General

The following managementôs discussion and analysis (ñMD&Aò) of the financial condition and results of operations of ZTEST Electronics Inc. (ñZTESTò or the ñCompanyò) constitutes managementôs review of the factors that affected the Companyôs interim condensed consolidated financial and operating performance for the three months ended September 30, 2017. The MD&A was prepared as of November 28, 2017 and was approved by the Board of Directors on November 28, 2017. It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the three months ended September 30, 2017, and the audited consolidated financial statements 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 Companyôs 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 2018 fiscal year has started, from an operational perspective, right where the 2017 fiscal year left off. After withstanding a market decline that began in the 2016 fiscal year, and peaked during the second quarter of 2017, there was a return to more traditional revenue figures. These more traditional results have continued through the first quarter of 2018 as demonstrated by an increase of more than 38% in quarterly revenues in comparison to the September 2016 period.

The first quarter of 2018 is the third consecutive quarter for which the Company has reported revenues in excess of $1,000,000, revenue growth in comparison to the comparable period one year earlier, and net income from operations. This may constitute the start of a favourable trend but it certainly signals that the latest market irregularity has passed.

The more favourable results realized over the past nine months have also been reflected in enhanced liquidity, growth in both equity and capital under management, and a reduction in total liabilities. Cash flow from operations has not yet returned to positive territory but there are indicators that it is likely to do so very soon.

Management will continue efforts to grow the Company, to maintain and benefit from its strong reputation in the industry, and to maximize return for stakeholders while minimizing business risks. The following data may provide some additional insights relative to the Companyôs operating performance and financial position:

Corporate Performance - continued

	For the fiscal years ended:		
	June 2017	June 2016	June 2015
Total Revenues	3,754,883	4,211,885	3,945,720
Net income (loss) income from operations	(203,576)	(42,595)	(33,397)
Per share - basic	(0.014)	(0.004)	(0.003)
Net income (loss) for the year	(497,880)	(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 fiscal quarters ended:				
	Sept. 2017	June 2017	Mar. 2017	Dec. 2016	Sept. 2016
Total Revenues	1,145,035	1,158,812	1,099,568	668,803	827,700
Net income (loss) from operations	44,797	60,350	33,568	(180,899)	(116,595)
Per share - basic	0.002	0.004	0.002	(0.015)	(0.011)
Net income (loss) for the period	44,797	33,569	(180,788)	(116,548)	(11,343)
Per share - basic	0.002	0.002	(0.015)	(0.011)	(0.001)
Total assets	1,662,504	1,954,654	1,648,537	1,535,979	1,820,333
Total long-term financial liabilities	32,911	52,656	62,530	72,403	111,895
Total liabilities	686,883	819,716	550,418	585,197	781,598

	For the fiscal quarters ended:				
	June 2016	Mar. 2016	Dec. 2015	Sept. 2015	June 2015
Total Revenues	1,013,950	1,094,232	1,223,691	880,012	1,122,088
Net income (loss) from operations	(81,112)	(15,550)	66,133	(12,066)	111,838
Per share - basic	(0.008)	(0.001)	0.006	(0.001)	0.011
Net income (loss) for the period	(81,112)	(15,550)	65,452	(11,343)	111,838
Per share - basic	(0.008)	(0.001)	0.006	(0.001)	0.011
Total assets	1,708,698	1,843,819	1,890,491	1,820,333	1,770,999
Total long-term financial liabilities	82,276	92,149	102,022	111,895	121,769
Total liabilities	661,368	715,377	786,304	781,598	720,921

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

Results of Operations

As noted previously, the Company has realized an increase in revenues of over 38% in comparison to one year prior. Of comparable significance, the Company has also seen its gross margins grow from 26% of revenues at September 2016 to 32% at September 2017. The different elements of cost of product sales were as follows:

Three month periods ended September 30	2017	2016	Change
Raw materials and supplies consumed	$ 580,669	$ 395,764	$ 184,905
Labour costs incurred	182,154	158,803	23,351
Depreciation	18,068	21,920	(3,852)
Repairs and maintenance	4,753	18,655	(13,902)
Other costs	23,866	23,005	861
Net change in finished goods and work in process	(31,245)	(6,014)	(25,231)
Total cost of product sales	$ 778,265	$ 612,133	$ 166,132

Results of Operations - continued

The cost of raw materials and supplies consumed rose significantly but also rose as a percentage of revenues for the period. For the 2016 period this cost was equivalent to 47.8% of revenues while it was 50.7% of revenues for the period ended September 30, 2017. The September 2017 percentage of periodic revenues is also greater than it had been in the preceding fiscal quarter, and the preceding fiscal year. This increase should not be construed to represent anything other than a change, for this period, in the choice being made by our customers. Customers always have the option to contract assembly of materials that they themselves supply or to have the materials supplied by us. During this period a greater proportion of customers chose to have us supply the materials. Management continually promotes the benefits customers may derive from our provision of the necessary materials. However, the availability of choice leads to variances in periodic costs, particularly over shorter time periods.

Labour costs incurred is a measure of labour paid for during the period. Labour management, which considers both immediate and future labour demand, frequently results in periodic variances that are more moderate than the changes in revenue during the same period. This relationship held true in the most recent period as the cost of labour increased almost 15%, as compared to the 38% rise in revenues. There were no labour anomalies during the period and the costs incurred were in line with management expectations and with prior periods for which labour demand was similar. The disparity between the percentage changes in labour cost, and in revenues for the period, also fits with the rise in the cost of raw materials and supplies consumed. Each of these results tell us that a greater percentage of revenues for this period arose due to charges for the parts that were assembled rather than from the actual assembly of those parts.

This shift in sales mix is even more evident when we examine the total labour costs included in the cost of product sales. This is accomplished by combining the labour costs incurred with the net change in finished goods and work in process. This aggregation reveals the net cost in 2017 to have been $150,909 or marginally lower than the cost of $152,789 for the period ended September 2016. Although many factors affect this cost, the 2017 results support the argument that labour utilization was highly effective and that the Company continues to realize cost savings as a result of training and automation.

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 so depreciation costs continued to decline. 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 for the period ended September 2017 approximated only 25% of the costs incurred during the period ended September 2016. The Company conducts maintenance continually while repairs are conducted on an as-needed basis, or when time permits. The 2016 costs included certain repairs while the 2017 expense was exclusively regular maintenance. No required repairs or maintenance were deferred during the recently concluded quarter.

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

Selling, general and administrative expenses were as follows:

Three month periods ended September 30	2017	2016	Change
Employee and consultant compensation	$ 222,649	$ 219,495	$ 3,154
Occupancy costs	74,003	67,441	6,562
Professional fees	9,215	19,453	(10,238)
Shareholder services	3,072	2,661	411
Insurance	7,418	7,471	(53)
Other costs	10,934	11,784	(850)
Total selling, general and administrative	$ 327,291	$ 328,305	$ (1,014)

Results of Operations - continued

Employee and consultant compensation cost, which include salaries, benefits, consulting fees and independent directorsô fees, are marginally higher for the 2017 fiscal quarter. Salaries and benefits represent approximately 83% of the total for each period, and rose by 1% year over year. Directorsô fees have increased just over $4,000 as a consequence of having added a third independent Director to the Board last December and because the amount paid to certain independent Directors increased by 10%. Consulting fees vary from period to period, according to the Companyøs requirement for services, and declined by almost $4,000 in 2017.

Occupancy costs consist primarily of rent, common area costs, and utility charges for the Companyøs operating facility. The higher cost in 2017 is attributable to greater hydro costs and an increase in rental expenses. The rental increase is attributable to a 2.7% rise in basic rental charges, which took effect January 2017, and the recovery, in the September 2016 period, of excess common area costs paid for the 2015 calendar year. The Companyøs operating facility lease runs through March 2021 and occupancy costs are expected to remain generally comparable throughout that lease term.

Professional fees are comprised of fees for legal services and a prorated portion of the estimated cost of the upcoming audit of the annual financial statements. The Company changed auditors prior to the commencement of the 2017 annual audit and realized a reduction in fees of approximately $2,500 per quarter. Legal costs have also declined in the 2017 period as there was no recurrence of the 2016 investigation conducted into potential business development opportunities.

Each remaining element of selling, general and administrative expenses are individually insignificant, are continuously monitored, have not varied significantly, and are within managementøs expectations.

The Companyøs cost of borrowing was as follows:

Three month periods ended September 30	2017	2016	Change
Interest expense ï long term	$ 914	$ 1,304	$ (390)
Interest expense ï other	467	138	329
Total financing expenses	$ 1,381	$ 1,442	$ (61)

The Company has a single long-term 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.

Interest expense ï other represents interest, if any, arising from the use of the operating line as well as miscellaneous interest charges incurred. The Company did make temporary use of the bank operating line during the period ended September 30, 2017 as is reflected in the modest increase to interest costs incurred.

Liquidity

At September 30, 2017, the Company had a working capital surplus of $601,537 (June 30, 2017 ï $538,184) and current financial assets of $813,884 (June 30, 2017 ï $830,960) available to settle current financial liabilities of $653,972 (June 30, 2017 ï $819,904). The Company also has access to a $250,000 bank operating line, which was not drawn upon as of September 30, 2017 or June 30, 2017.

In addition to satisfying the cost of operations the Company must also address the payment or other settlement of the following amounts as at September 30, 2017:

	Due by Sept. 2018	Due by Sept. 2020	Due by Sept. 2022	Total Due
Long-term debt	$ 39,493	$ 32,911	$ -	$ 72,404
Operating leases	104,347	214,807	53,871	373,025
	$ 143,840	$ 247,718	$ 53,871	$ 445,429

Capital Resources

The Company has a $250,000 commercial line of credit from which nothing was drawn as at September 30, 2017 or June 30, 2017. Loan balances bear interest at the prime lending rate plus 2.5%, are due upon demand, and are secured by a general security agreement covering the assets of PEC.

Related Party Transactions

The Company compensates its key management personnel for services rendered. These include salaries and benefits paid to Wojciech Drzazga (CEO) and John Perreault (President), consulting fees and accounting fees paid to Michael D. Kindy (CFO), legal fees paid to a legal firm in which William R. Johnstone (Corporate Secretary) is a Partner, Directorsô fees, and share-based payments. The Compensation rates are agreed to by the key management personnel and are predicated upon prevailing market rates. The following expenses have arisen involving these related parties:

Three month periods ended September 30		2017		2016
Salaries and benefits (1)	$	67,837	$	68,892
Consulting fees (1)		19,995		22,125
Directorsô fees (1)		11,880		7,590
Legal fees (2)		2,278		10,247
Cash based expenditures	$	101,990	$	108,854
Share-based payments	$	-	$	-

(1) Reported in the unaudited condensed interim consolidated financial statements as an element of employee and consultant compensation.
(2) Reported in the unaudited condensed interim consolidated financial statements as an element of professional fees.

The following balances due to related parties are reported as an element of accounts payable and accrued liabilities as at September 30 of each year:

		2017		2016
Salaries and benefits payable	$	9,451	$	17,998
Consulting fees payable	$	145,572	$	123,849
Legal fees payable	$	2,444	$	2,000

The following stock options have been issued to Directors and/or Officers of the Company and were outstanding as at September 30, 2017:

Description	Expiry Date	Number of Common Shares
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

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	17,173,696	$	22,418,782
Common shares issued on exercise of warrants	100,000		11,055
Common shares as at Sept. 30, 2017	17,273,696		22,429,837
Common shares issued on exercise of warrants	200,000		22,110
Common shares as at the date of this document	17,473,696	$	22,451,947

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
Warrants @ $0.10 per share	Oct. 2017	300,000
Stock options @ $0.10 per share	Dec. 2018	400,000
Stock options @ $0.05 per share	Mar. 2021	800,000
Stock options @ $0.15 per share	Dec. 2021	300,000
Warrants @ $0.06 per share	Dec. 2021	4,500,000
Shares reserved as at Sept. 30, 2017		5,908,246
Warrants @ $0.10 per share - exercised	Oct. 2017	(200,000)
Warrants @ $0.10 per share - expired	Oct. 2017	(100,000)
Shares reserved as at the date of this document		5,608,246

(1) In the 2013 fiscal year, the Companyôs shareholders approved the issuance of 99,454 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 as at Sept. 30, 2017	17,273,696
Shares reserved as at Sept. 30, 2017	5,908,246
Fully diluted position Sept. 30, 2017	23,181,942
Shares issued on exercise of warrants	200,000
Reduction in shares reserved for warrants	(300,000)
Fully diluted position as at the date of this document	23,081,942

Additional disclosures relative to stock options are as follows:

	Common Shares Under Option	Weighted Average Price per Option	Weighted Average Expiry Date
Balance as at June 30, 2017	1,230,000	0.09	June 20, 2020
Expired during the period	(130,000)	0.10	Sept. 14, 2017
Balance as at Sept. 30, 2017 and as at the date of this document	1,100,000	$ 0.09	Oct. 17, 2020

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted Dec. 31, 2013	300,000	400,000	$ 0.10	Dec. 31, 2018
Granted Mar. 3, 2016	500,000	800,000	$ 0.05	Mar. 3, 2021
Granted Dec. 21, 2016	300,000	100,000	$ 0.15	Dec. 21, 2021

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

Convertible Instruments and Other Securities

Additional disclosures relative to share purchase warrants are as follows:

	Number of Warrants		Weighted Average Price per Warrant	Weighted Average Expiry Date
Balance as at June 30, 2017	4,900,000	$	0.06	Aug. 14, 2021
Exercised during the period	(100,000)		0.10	Oct. 31, 2017
Balance as at Sept. 30, 2017	4,800,000	$	0.06	Sep. 11, 2021
Exercised after Sept. 30, 2017	(200,000)		0.10	Oct. 31, 2017
Expired after Sept. 30, 2017	(100,000)		0.10	Oct. 31, 2017
Balance as at the date of this document	4,500,000	$	0.06	Dec. 15, 2021

	Number of Warrants	Value of Warrants	Exercise Price	Expiry Date
Issued Dec. 15, 2016	4,500,000	$ 101,157	$ 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 Companyôs 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.

Financial Instruments - continued

Loans and receivables:
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Other financial liabilities:
Other financial liabilities are recognized initially at fair value, net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument to the net carrying amount on initial recognition. Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

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

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

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

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

Financial instruments recorded at fair value:
Financial instruments recorded at fair value 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 at September 30, 2017, and June 30, 2017 cash and cash equivalents was measured at fair value and classified within Level 1 of the fair value hierarchy.

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 assetõs 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 armõs 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.

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 Companyõs 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 Companyõs 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 Companyõs 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 Companyõs 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 Companyõs 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 Companyõs 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. No bad debts were recorded in the periods ended September 30, 2017 or September 30, 2016.

Risk Factors - continued

Concentration of credit risk

Concentration of credit risk arises when one or more customers, defined as a major customer, individually account for 10% or more of the Companyõs revenues during a reporting period. During the current period the Company had 1 major customer which represented 22% of total revenues. In the comparative period, there were 2 major customers representing 14% and 11% of revenues. Amounts due from major customers represented 19% of accounts receivable at September 30, 2017 (September 30, 2016 - 40%). 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 period the Company has reported a foreign exchange gain of $7,962 (Sept. 2016 ï loss of $980).

Sensitivity to market risks

At September 30, 2017, the Company had:

- A term loan balance of $72,404 (June 30, 2017 ï $82,277) 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 $543 over the next 12-month period.
- US$22,675 (June 30, 2017 ï US$46,339) included in cash. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $288 in carrying value.
- US$2,571 (June 30, 2017 ï US$3,488) included in prepaid expenses. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in recognition of $33 in additional future expenses.
- US$107,562 (June 30, 2017 ï US$56,360) included in accounts receivable. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $1,367 in future cash inflow.
- US$7,043 (June 30, 2017 ï US$63,707) 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 $90 in future revenue.
- US$116,747 (June 30, 2017 ï US$195,669) included in accounts payable. A 5% decrease in the value of the Canadian dollar relative to the US dollar would result in an increase of $1,484 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.