of deferred tax amounts.

#### Financial instruments

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

##### Financial assets:

Cash

Accounts receivable

##### Classification

Fair value through profit and loss

Loans and receivables

##### Financial liabilities:

Customer deposits

Accounts payable and accrued liabilities

Long-term debt

##### Classification

Other financial liabilities

Other financial liabilities

Other financial liabilities



**Notes to Consolidated Financial Statements**

(Stated in Canadian Dollars)

June 30, 2017 and 2016

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**2. Significant Accounting Policies - continued**

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**Financial instruments - continued**

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.

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.

**Notes to Consolidated Financial Statements**

(Stated in Canadian Dollars)

*June 30, 2017 and 2016*

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**2. Significant Accounting Policies - continued**

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**Financial instruments - continued***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 asset'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 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. 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 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.

**Inventories**

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the amount, net of the estimated costs to complete assemblies and sell them, which the Company expects to realize from the sale of inventory in the ordinary course of business. An assessment of net realizable value is completed at the end of each reporting period and any resulting write-downs, or recovery of previous write-downs, are reflected in income for the period. Current assessments have determined that net realizable values equal or exceed the corresponding costs and accordingly all inventories are currently carried at cost.

**Investments**

Corporate investments that constitute less than a 20% ownership interest, and are not financial instruments, are initially recorded at the cost of acquisition plus any directly attributable transaction costs. Subsequent to the acquisition date they are carried at amortized value, representing the initial carrying value net of any impairment provisions.

**Equipment**

Equipment is stated at cost. Depreciation is provided over the related assets' estimated useful lives using the following methods and annual rates:

Computer equipment	-	30 %	declining balance
Office equipment	-	20 %	declining balance
Manufacturing equipment	-	20 %	declining balance
Leasehold improvements	-	10 yrs	straight-line

The Company reviews the estimated useful lives, residual values and depreciation method at the end of each reporting period, accounting for the effect of any changes in estimate on a prospective basis.

**Notes to Consolidated Financial Statements**

(Stated in Canadian Dollars)

June 30, 2017 and 2016

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**2. Significant Accounting Policies - continued**

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**Revenue recognition**

Revenue is recognized when the risks and rewards of ownership pass to the customer, the amount of revenue can be measured reliably, and the ability to collect is reasonably assured, which typically arises when the product is delivered.

**Share based payment transactions**

The fair value of share options granted to employees is recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At the end of each financial reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

**Foreign exchange**

As at the transaction date all asset, liability, revenue, and expense amounts denominated in foreign currencies are translated into Canadian dollars using the exchange rate in effect as at that date. At the end of each financial reporting period all monetary assets and liabilities are translated into Canadian dollars using the exchange rate in effect as at that date. The resulting foreign exchange gains and losses are included in income for the period.

**Income taxes**

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in profit and loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in profit and loss and comprehensive (loss) income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

**Loss per share**

The Company presents basic and diluted income per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

Stock options and warrants outstanding are excluded in the computation of diluted earnings per share if their inclusion would increase the income per share, or decrease the loss per share, or if their exercise price exceeds the average market price for the period of the Company's shares.

**Segment disclosure**

The Company has a single location and operating segment accordingly, all revenues are generated in Canada and all assets are located in Canada.

## ZTEST Electronics Inc.

### Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2017 and 2016

## 2. Significant Accounting Policies - continued

### 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.

## 3. Inventories

The carrying value of inventories is comprised of:

	2017	2016
Raw materials and supplies <sup>(1)</sup>	\$ 496,707	\$ 345,015
Work in process	9,155	10,685
Finished goods	6,164	10,566
	<u>\$ 512,026</u>	<u>\$ 375,266</u>

<sup>(1)</sup> The raw materials and supplies is presented net of provisions for obsolete and/or slow-moving items in the amount of \$11,236 (2016 - \$3,654). Management makes estimates of future demand when establishing appropriate provisions. To the extent that actual inventory losses differ from these estimates both inventories and net loss will be affected.

Inventory utilization during the year was as follows:

	2017	2016
Raw materials and supplies used	\$ 1,712,277	\$ 1,916,893
Labour costs	688,893	728,021
Depreciation	87,767	106,519
Repairs and maintenance	52,296	50,625
Stencils and tooling	28,512	31,631
Shipping costs	49,050	50,284
Packaging costs	12,707	11,225
Net change in finished goods and work in process	5,932	(2,446)
Cost of product sales	<u>\$ 2,637,434</u>	<u>\$ 2,892,752</u>

## 4. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Cost:					
Balance, June 30, 2015	\$ 175,421	\$ 71,277	\$ 2,561,208	\$ 61,003	\$ 2,868,909
Additions	5,284	-	5,882	23,140	34,306
Balance, June 30, 2016	180,705	71,277	2,567,090	84,143	2,903,215
Additions	697	-	20,082	-	20,779
Balance, June 30, 2017	<u>\$ 181,402</u>	<u>\$ 71,277</u>	<u>\$ 2,587,172</u>	<u>\$ 84,143</u>	<u>\$ 2,923,994</u>

## ZTEST Electronics Inc.

### Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2017 and 2016

#### 4. Equipment - continued

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Accumulated Depreciation:					
Balance, June 30, 2015	\$ (168,548)	\$ (68,438)	\$ (2,030,332)	\$ (61,003)	\$ (2,328,321)
Depreciation	(2,855)	(818)	(106,808)	(1,157)	(111,638)
Balance, June 30, 2016	(171,403)	(69,256)	(2,137,140)	(62,160)	(2,439,959)
Depreciation	(2,895)	(404)	(87,998)	(2,314)	(93,611)
Balance, June 30, 2017	<b>\$ (174,298)</b>	<b>\$ (69,660)</b>	<b>\$ (2,225,138)</b>	<b>\$ (64,474)</b>	<b>\$ (2,533,570)</b>
Carrying Amounts:					
June 30, 2016	\$ 9,302	\$ 2,021	\$ 429,950	\$ 21,893	\$ 463,256
June 30, 2017	<b>\$ 7,104</b>	<b>\$ 1,617</b>	<b>\$ 362,034</b>	<b>\$ 19,669</b>	<b>\$ 390,424</b>

#### 5. Investments

	2017	2016
Conversance Inc., a private Canadian technology company currently developing its technology. The Company has 155,000 foundersø shares representing a 15.05% interest.	\$ 294,562	\$ -
Less: Impairment provision	(294,562)	-
	<b>\$ -</b>	<b>\$ -</b>

During the year the Company paid \$210,000, issued 1,325,000 common shares at \$0.0525 per share, and incurred costs of \$15,000 (*note 10*) to acquire this investment and an option to increase its interests to 19.91%. This option lapsed September 14, 2017. The Company has the right to maintain its equity interest by participating in further funding of Conversance Inc.

The shares of Conversance Inc. are subject to a hold period and, unless permitted under securities legislation, the shares may not be traded before the date that is four months and a day after the issuer becomes a reporting issuer in any province or territory.

Conversance Inc. is in the development phase with respect to its technology and is not generating revenue or positive cash flow. Under the circumstances, the fair value of Conversance Inc., as at the financial reporting date, is not readily determinable. Accordingly, the Company has recognized an impairment provision to reduce the carrying value of its investment to \$Nil.

#### 6. Bank operating loan

The Company has a line of credit, which can be drawn to a maximum of \$250,000, 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. No amounts were drawn upon this line of credit as at June 30, 2017 or June 30, 2016.

#### 7. Long-Term Debt

	2017	2016
Term loan bearing interest at the TD Bank prime lending rate plus 1.75% matures July 2019. Monthly payments of \$3,291, plus interest, are required until maturity.	\$ 82,277	\$ 121,769
Less: Current portion	<b>39,493</b>	39,493
	<b>\$ 42,784</b>	<b>\$ 82,276</b>

## ZTEST Electronics Inc.

### Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2017 and 2016

#### 7. Long-Term Debt - continued

The minimum annual future principal repayments are as follows:

2018	\$	39,493
2019		39,493
2020		3,291
	\$	<u>82,277</u>

#### 8. Commitment

The Company leases its operating facility under a lease that is due to expire March 31, 2021. A lease deposit in the amount of \$35,000 was paid and will be applied at the end of the lease. Minimum monthly rental payments ranging from \$8,526 to \$8,979 are required over the remaining term of the lease as follows:

2018	\$	103,668
2019		106,385
2020		107,743
2021		80,807
	\$	<u>398,603</u>

#### 9. Share Capital

##### Authorized:

Unlimited Common shares

Unlimited Preferred shares in one or more series.

##### Issued:

	2017	2016
Common shares	\$ <u>22,418,782</u>	\$ <u>22,151,406</u>
	Number of Shares	Amount
Balance June 30, 2016 and June 30, 2015	10,648,696	\$ 22,151,406
Exercise of stock options	700,000	81,471
Private placement <sup>(1)</sup>	4,500,000	116,343
Investment in Conversance Inc. (note 5)	1,325,000	69,562
Balance June 30, 2017 <sup>(2,3)</sup>	<u>17,173,696</u>	<u>\$ 22,418,782</u>

<sup>(1)</sup> 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. The amount reported is net of costs of \$7,500 (note 10) and \$101,157 allocated to the warrants. 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 were used to fund the Company's investment in Conversance Inc.

<sup>(2)</sup> Following the 2013 conversion of Class A Special Shares to common shares, 8,246 common shares remain reserved to be issued if and when the remaining Class A shareholders identify themselves to the Company.

<sup>(3)</sup> Subsequent to the financial reporting date 100,000 share purchase warrants were exercised for gross proceeds of \$10,000.

## ZTEST Electronics Inc.

### Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2017 and 2016

#### 9. Share Capital - continued

##### Details of warrants outstanding:

	Number of Warrants	Amount
Balance June 30, 2015	2,400,000	\$ 80,896
Expired during the year	(2,000,000)	(76,677)
Balance June 30, 2016	400,000	4,219
Warrants issued	4,500,000	101,157
Balance June 30, 2017	4,900,000	\$ <b>105,376</b>

	Number of Warrants	Exercise Price	Expiry Date
Issued Jan 10, 2014	400,000 <sup>(1)</sup>	\$ 0.10	Oct. 31, 2017
Issued Dec. 15, 2016	4,500,000	\$ 0.06	Dec. 15, 2021

	Number of Warrants	Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning of year	400,000 <sup>(1)</sup>	\$ 0.10	Oct. 31, 2017
Issued during year	4,500,000	\$ 0.06	Dec. 15, 2021
End of year	4,900,000	\$ 0.06	Aug. 14, 2021

<sup>(1)</sup> Subsequent to the financial reporting date 100,000 share purchase warrants were exercised for gross proceeds of \$10,000.

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

	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

##### Details of options outstanding:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted Sept. 14, 2012	130,000 <sup>(1, 2)</sup>	130,000	\$ 0.10	Sept. 14, 2017
Granted Dec. 31, 2013	300,000 <sup>(1)</sup>	300,000	\$ 0.10	Dec. 31, 2018
Granted Mar. 3, 2016	500,000 <sup>(1)</sup>	500,000	\$ 0.05	Mar. 3, 2021
Granted December 21, 2016	200,000 <sup>(1)</sup>	200,000	\$ 0.15	Dec. 21, 2021
Granted December 21, 2016	100,000	100,000	\$ 0.15	Dec. 21, 2021

	Common Shares Under Option	Weighted Average Price/Option	Weighted Average Expiry Date
Beginning of year	1,630,000	\$ 0.07	Mar. 23, 2020
Exercised during year	(700,000)	\$ 0.06	Jul. 19, 2020
Granted during year	300,000	\$ 0.15	Dec. 21, 2021
End of year	1,230,000	\$ 0.09	June 20, 2020

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

<sup>(2)</sup> Subsequent to the financial reporting date 130,000 options expired.

## ZTEST Electronics Inc.

### Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2017 and 2016

#### 9. Share Capital - continued

##### Details of options outstanding - continued:

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

	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

##### Share based payment transactions and contributed surplus

The Company has a stock option plan. The aggregate number of common shares reserved for issuance under this plan cannot exceed 20% of the aggregate number of common shares of the Company that are issued and outstanding. The Company has granted options for the purchase of common shares to employees, directors, officers and other service providers. The fair values of stock options granted have been determined using the Black-Scholes model and are added to contributed surplus as follows:

	2017	2016
Contributed surplus, beginning of year	\$ 952,327	\$ 835,845
Stock options granted	39,312	39,805
Stock options exercised	(36,471)	-
Warrants expired during the year	-	76,677
Contributed surplus, end of year	\$ 955,168	\$ 952,327

#### 10. Related Party Transactions and Balances

All expenses and year end balances with related parties are at exchange amounts established and agreed to by the related parties. All transactions with related parties are in the normal course of operations and have been carried out on the same terms as those accorded to unrelated parties.

The Company had the following transactions during the year with key management personnel:

Description	2017	2016
Employee and consultant compensation	\$ 361,492	\$ 365,184
Professional fees	31,074	41,963
Professional fees classified as cost of investment	15,000	-
Professional fees classified as share issuance costs	7,500	-
	\$ 415,066	\$ 407,147
Stock-based compensation	\$ 26,208	\$ 39,805

As at June 30, 2017 \$154,136 (2016 - \$131,816) was payable to key management personnel and included in accounts payable and accrued liabilities.



## ZTEST Electronics Inc.

### Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2017 and 2016

#### 11. Selling, general and administrative expenses

Selling, general and administrative expenses are comprised of the following amounts:

	2017	2016
Employee and consultant compensation (note 10)	\$ 852,682	\$ 835,846
Insurance	29,643	31,395
Occupancy costs	262,472	265,967
Professional fees (note 10)	56,074	84,155
Shareholder services	22,117	33,419
Other	55,224	62,144
	<u>\$ 1,278,212</u>	<u>\$ 1,312,926</u>

#### 12. Income Taxes

##### Current Income Taxes

A reconciliation of combined federal and provincial corporate income taxes at the Company's effective tax rate of 26.50% (2016 ó 26.50%) is as follows:

	2017	2016
Net (loss) income before income taxes	\$ (497,880)	\$ (42,553)
Expected income tax expense (recovery)	\$ (131,939)	\$ (11,276)
Expenses not deductible for income tax purposes	10,649	10,726
Change in tax benefits not recognized	121,290	550
Income tax expense	<u>\$ -</u>	<u>\$ -</u>

##### Deferred Tax

The following table summarizes the components of deferred tax:

	2017	2016
Deferred tax assets:		
Non-capital losses carried forward	\$ 5,675	\$ 23,040
Deferred tax liabilities:		
Property, plant and equipment	(5,675)	(23,040)
Net deferred tax liabilities	<u>\$ -</u>	<u>\$ -</u>

##### Unrecognized Deferred Tax Assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2017	2016
Inventory	\$ 11,236	\$ 3,654
Share issuance costs	6,000	3,638
Intangible assets	32,376	34,813
Property, plant and equipment	35,146	34,969
Resource related expenditures	349,050	349,050
Scientific research and experimental development	1,050,618	1,050,618
Non-capital loss carry-forwards	1,503,716	1,340,731
Net capital loss carry-forwards	<u>15,592,989</u>	<u>15,592,989</u>

## ZTEST Electronics Inc.

### Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2017 and 2016

## 12. Income Taxes - continued

### Unrecognized Deferred Tax Assets - continued

Share issue costs expire in 2021. The net capital loss carry forwards may be carried forward indefinitely, but can only be used to reduce capital gains. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits there from.

### Tax Loss Carry-Forwards

The potential income tax benefits resulting from the application of income tax losses have not been recognized in these consolidated financial statements. The following losses, which may be subject to verification by Canada Revenue Agency, include 100% of the respective losses of the subsidiary companies and will expire at the end of the taxation years as follows:

Year	
2027	\$ 209,777
2030	174,603
2031	577,958
2032	14,862
2033	76,561
2034	168,430
2035	136,504
2036	69,013
2037	184,366
	<u>\$ 1,612,074</u>

## 13. Capital disclosures

The Company's objective when managing capital is to ensure its ability to meet operating commitments as they become due and to provide return for shareholders. This is achieved by continuously monitoring actual and projected cash flows and making adjustments to capital as necessary. Except for the repayment terms associated with long-term debt instruments, there are no externally imposed capital requirements.

	2017	2016
Long-term debt	\$ 82,277	\$ 121,769
Share capital	22,418,782	22,151,406
Warrants	105,376	4,219
Contributed surplus	955,168	952,327
Deficit	(22,558,502)	(22,060,622)
Net capital under management	<u>\$ 1,003,101</u>	<u>\$ 1,169,099</u>

## 14. Financial risk factors

The Company is exposed in varying degrees to the following financial instrument related risks:

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

**Notes to Consolidated Financial Statements**

(Stated in Canadian Dollars)

June 30, 2017 and 2016

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**14. Financial risk factors - continued**

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**Concentration of credit risk**

Concentration of credit risk arises when one or more customers, defined as a major customer, individually account for 10% or more of the Company's revenues during a reporting period. During the current year the Company had 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 ó gain of \$3,002).

**Sensitivity to market risks**

At June 30, 2017 the Company had \$82,277 (2016 ó \$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 ó 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 ó 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 ó 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 ó 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 ó 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.

## ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2017

(Prepared as at October 24, 2017)

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### General

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of ZTEST Electronics Inc. ("ZTEST" or the "Company") constitutes management's review of the factors that affected the Company's consolidated financial and operating performance for the year ended June 30, 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](http://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's shares trade on the Canadian Securities Exchange under the symbol "ZTE".

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

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

<sup>(1)</sup> Member of the strategic planning committee

<sup>(2)</sup> Member of the audit committee

<sup>(3)</sup> 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 Company's revenues not only returned to more traditional levels but also exceeded revenues for the comparable periods of 2016.

The Company's 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 Company's investment in Conversance Inc. ("CI"), 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 Company's 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.

## ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2017

(Prepared as at October 24, 2017)

### Corporate Performance - continued

The Company's investment in CI, comprised of 155,000 founders' 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. CI's 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 Company's 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.

## ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2017

(Prepared as at October 24, 2017)

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### 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
<b>Total cost of product sales</b>	<b>\$ 2,637,434</b>	<b>\$ 2,892,752</b>	<b>\$ (255,318)</b>

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)
<b>Total cost of product sales</b>	<b>\$ 788,157</b>	<b>\$ 750,965</b>	<b>\$ 37,192</b>

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.

## ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2017

(Prepared as at October 24, 2017)

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### 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 than 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 management's 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)
<b>Total selling, general and administrative</b>	<b>\$ 1,278,212</b>	<b>\$ 1,312,926</b>	<b>\$ (34,714)</b>

**ZTEST Electronics Inc.**

Management's Discussion and Analysis

For The Year Ended June 30, 2017

(Prepared as at October 24, 2017)

**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)
<b>Total selling, general and administrative</b>	<b>\$ 314,516</b>	<b>\$ 339,422</b>	<b>\$ (24,906)</b>

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 Company's 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 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 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 management's expectations.

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

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



## ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2017

(Prepared as at October 24, 2017)

### Results of Operations - continued

Three month periods ended	June 17	June 16	Change
Interest expense ó long term	\$ 961	\$ 1,398	\$ (437)
Interest expense ó 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 ó 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 Company's 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 Company's 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, 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 reporting periods:

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**Related Party Transactions - continued**

Year ended June 30	2017	2016
Salaries and benefits	\$ 271,627	\$ 278,354
Consulting fees	50,925	50,850
Directors' 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

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**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 <sup>(1)</sup>		8,246
Stock options @ \$0.10 per share	Sept. 2017	130,000
Warrants @ \$0.10 per share	Oct. 2017	400,000
Stock options @ \$0.10 per share	Dec. 2018	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)
<b>Shares reserved as at the date of this document</b>		<b>5,908,246</b>

<sup>(1)</sup> In the 2013 fiscal year, the Company's 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)
<b>Fully diluted number of shares at the date of this document</b>	<b>23,181,942</b>

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

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**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 <sup>(1)</sup>	\$	0.10	Dec. 31, 2018
Granted March 3, 2016	500,000 <sup>(1)</sup>	\$	0.05	Mar. 3, 2021
Granted December 21, 2016	200,000 <sup>(1)</sup>	\$	0.15	Dec. 21, 2021
Granted December 21, 2016	100,000	\$	0.15	Dec. 21, 2021

<sup>(1)</sup> 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

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### **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

Accounts receivable

#### **Classification**

Fair value through profit and loss

Loans and receivables

#### **Financial liabilities:**

Customer deposits

Accounts payable and accrued liabilities

Long-term debt

#### **Classification**

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.

#### **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.

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### **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 asset'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 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. 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.

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### **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 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.

#### **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. 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 Company's 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 ó gain of \$3,002).

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### **Risk Factors - continued**

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

At June 30, 2017 the Company had \$82,277 (2016 ó \$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 ó 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 ó 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 ó 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 ó 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 ó 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 forward-looking statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and its subsidiary, or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this report, the words estimate, believe, anticipate, intend, expect, plan, may, should, will, the negative thereof or other variations thereon or comparable terminology are intended to identify forward-looking statements. Such forward-looking statements reflect the current expectations of the management of the Company with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results, performance or achievements to differ materially from those expressed or implied by those forward-looking statements, such as reduced funding, long sales cycles, currency and interest rate fluctuations, increased competition and general economic and market factors and including the risk factors summarized above 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.