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, 2014. The MD&A was prepared as of November 25, 2014 and was approved by the Board of Directors on November 25, 2014. It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the three months ended September 30, 2014, and the audited consolidated financial statements for the year ended June 30, 2014, 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

The Company is located at 523 McNicoll Avenue, Toronto, Ontario and operates a single business segment designing, developing, and assembling printed circuit boards and other electronic equipment. The management of the Company, which has not changed since the preceding fiscal year end, is comprised of the following individuals:

Name	Position(s)
Wojciech Drzazga	Director and CEO
John Perreault [1]	Director and President
K. Michael Guerreiro [1] [2]	Director
Mike Hiscott [1] [2]	Director
Michael D. Kindy	VP Finance & CFO
William R. Johnstone	Secretary

[1] Denotes member of audit committee
[2] Denotes member of compensation committee

Corporate Performance

The Company once again generated positive results in spite of the enhanced competition that is prevalent in the marketplace. During the quarter the Company generated growth in net equity and in capital under management while also achieving declines in working capital deficiency, long-term liabilities and total liabilities.

Cash flow from operations remained comparable with that realized in Q1 2014, even though revenues and profitability were not quite as good as they were then. Total cash and cash equivalents rose substantially during the period. The vast majority of the growth in the cash and cash equivalents came from the financing alterations completed during the period and the lifting of the requirement for cash-based security in support of the Company`s operating loan.

Just prior to the end of the last fiscal year the Company received all necessary approvals from its financial institution to alter both its long-term and working capital financing. These alterations took effect July 7, 2014. The working capital financing continues to be in the form of a $250,000 bank operating loan, from which nothing was drawn as at September 30, 2014. The bank reduced the required security and increased the interest rate to be charged on loan advances. The reduction in security made $250,000 in term deposits, which had been classified as restricted cash equivalents, available for general use. The increase in the interest rate to be charged on loan advances is not expected to have a significant impact upon results of operations or cash flows for the foreseeable future.

The financial institution also funded a new term loan in the amount of $197,463 which was based upon the equipment that was acquired last year and installed and made operational in the final quarter. This loan provides a lower interest rate and a longer repayment period than the financing previously arranged at the time the equipment was ordered. The proceeds of the new loan were used to repay that previous financing.

Corporate Performance - continued

Management will continue to manage and minimize business risks, to manage its cash flows, to attempt to grow the business and build value for its stakeholders. The following data may provide some additional insights relative to the Companyôs operating performance and financial position:

	For the fiscal years ended:		
	June 14	June 13	June 12
Total Revenues	4,014,268	4,601,698	4,572,417
Net income (loss) income from operations	(21,321)	141,007	390,936
Per share - basic	(0.002)	0.017	0.055
Net income (loss) for the year	(18,579)	148,319	392,778
Per share - basic	(0.002)	0.018	0.056
Total assets	2,098,100	2,176,189	2,340,853
Total long-term financial liabilities	158,244	45,788	698,648
Total liabilities	1,638,734	1,759,668	2,416,943

	For the three month periods ended:				
	Sept. 14	June 14	Mar. 14	Dec. 13	Sept. 13
Total Revenues	1,070,734	1,000,676	933,391	945,951	1,134,250
Net income (loss) from operations	26,726	(21,790)	(3,300)	(59,301)	63,070
Per share - basic	0.002	(0.002)	(0.000)	(0.006)	0.006
Net income (loss) for the period	27,427	(20,988)	(2,521)	(58,928)	63,858
Per share - basic	0.002	(0.002)	(0.000)	(0.006)	0.006
Total assets	1,971,431	2,098,100	2,190,139	1,859,824	2,102,184
Total long-term financial liabilities	151,388	158,244	177,893	18,830	32,498
Total liabilities	1,484,638	1,638,734	1,709,785	1,381,168	1,614,305

	For the three month periods ended:				
	June 13	Mar. 13	Dec. 12	Sept. 12	June 12
Total Revenues	1,288,374	1,127,445	1,113,223	1,072,656	1,289,855
Net income (loss) from operations	81,609	21,311	31,955	6,132	42,073
Per share - basic	0.008	0.003	0.004	0.004	0.006
Net income (loss) for the period	83,815	22,379	33,336	8,789	44,015
Per share - basic	0.008	0.003	0.005	0.004	0.006
Total assets	2,176,189	2,228,452	2,133,002	2,252,523	2,340,853
Total long-term financial liabilities	45,788	57,496	66,478	602,565	698,648
Total liabilities	1,759,668	2,036,126	2,141,525	2,299,246	2,416,943

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

Results of Operations

The Company had a profitable quarter for the first fiscal quarter of 2015, albeit less profitable than the first quarter of last year. Revenues declined by $63,516, or approximately 5.4%, in comparison to September 2013 levels and this translated into a $36,344 decline in income from operations.

During the quarter ended September 2013 the Company had a single customer that accounted for approximately 36% of revenues for that period. For the quarter ended September 2014this same customer accounted for a little less than 8% of total revenues and no individual customer accounted for more than 20% of revenues. The Company successfully replaced the vast majority of the revenues previously represented by this single customer however the replacement revenues were derived from generally smaller production runs.

As would be anticipated, when revenues decline the gross margin also declines. The gross margin of $344,551 represented 32.2% of revenues as compared to 37.2% for the quarter ended September 30, 2013. Many factors impact upon the gross margins as described in the following analysis of the cost of product sales.

Results of Operations - continued

The different elements of cost of product sales for the three month periods ended September 30, and the changes realized, are as follows:

Three month periods ended	2014	2013	Change
Raw materials and supplies consumed	$ 450,196	$ 453,505	$ (3,309)
Labour costs incurred	196,386	179,846	16,540
Depreciation	33,090	30,553	2,557
Repairs and maintenance	18,420	5,752	12,668
Other costs	25,508	24,476	1,032
Net change in finished goods and work in process	4,583	18,576	(13,993)
Total cost of product sales	$ 726,183	$ 712,708	$ 13,475

The cost of raw materials and supplies consumed was almost identical in value for the two periods noted above but the composition is not entirely the same. The 2013 amount is almost entirely comprised of components consumed in assembly processes whereas the 2014 amount includes certain parts that were sold to directly to a customer independent from assemblies. These sales arise when customers discontinue specific design assemblies and the Company holds inventory of items that are specific to that discontinued assembly. Sales of this nature happen from time to time but were of larger magnitude in the current period. If the cost of these components, and the revenues derived from them, are backed out of the current period results then the cost of raw materials and supplies used would be equal to 39.3% of revenues. For the period ended September 2013 this cost equated to 39.9% of revenues so was quite comparable.

Labour cost incurred is a measure of labour paid for during the period and this was higher than it had been one year ago. This includes annual wage increases, which averaged 2.3%, and increased labour hours. As already noted the assemblies being completed during the current period were generally smaller order sizes than they had been previously and this leads to increased labour and set up times. The apparent disparity between these figures is reduced considerably when you include the net change in finished goods and work in process, which is also a measurement of labour costs. On a combined basis the expense for the current period was $2,547 more than one year ago.

Repairs and maintenance costs rose in the current period due to the combination of lower than normal costs incurred one year ago and a fairly substantial repair arising in the first quarter of this year. Regular maintenance is undertaken but the timing and nature of individual repairs can skew quarterly results. This repair did not have a tangible impact on operations as the machinery added in fiscal 2014, which caused depreciation to rise, provided additional capacity.

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 for the three month periods ended September 30 were as follows:

Three month periods ended	2014	2013	Change
Employee and consultant compensation	$ 210,212	$ 245,352	$ (35,140)
Occupancy costs	66,638	68,213	(1,575)
Professional fees	12,030	12,402	(372)
Regulatory fees	1,033	1,505	(472)
Insurance	8,744	8,160	584
Other costs	7,144	8,944	(1,800)
Total selling, general and administrative	$ 305,801	$ 344,576	$ (38,775)

Results of Operations - continued

Compensation costs declined by $35,140 in the current period as consulting services utilized in the September 2013 period did not recur in the September 2014 period. Costs for the current period are only 4% higher than they were during the period ended September 2012 supporting a general over-all consistency, with the exception of the already noted consulting services.

Each of the other separately identified SG&A expenses have changed only nominally in value from 2013 to 2014 and have not changed in nature during this period. It is noteworthy that the lease on the Companyøs operating facility will run until March 2021 and is expected to keep Occupancy costs comparable from period to period, subject to fluctuations in utility rates and usage.

The other costs included in SG&A are individually insignificant and, in aggregate, represent less than 5% of total SG&A. These expenses are closely monitored by management and do not warrant detailed investigation or elaboration.

The Companyøs debt load and the associated costs of financing continue to decline. They are comprised of interest on long-term debt and other interest expense as follows:

Three month periods ended		2014		2013		Change
Interest expense ï long term (cash based)	$	3,808	$	5,721	$	(1,913)
Interest expense ï long term (accretion)		3,761		3,871		(110)
Interest expense ï other		765		211		554
Total financing expenses	$	8,334	$	9,803	$	(1,469)

The Company has made a concerted effort in recent periods to reduce its debt load thereby reducing its debt carrying costs and pressure on cash flow. The benefit of the debt reduction is reflected in lower cash based interest on long-term debt.

During the recent quarter the Company succeeded in obtaining long-term commercial financing that had not been available to it previously. The proceeds of this new debt were used to repay existing term debt with a higher carrying cost. The debts that were repaid had fair values that were less than their face value and their repayment resulted in the recognition of the full difference between fair and face values as interest accretion resulting in a higher cost than initially anticipated for this period.

Interest ï other includes miscellaneous interest charges incurred as well as interest arising from the use of the operating line. The Company had utilized a portion of the operating line at the start of the period thereby causing a small increase in this interest cost for the period.

Liquidity

As at September 30, 2014 the Company reported a working capital deficiency of $42,345 representing an improvement of $49,742 for the quarter and $64,343 in comparison to September 30, 2013. The deficiency includes $776,792 in current liabilities that have been outstanding since June 2007, are not secured, bear no interest or other charges, and for which there are no settlement terms. Management does not consider the working capital deficiency to be a significant source of business risk and will continue to focus on maximizing cash flows from operations as opposed to managing this deficiency.

The Company utilizes long term debt as a means of financing new equipment acquisitions and of settling other obligations whenever suitable terms can be negotiated. In July 2014 the Company obtained a commercial term loan and used the proceeds of this loan to pay out $200,000 in long-term financing that had been obtained January 2014, from related parties, to finance an equipment purchase. The Companyøs short-term financing requirements are expected to be met through a $250,000 bank operating line, which was not drawn upon as of September 30, 2014.

Liquidity - continued

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, 2014:

	Due by Sept. 2015	Due by Sept. 2017	Due by Sept. 2019	Due after Sept. 2019	Total Due
Long-term debt [1]	71,991	78,986	72,402	-	223,379
Operating leases	91,672	199,414	211,411	161,614	664,111
Actively serviced obligations	163,663	278,400	283,813	161,614	887,490
Repurchase of preferred shares [2, 3]	$ 665,501	$ -	$ -	$ -	$ 665,501
Settlement of dividends payable [4]	263,337	-	-	-	263,337
Debenture [5]	39,600	-	-	-	39,600
Past-due obligations	968,438	-	-	-	968,438
All obligations	$ 1,132,101	$ 278,400	$ 283,813	$ 161,614	$ 1,855,928

(1) Amount excludes a debenture which was past due.
(2) The repurchase price includes $473,855 reported as a current liability plus $191,646 in paid up capital that is reported as an element of share capital.
(3) Obligation came due May 2004 as to $160,000 and May 2007 as to $505,501. No settlement terms have been established.
(4) Obligation arose at various dates up to May 2007. No settlement terms have been established.
(5) Obligation matured December 2005. No settlement terms have been established.

Capital Resources

The Company has a $250,000 line of credit with its financial institution from which nothing was drawn as at September 30, 2014 and $25,000 was drawn as at June 30, 2014. The loan bears interest at the prime lending rate plus 2.5%, is due upon demand, and is secured by a general security agreement covering the assets of PEC. During the period this line of credit was restructured to increase the interest rate from the prime lending rate plus 0.5% and to remove the requirement for term deposit security. The $250,000 term deposit, previously classified as restricted cash equivalents, became available for general use on July 7, 2014.

Related Party Transactions

The Company has an outstanding loan payable to 1114377 Ontario Inc., a company which is controlled by the spouse of Mr. W. Drzazga, the CEO and a Director of the Company. At its inception the loan provided the Company with cash for working capital purposes. The interest rate charged on the loan is consistent with the rates that were being charged to the Company by non-related parties for similar debts as at the date the loan originated.

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 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 balances are due to related parties as at September 30 of each year:

	2014	2013
Loan payable to 1114377 Ontario Inc. at prime +8% [1]	33,210	77,142
Salaries and benefits payable	4,512	10,730
Consulting fees payable [2]	54,400	16,445
Legal fees payable [2]	4,130	1,000

(1) This is the face value of this obligation. It is reported in the unaudited condensed interim consolidated financial statements at a discounted value. At the time the funds were advanced the creditor was granted an option to acquire a 24% interest in PEC for $200,000 on or before May 1, 2015.

Related Party Transactions - continued

(2) Reported in the unaudited condensed interim consolidated financial statements as an element of accounts payable and accrued liabilities.

The following expenses have arisen as a result of transactions involving the related parties defined above:

	2014	2013
Salaries and benefits (1)	$ 68,215	$ 62,545
Consulting fees (1)	9,600	11,779
Directorsô fees (1)	6,900	9,150
Legal fees (2)	2,305	4,122
Interest expense ï long term	5,467	2,588
Cash based expenditures	$ 92,487	$ 87,824
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 stock options have been issued to Directors and/or Officers of the Company and were outstanding as at September 30, 2014:

Description	Expiry Date	Number of Common shares
Stock options @ $0.10 per share	Nov. 2015	275,000
Stock options @ $0.10 per share	Sept. 2017	130,000
Stock options @ $0.10 per share	Dec. 2018	500,000

There are also 300,000 stock options being held by the estate of a former Director. These options have exercise prices ranging from $0.10 to $0.15 and have an expiry date of April 27, 2015.

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Share capital	Quantity	Amount
Common shares, June 30, 2014, Sept. 30, 2014 and as at the date of this document	10,648,696	$ 22,343,053

Preferred shares	Quantity	Amount
Series A preferred shares	166,667	$ 160,000
Series C preferred shares	288,858	505,501
		665,501
Less: amount accounted for as paid in capital		(191,646)
Liability element of preferred shares at June 30, 2014 and Sept. 30, 2014 and as at the date of this document		$ 473,855

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.

Convertible Instruments and Other Securities - continued

Shares reserved	Expiry Date	Number of Common shares
Common shares to be issued for Class A shares		8,246
Stock options @ $0.15 per share	Apr. 2015	200,000
Stock options @ $0.10 per share	Apr. 2015	100,000
Stock options @ $0.10 per share	Nov. 2015	275,000
Warrants @ $0.10 per share	Feb. 2016	1,100,000
Warrants @ $0.10 per share	Mar. 2016	900,000
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	500,000
Shares reserved, Sept. 30, 2014 and as at the date of this document		3,613,246

Fully diluted position	
Shares issued	10,648,696
Shares reserved	3,613,246
Fully diluted position, Sept. 30, 2014 and as at the date of this document	14,261,942

Additional disclosures relative to stock options are as follows:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted March 11, 2013	200,000 [2]	200,000	$ 0.15	Apr. 27, 2015
Granted December 31, 2013	100,000 [2]	100,000	$ 0.10	Apr. 27, 2015
Granted Nov. 30, 2010	275,000 [1]	275,000	$ 0.10	Nov. 30, 2015
Granted Sept. 14, 2012	130,000 [1]	130,000	$ 0.10	Sept. 14, 2017
Granted December 31, 2013	500,000 [1]	500,000	$ 0.10	Dec. 31, 2018

All stock options have vested. The Company has no ability to cause these options to be exercised.

	Common Shares Under Option	Weighted Average Price/Option	Weighted Average Expiry Date
Balance, June 30, 2014, Sept. 30, 2014 and as at the date of this document	1,205,000	$ 0.11	Mar. 28, 2017

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

(2) Options are held by the estate of a former Director. The expiry dates were amended to be one year following the date of death.

Additional disclosures relative to share purchase warrants are as follows:

	Number of Warrants	Value of Warrants	Exercise Price	Expiry Date
Issued Mar. 24, 2011	900,000	$ 38,818	$ 0.10	Mar. 24, 2016
Issued Feb. 4, 2013	1,100,000	37,859	$ 0.10	Feb. 4, 2016
Issued Jan. 10, 2014	400,000	4,219	$ 0.10	Oct. 31, 2017
		$ 80,896		

Convertible Instruments and Other Securities - continued

	Number of Warrants	Weighted Average Price/Warrant	Weighted Average Expiry Date
Balance, June 30, 2014, Sept. 30, 2014 and as at the date of this document	2,400,000	$ 0.10	June 7, 2016

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. Management anticipates that this standard 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 its adoption.

IFRS 15, *Revenue from Contracts with Customers:* effective for annual periods beginning on or after January 1, 2017, 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 this standard will be adopted in the Company's financial statements for the year beginning July 1, 2017 and has not yet considered the potential impact of its adoption.

Financial Instruments

The Companyôs financial instruments are comprised of the following:

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

Financial liabilities:	*Classification*
Bank operating loan	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Dividends payable	Other financial liabilities
Preferred shares	Other financial liabilities
Long-term debt	Other financial liabilities

Fair value through profit and loss:
Financial assets are designated as fair value through profit and loss if they were acquired principally for the purpose of selling in the short term. Fair value through profit and loss assets are recognized and carried at their fair value.

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

Financial Instruments - continued

Other financial liabilities:

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

Impairment of financial assets:

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

Evidence of impairment could include:

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

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

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

Financial instruments recorded at fair value:

Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of June 30, 2014 and 2013 cash and cash equivalents and restricted cash are measured at fair value and are classified within Level 1 of the fair value hierarchy.

Financial instruments recorded at amortized cost:

Financial instruments recorded at amortized cost on the consolidated statement of financial position are amortized using the market rates of interest prevailing at the inception of the financial instrument applied to expected future cash flows. The amortized cost is recomputed in the event that the underlying terms, and therefore the expected future cash flows, of the financial instrument are altered with any change in the amortized cost being charged to income of the period. Dividends payable and preferred shares are each carried at historical cost as the future cash flows cannot be reasonably estimated.

Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets or cash generating unit (CGU) have suffered an impairment loss. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or groups of assets. Where such an indication exists, the recoverable amount of the asset or CGU is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an assetꞌs or CGUꞌs 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 or CGU in an armꞌs 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 or CGU. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU 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 or CGU 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 or CGU in prior years. A reversal of an impairment loss is recognized immediately in income for the period.

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

Risk Factors

Events seemingly unrelated to the Company, or to its industry, may adversely affect its finances or operations in ways that are hard to predict or defend against. For example, credit contraction in financial markets may hamper the Companyꞌs 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 Companyꞌs 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 Companyꞌs 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 Companyꞌs 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 Companyꞌs 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 Companyꞌs 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. Bad debt experience has not been significant and it has been determined that no allowance is required as all amounts outstanding are considered collectible**.**

Concentration of credit risk

Concentration of credit risk arises when a significant portion of the financial assets subject to credit risk arise from a single or limited number of sources. During the current period, no single customer accounted for more than 20% of total revenue (September 2013 – 1 customer at 36%). The Company monitors the relationship with all customers closely and ensures that every customer is subject to the same risk management criteria.

Risk Factors - continued

Liquidity risk
Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company has reported a working capital deficiency of $42,345 (June 30, 2014 - $92,087). This includes financial liabilities (a specific long-term debt instrument plus preferred shares and dividends payable) with an aggregate carrying amount of $776,792 (June 30, 2014 - $776,792) which are past due and for which the timing of future cash flows are undetermined. The Company manages its liquidity risk through the management of its capital *(note 13)* 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 Companyôs reputation.

Market risks
The Company is exposed to currency risk related to accounts receivable and accounts payable denominated in US dollars and the potential for future cash flows to fluctuate because of changes in foreign exchange rates. Currency risk is closely monitored but not actively managed. The Company has reported a foreign exchange loss of $2,811 (September 2013 ï $3,337).

Sensitivity to market risks
At September 30, 2014 the Company had US$49,452 (June 30, 2014 ï US$99,330) 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 $2,783 in future cash inflow.

At September 30, 2014 the Company had US$64,128 (June 30, 2014 ï US$233,439) 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 $3,609 in future cash outflow.

The existence of both accounts receivable and accounts payable denominated in US$ does not serve as a hedge with respect to currency risk.

Based upon observations of recent market trends management believes that each of these outcomes is possible but most likely exceed the Companyôs immediate market risk exposures.

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 below 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.