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, 2019. The MD&A was prepared as of October 25, 2019 and was approved by the Board of Directors on October 25, 2019. It should be read in conjunction with the consolidated financial statements of the Company for the year ended June 30, 2019, 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 ("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 Company held its annual general meeting on January 8, 2019 resulting in the election, or re-election, of the Board members noted below. The inaugural meeting of this Board was held immediately following the annual general meeting, during which the Officers of the Company were reappointed and the subcommittee noted below was formed.

Name	Position(s)
Steve Smith [1]	Chairman, President & Chief Executive Officer
K. Michael Guerreiro [1*]	Director (Independent), and Director of subsidiary
Brendan Purdy [1]	Director (Independent)
Michael D. Kindy, CPA, CA	VP Finance & Chief Financial Officer
William R. Johnstone, LLB	Corporate Secretary
Wojciech Drzazga	Director and Officer of subsidiary
John Perreault	Officer of subsidiary
William J. Brown	Director of subsidiary

* Acts as Committee Chair
(1) Member of the audit committee

Corporate Performance

The final fiscal quarter of 2019 saw the recent trend, since Q3 2018, of improved operations continue. Revenues for the quarter were more than 25% greater than during the final quarter of 2018 and 2019 annual revenues were more than 19% ahead of 2018 results. The revenue growth realized in 2019 was an encouraging first step to allow the Company to continue on its path to improved operating results but there are no assurances this trend will continue.

Revenue growth may be the first step however gross margins are a very close second. The gross margins for the 2019 year were up by more than 8% in comparison to one year prior. Overall margin growth is a positive result but that progression is tempered by a decline in margins as a percentage of revenues. While still lagging the percentage of revenue realized in the final quarter of 2018, the fact that margins in Q4 2019 were 31.1% of revenues, as compared to 27.7% for the year, is contemplated as a possible break in the trend towards lower margins that has plagued the industry for some time.

In addition to its core operations, the Company continues to recognize its proportionate share in the losses of Conversance Inc. Conversance is a Waterloo based company that is developing its proprietary artificial-intelligence supported distributed ledger technologies but has not yet commenced commercial operations. For the 2019 fiscal year, the Company's 25.29% interest in the losses of Conversance amounted to $70,110. For 2018, the year in which the Company increased its holdings from 15.05%, first to 19.91% and then to 25.29%, the loss amounted to $27,451. Although Conversance appears to be progressing towards revenue generation it remains uncertain when, or if, revenue generation will commence or if it will be of sufficient magnitude to make it commercially successful.

Corporate Performance - continued

During the year the Company also completed a financing and raised net proceeds of $211,022. This financing was completed, in part, to fund a $112,000 investment into Twenty49 Ltd., a start-up data collection company. The investment amount was forwarded to Twenty49 in March of 2019 however certain terms of the Company's subscription agreement were not satisfied, including the acquisition of proprietary technologies and the funding of investments by other parties. At June 30, 2019 the Company was the only shareholder of Twenty49 Ltd. and accordingly has consolidated 100% of the assets and losses of Twenty49 Ltd. Subsequent to the year end the Company announced that it had terminated its subscription agreement and ceased its relationship with Twenty49 after recouping approximately $73,000 of its original investment.

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

	For the fiscal years ended:		
	June 2019	June 2018	June 2017
Total Revenues	4,399,062	3,686,132	3,754,883
Net loss from operations	(274,085)	(856,314)	(203,576)
Per share - basic	(0.013)	(0.046)	(0.014)
Net loss for the year	(344,186)	(883,756)	(497,880)
Per share - basic	(0.017)	(0.047)	(0.035)
Total assets	2,268,045	2,226,121	1,783,512
Total long-term financial liabilities	-	3,291	42,784
Total liabilities	943,985	783,898	862,688

	For the fiscal quarters ended:			
	June 2019	Mar. 2019	Dec. 2018	Sept. 2018
Total Revenues	1,269,697	1,065,043	1,097,839	966,483
Net income (loss) from operations	5,518	(102,068)	(73,351)	(104,184)
Per share - basic	0.000	(0.005)	(0.004)	(0.005)
Net income (loss) for the period	(11,385)	(127,279)	(87,749)	(117,773)
Per share - basic	(0.001)	(0.006)	(0.004)	(0.006)
Total assets	2,268,045	2,463,838	2,373,935	2,287,820
Total long-term financial liabilities	-	-	-	-
Total liabilities	943,985	1,128,394	1,004,124	956,800

	For the fiscal quarters ended:			
	June 2018	Mar. 2018	Dec. 2017	Sept. 2017
Total Revenues	1,010,852	729,743	800,502	1,145,035
Net income (loss) from operations	(12,076)	(741,021)	(148,014)	44,797
Per share - basic	(0.001)	(0.038)	(0.008)	0.003
Net income (loss) for the period	(29,583)	(750,957)	(148,013)	44,797
Per share - basic	(0.001)	(0.038)	(0.008)	0.003
Total assets	2,226,121	2,224,813	1,399,349	1,662,504
Total long-term financial liabilities	3,291	13,164	23,037	32,911
Total liabilities	783,898	753,008	544,242	686,883

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

Results of Operations

Revenues for the final quarter of 2019, and for the 2019 fiscal year, were each significantly greater than they had been for the comparable periods in 2018. Unfortunately, the cost of product sales grew at a faster rate than revenues thereby compressing gross margins. The gross margins were 31.1% of revenues in 2019, off 2% from corresponding 2018 levels, while the 2019 annual gross margins were 27.7% of revenues or 2.7% lower than they had been in 2018. There are many factors contributing to this including product mix, smaller order sizes, more aggressive competition, and the lingering effects of legislated labour cost increases. Management is continuously investigating all product costs and alternatives for enhancing margins as a percentage of periodic revenues.

The different elements of cost of product sales, and the changes realized, are as follows:

Years ended	June 19	June 18	Change
Raw materials and supplies consumed	$ 2,136,502	$ 1,672,413	$ 464,089
Labour costs incurred	800,911	730,614	70,297
Depreciation	59,040	72,980	(13,940)
Repairs and maintenance	51,748	17,594	34,154
Other costs	127,313	89,271	38,042
Net change in finished goods and work in process	7,072	(18,725)	25,797
Total cost of product sales	$ 3,182,586	$ 2,564,147	$ 618,439

Three month periods ended	June 19	June 18	Change
Raw materials and supplies consumed	$ 564,255	$ 417,680	$ 146,575
Labour costs incurred	210,236	195,204	15,032
Depreciation	14,760	18,334	(3,574)
Repairs and maintenance	15,184	7,681	7,503
Other costs	33,134	23,155	9,979
Net change in finished goods and work in process	36,161	14,346	21,815
Total cost of product sales	$ 873,730	$ 676,400	$ 197,330

Raw materials and supplies consumed increased more than 35% in the final quarter, and almost 28% for the year, in comparison to 2018 levels. These costs equated to 48.6% of annual revenues in 2019 even though the costs for the final quarter were only 44.4% of revenues for that period. For the 2018 fiscal year, these costs were equivalent to 45.4% of annual revenues including 41.3% in Q4. Rising market costs for componentry, along with a higher complexity of finished products, have certainly contributed to the increases realized in 2019. The Company continues to promote the supply of components as an effective solution for its customers, who also have the option to contract for the assembly of materials that they themselves supply. The existence of this customer option means that costs incurred in one period, or costs as a percentage of periodic revenues, are not necessarily indicative of future periods.

Labour costs for 2019 are up less than 10% in comparison to 2018 levels which is a favourable result given that revenues increased more than 19% in this same period. A closer look however reveals an increase of less than 8% in the final quarter of 2019, and less than 7% for the last half of the year, meaning that a disproportionate amount of the increase happened in the first half of the year. This is the effect of new labour rates that were legislated in as of January 1, 2018 so were not yet in effect during the first half of the 2018 fiscal year.

The net change in finished goods and work in process is a measure of the change in labour costs included in inventory and this must be combined with labour costs incurred to determine the total labour costs included in cost of product sales. The combined annual labour costs for 2019 are 13.5% greater than they had been during 2018 while the costs for the fourth quarter of 2019 are 17.6% greater than 2018 levels. Each of these remain as favourable results when compared to revenue increases of more than 19% for the year and 25% in the quarter. The Company will continue to manage labour to match, as closely as possible, labour supply with current and expected future demand.

Results of Operations - continued

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 were considerably higher for the 2019 periods than they had been in 2018. However, it may be better to characterize them as having been lower in 2018 given that the 2019 expenses remain in line with historical norms. The Company conducts maintenance continually while repairs are conducted on an as-needed basis, or on a preventative basis when time permits. No significant repairs or maintenance were deferred during the recently concluded quarter.

Other costs include stencils and tooling, packaging, and freight costs net of amounts recovered. Each of these costs is incurred on an as-needed basis without any specific correlation with revenues. These costs are closely monitored and are within management's expectations.

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

Years ended	June 19	June 18	Change
Employee and consultant compensation	$ 1,005,099	$ 896,089	$ 109,010
Occupancy costs	260,270	263,446	(3,176)
Professional fees	66,979	99,998	(33,019)
Insurance	31,931	30,945	986
Shareholder services	25,071	26,121	(1,050)
Other costs	60,727	59,352	1,375
Total selling, general and administrative	$ 1,450,077	$ 1,375,951	$ 74,126

Three month periods ended	June 19	June 18	Change
Employee and consultant compensation	$ 269,925	$ 217,438	$ 52,487
Occupancy costs	66,719	65,915	804
Professional fees	17,303	26,055	(8,752)
Insurance	8,122	7,929	193
Shareholder services	3,233	3,222	11
Other costs	16,612	13,919	2,693
Total selling, general and administrative	$ 381,914	$ 334,478	$ 47,436

Employee and consultant compensation costs, which include salaries, benefits, consulting fees, and independent directors' fees, have risen more than 12% in 2019, including an increase of more than 24% in the final quarter, when compared to 2018 costs. Most individual elements of this cost category were quite comparable from one period to the other. The notable exceptions were that the Company retained a new CEO at the beginning of the 2019 fiscal year and almost $29,000 consulting costs arose in Twenty49 Ltd. which impact upon the final quarter.

Occupancy costs consist primarily of rent, common area costs, and utility charges for the Company's operating facility. Basic rental charges increased by 1.0% in January 2018 and will now remain constant through the remainder of the lease term. The remaining variance is due to fluctuations in utility rates and usage, property tax rates, and other common area costs associated with the facility and its lease. The Company's operating facility lease runs through March 2021 and occupancy costs are expected to remain generally comparable throughout that remaining lease term.

Results of Operations - continued

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. Audit costs have remained consistent from 2018 to 2019. Legal fees were higher than usual in 2018 as a consequence of additional corporate administration and governance services but also because of diligence services made necessary by matters relating to the annual general meeting that was held December 17, 2017.

Shareholder services, insurance expense and other costs are all closely monitored, are within management expectations, and are reasonably consistent between the periods presented.

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

Years ended	June 19	June 18	Change
Interest expense – long term	$ 1,260	$ 3,092	$ (1,832)
Interest expense – other	10,254	4,034	6,220
Financing fees	19,283	-	19,283
Total financing expenses	$ 30,797	$ 7,126	$ 23,671

Three month periods ended	June 19	June 18	Change
Interest expense – long term	$ 117	$ 611	$ (494)
Interest expense – other	2,672	2,914	(242)
Financing fees	5,509	-	5,509
Total financing expenses	$ 8,298	$ 3,525	$ 4,773

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 as a result of monthly principal repayments, and this results in declining interest costs.

Interest expense – other represents interest arising from the use of the Company's operating line as well as miscellaneous interest charges incurred. Throughout 2019, and the final quarter of 2018, the Company made relatively consistent use of its bank operating line while prior to that there was much more limited utilization.

During the first fiscal quarter the Company entered into an agreement with a related party whereby it may offer to sell specific accounts receivable to that related party. If the related party accepts then they assume all collection risks associated with that receivable in exchange for a discount from the face value of the receivable. The resulting discount is accounted for as financing fees at the time of the sale.

Liquidity

At June 30, 2019 the Company had working capital of $292,444 (2018- $281,753) and current financial assets of $591,575 (2018- $479,621) available to settle current financial liabilities of $943,985 (2018- $780,607). The Company also has access to a $250,000 bank operating line, of which $150,000 (2018 - $110,000) had been drawn as of June 30, 2019.

In addition, the Company must also address the payment of the following amounts as at June 30, 2019:

	Due by June 2020	Due by June 2021	Due by June 2022	Due after June 2022	Total Due
Long-term debt	$ 3,291	$ -	$ -	$ -	$ 3,291
Operating leases	107,743	80,807	-	-	188,550
	$ 111,034	$ 80,807	$ -	$ -	$ 191,841

Capital Resources

In December 2018, the Company completed the first closing of a private placement transaction whereby it issued 440,000 working capital units for gross proceeds of $132,000. Each unit consisted of one common share and one-half common share purchase warrant. Each full common share purchase warrant entitles the holder to acquire one additional common share of the Company at a price of $0.40 until June 28, 2020. The Company paid finders' fees of $7,140, incurred other costs of $6,450, attributed a value of $27,928 to the common share purchase warrants, and issued 23,800 broker warrants valued at $5,294. Each broker warrant entitles the holder to acquire one common share of the Company for $0.30 until June 28, 2020.

In January 2019, the Company completed the final closing of the private placement transaction whereby it issued 340,000 working capital units for gross proceeds of $102,000. Each unit consisted of one common share and one-half common share purchase warrant. Each full common share purchase warrant entitles the holder to acquire one additional common share of the Company at a price of $0.40 until July 31, 2020. The Company paid finders' fees of $4,620, incurred other costs of $4,743, attributed a value of $23,249 to the common share purchase warrants, and issued 15,400 broker warrants valued at $3,682. Each broker warrant entitles the holder to acquire one common share of the Company for $0.30 until July 31, 2020.

The Company has a $250,000 commercial line of credit from which $150,000 (2018 - $110,000) was drawn as at June 30, 2019. 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

The Company had transactions during the period with key management personnel and with 1114377 Ontario Inc., a company controlled by the spouse of a Director of Permatech Electronics Corporation. These include consulting fees paid to Steve Smith (President and CEO), consulting fees and accounting fees paid to Michael D. Kindy (CFO), Directors' fees paid to independent Directors of the Company and its subsidiary, salaries and benefits paid to Wojciech Drzazga [3] and John Perreault [4] as officers of the subsidiary, legal fees paid to a legal firm in which William R. Johnstone (Corporate Secretary) is a partner, financing fees paid to 1114377 Ontario Inc., and share-based payments related to key management personnel. Compensation rates are agreed to by the related parties and are predicated upon prevailing market rates. The following expenses, involving these related parties, have arisen during the reporting periods:

Year ended June 30		2019		2018
Salaries and benefits [1]	$	269,927	$	270,858
Consulting fees [1]		188,969		73,200
Directors' fees [1]		40,815		55,640
Legal fees [2]		34,454		65,552
Accounting fees [2]		3,500		3,500
Financing fees		19,283		-
Legal fees accounted for as investment acquisition costs		-		4,750
Legal fees accounted for as share issuance costs		10,318		16,250
Cash based expenditures	$	567,266	$	489,750
Share-based payments	$	-	$	493,017

(1) Reported in the consolidated financial statements as an element of employee and consultant compensation.
(2) Reported in the consolidated financial statements as an element of professional fees.
(3) Wojciech Drzazga is CEO of Permatech Electronics Corp. and was also CEO of ZTEST until June 15, 2018.
(4) John Perreault is President and COO of Permatech Electronics Corp. and was also President and COO of ZTEST until December 19, 2017.

Related Party Transactions

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:

	2019	2018
Salaries and benefits payable	15,273	10,161
Directors' fees payable	47,020	18,264
Consulting fees payable	262,013	136,204
Legal fees payable	28,453	4,741

The following stock options have been issued to Directors, former Directors and/or Officers of the Company and were outstanding as at June 30, 2019:

Description	Expiry Date	Common Shares
Stock options @ $0.05 per share	Mar. 3, 2021	400,000
Stock options @ $0.15 per share	July 9, 2019	150,000
Stock options @ $0.95 per share	July 9, 2019	50,000
Stock options @ $0.95 per share	Jan. 12, 2023	550,000

During the year ended June 30, 2019, 150,000 stock options held by Directors and/or Officers of the Company were exercised, 150,000 expired, and no new stock options were granted. In July 2019, 200,000 stock options held by a former director expired.

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Shares issued	Quantity	Amount
Common shares as at June 30, 2017	17,173,696	$ 22,418,782
Common shares issued on exercise of stock options	200,000	37,085
Common shares issued on exercise of warrants	1,900,000	165,131
Common shares issued through private placement, net of costs [1]	625,000	405,679
Common shares issued as part of investment	275,000	189,200
Common shares as at June 30, 2018	20,173,696	23,215,877
Common shares issued on exercise of stock options	150,000	27,426
Common shares issued through private placement, net of costs [1]	780,000	150,871
Common shares as at June 30, 2019 and as at the date of this document	21,103,696	$ 23,394,174

[1] Costs include finders' fees, legal and brokerage fees, and the value of the broker warrants as determined using the Black-Scholes valuation model.

The Company has the following common shares reserved to satisfy the potential exercise of the following:

Shares reserved	Expiry Date	Common Shares
Common shares to be issued for Class A shares [1]		8,246
Stock options @ $0.15 per share	Jul. 2019	150,000
Stock options @ $0.95 per share	Jul. 2019	50,000
Warrants @ $1.10 per share	Jan. 2020	312,500
Warrants @ $0.40 per share	June 2020	220,000
Warrants @ $0.30 per share	June 2020	23,800
Warrants @ $0.40 per share	July 2020	170,000
Warrants @ $0.30 per share	July 2020	15,400
Balance forward		949,946

Convertible Instruments and Other Securities - continued

Balance forward		949,946
Stock options @ $0.05 per share	Mar. 2021	400,000
Warrants @ $0.06 per share	Dec. 2021	2,900,000
Stock options @ $0.15 per share	Dec. 2021	50,000
Stock options @ $0.95 per share	Dec. 2023	550,000
Shares reserved as at June 30, 2019		4,849,946
Stock options @ $0.15 per share - expired	Jul. 2019	(150,000)
Stock options @ $0.95 per share - expired	Jul. 2019	(50,000)
Shares reserved as at the date of this document		4,649,946

(1) 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.

Fully diluted number of shares	Quantity
Shares issued at June 30, 2019	21,103,696
Shares reserved at June 30, 2019	4,849,946
Fully diluted number of shares at June 30, 2019	25,953,642
Change in shares reserved due to expiry of stock options	(200,000)
Fully diluted number of shares as at the date of this document	25,753,642

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:

	2019	2018
Dividend yield	None issued	Nil
Risk free interest rate (%)	None issued	1.62 – 1.98
Expected stock volatility (%)	None issued	99.36 - 154.07
Expected life (years)	None issued	1 - 5

The following provides additional details with respect to stock option changes:

	Common Shares Under Option	Weighted Average Price per Option	Weighted Average Expiry Date
Beginning of the period	1,500,000	$ 0.43	Aug. 2, 2021
Exercised during the period	(150,000)	0.10	Dec. 31, 2018
Expired during the period	(150,000)	0.10	Dec. 31, 2018
Expiry date reduced during the period (1)	(200,000)	0.35	Mar. 27, 2022
Expiry date reduced during the period	200,000	0.35	Jul. 9, 2019
End of the period and as at the date of this document	1,200,000	0.52	Mar. 26, 2022

(1) The holder of these options was not re-elected as a director of the Company at the shareholders meeting held January 9, 2019. In accordance with the option agreement the term of these options is reduced to be six months from the date the individual ceased to be a director.

Convertible Instruments and Other Securities - continued

As at the date of this document, the following stock options, each of which has vested, are outstanding. The Company has no ability to cause these options to be exercised:

	Common Shares Under Option		Exercise Price	Expiry Date
Granted March 3, 2016	400,000 (1)	$	0.05	Mar. 3, 2021
Granted December 21, 2016	150,000 (1)	$	0.15	Jul. 9, 2019
Granted December 21, 2016	50,000	$	0.15	Dec. 21, 2021
Granted January 12, 2018	50,000 (1)	$	0.95	Jul. 9, 2019
Granted January 12, 2018	550,000 (1)	$	0.95	Jan. 12, 2023

(1) Directors, former 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:

	2019	2018
Dividend yield	Nil	Nil
Risk free interest rate (%)	1.76 – 1.84	1.61
Expected stock volatility (%)	116.25 – 116.52	70.49
Expected life (years)	1.5	1

The following provides additional details with respect to warrant changes:

	Number of Warrants		Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning of the period	3,256,250	$	0.17	Sep. 26, 2021
Issued during the period	429,200	$	0.39	July 12, 2020
Expired during the period	(43,750)	$	0.85	Jan. 31, 2019
Expiry date extended during the period	(312,500)	$	1.10	Jan. 31, 2019
Expiry date extended during the period	312,500	$	1.10	Jan. 31, 2020
End of the period and as at the date of this document	3,641,700	$	0.19	Aug. 16, 2021

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

	Number of Warrants		Exercise Price	Expiry Date
Issued Dec. 15, 2016	2,900,000	$	0.06	Dec. 15, 2021
Issued Jan. 30, 2018	312,500	$	1.10	Jan. 31, 2020
Issued Dec. 28, 2018	220,000	$	0.40	June 28, 2020
Issued Dec. 28, 2018	23,800	$	0.30	June 28, 2020
Issued Dec. 28, 2018	170,000	$	0.40	July 31, 2020
Issued Dec. 28, 2018	15,400	$	0.30	July 31, 2020

Changes in Accounting Policy

The Company's accounting policies will typically change only when there is a change in IFRS. Effective July 1, 2018 the Company has adopted:

- IFRS 9 Financial instruments, which uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing multiple rules in IAS 39

Changes in Accounting Policy - continued

- IFRS 15 Revenue from contracts with customers, which replaces existing revenue standards and interpretations with a single standard and provides additional guidance on revenue recognition for contracts with customers.

IFRS 9 Financial instruments:
The approach in IFRS 9 is generally based on how an entity manages its financial assets in the context of its business model and the contractual cash flow characteristics of the financial assets. Impairment of financial assets is determined using a single impairment model that requires entities to recognize expected credit losses without requiring a triggering event to occur. The new impairment model applies to financial assets measured at amortized cost. IFRS 9 largely retains the existing requirements under IAS 39 for the classification and measurement of financial liabilities.

This standard has been applied retrospectively, resulting in no changes to any amounts presented in prior periods.

We have assessed the classification and measurement of our financial instruments under IFRS 9, with reference to the former classification under IAS39, as follows:

Financial Assets	**IFRS 9**	**IAS39**
Cash	Amortized cost	Fair Value through profit and loss
Accounts receivable	Amortized cost	Loans and receivables
Financial Liabilities		
Bank indebtedness	Amortized cost	Other financial liabilities
Accounts payable and accrued liabilities	Amortized cost	Other financial liabilities
Customer deposits	Amortized cost	Other financial liabilities
Long-term debt	Amortized cost	Other financial liabilities

Amortized cost – The amount at which a financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit losses.

The effective interest method - The effective interest method is a method of calculating the amortized cost of a financial asset or liability 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 receipts or payments through the expected life of the financial asset or liability to the net carrying amount on initial recognition.

IFRS 15 Revenue from contracts with customers:
IFRS 15 provides a definition of what constitutes a contract with customers as well as differentiating between changes to an existing contract and the commencement of a new contract. It also requires the determination of performance criteria which then trigger the recognition, subject to additional criteria, of revenue at various times throughout a contract or at the end of a contact. Revenue is to be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services.

This standard has been applied retrospectively, resulting in no changes to any amounts presented in prior periods, but it has resulted in modification of how the Company's revenue recognition policy is characterized. The new policy is described as follows:

Changes in Accounting Policy - continued

IFRS 15 Revenue from contracts with customers - continued:
Revenue recognition - Revenue is recognized when the Company has satisfied its performance obligations, the consideration to be received can be measured reliably, and the ability to collect is probable, which typically arises when the product is delivered.

Accounting standards effective for future periods

IFRS16, *Leases:* effective for annual periods beginning on or after 1 January 2019, replaces existing standards, eliminating the classification of leases as either operating leases or finance leases. The Standard provides a single lessee accounting model, specifying how leases are recognized, measured, presented and disclosed. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on July 1, 2019 and continues to assess the impact it will have on the consolidated financial statements.

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.

Impairment of Investments

Non-controlling interests, which are not financial instruments, and are less than a 20% ownership interest, are considered impaired when its carrying amount exceeds its recoverable amount.

During the 2017 fiscal year the Company determined that the fair value of its investment in Conversance Inc. was not currently determinable resulting in an impairment provision of $294,562, to reduce the carrying value of the investment to $Nil.

Non-controlling interests, which are not financial instruments, and are equal to or exceeding a 20% ownership interest (an equity instrument) is considered impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occur after the initial recognition of the asset (a 'loss event') and that loss event, or events, has an impact on the estimated future cash flows of the non-controlling interest that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognized.

Impairment of Investments - continued

Some items that may be taken into consideration in determining whether a loss event has occurred include significant financial difficulty of the investee, a breach of contract such as a default or delinquency in payments by the investee, it becomes probable that the investee will enter bankruptcy or other financial reorganization, or significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the investee operates, and such changes indicate that the cost of the equity instrument may not be recovered.

During the period ended March 31, 2019 the Company determined that no loss event had occurred and accordingly no test for impairment was completed.

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 no bad debts during the years ended June 30, 2019 and June 30, 2018**.**

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 two major customers which represented 14% and 12% of total revenues. In the prior year three major customers accounted for 12%, 12% and 10% of total revenues. Amounts due from major customers represented 9% of accounts receivable at June 30, 2019 (2018 - 27%). The loss of a major customer, or significant curtailment of purchases by such customer, could have a material adverse effect on the Company's results of operations and financial condition. The Company monitors the relationship with all customers closely and ensures that every customer is subject to the same risk management criteria.

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. At June 30, 2019 the Company had current financial assets of $591,575 (2018 - $479,621) available to settle current financial liabilities of $943,985 (2018 - $780,607). The Company manages its liquidity risk through the management of its capital which incorporates the continuous monitoring of actual and projected cash flows to ensure that it has sufficient liquidity to meet its operating commitments without incurring unacceptable losses or risking damage to the Company's reputation.

Risk Factors - continued

Market risks
The Company is exposed to interest rate risk due to two obligations that have floating interest rates 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 loss of $4,749 (2018 – gain of $1,982).

Sensitivity to market risks
At June 30, 2019 the Company had:

- $3,291 (2018 – $42,784) 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 $3 over the next 12 month period.
- cash of US $38 (2018 – US $16,417 overdraft) included in bank indebtedness or cash. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $2 in carrying value.
- US $Nil (2018 – US $4,634) 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 $Nil in additional future expenses.
- US $63,433 (2018 –US $63,433) 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 $3,172 in future cash inflow.
- US $Nil (2018 – US $27,879) 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 $Nil in future revenue.
- US$155,987 (2018 – US$119,219) 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 $7,799 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.