ZTEST Electronics Inc.

Managementôs Discussion and Analysis
For The Three Month Period Ended September 30, 2018
(Prepared as at November 28, 2018)

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, 2018. The MD&A was prepared as of November 28, 2018 and was approved by the Board of Directors on November 28, 2018. It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the three months ended September 30, 2018, and the audited consolidated financial statements for the year ended June 30, 2018, 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)
Steve Smith [2]	Chairman, President & Chief Executive Officer
William J. Brown [1*, 3, 4]	Director (Independent)
K. Michael Guerreiro [1, 2, 3*, 4]	Director (Independent)
Brendan Purdy [1, 2]	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

[*] Acts as Committee Chair
[1] Member of the Audit Committee
[2] Member of the Strategic Planning Committee
[3] Member of the Compensation Committee
[4] Also serves as a Director of the subsidiary Company

Corporate Performance

The first quarter of the 2019 fiscal year has provided a few positive results while continuing to address the residual impact from the 2018 fiscal year. The second and third quarters of 2018 provided lower than expected operating volumes and operating results thereby putting pressure on the Companyôs liquidity and cash flows. Operating volumes were much improved through the final quarter of 2018 and the first quarter of 2019 but, as always, growth adds pressure to cash flow in the immediate term.

By the end of the third quarter of 2018 the Company had begun continuous utilization of its bank operating line, had seen its working capital decline, and its current financial assets had fallen to a value that was less than its aggregate financial liabilities. Each of these trends persisted through the fourth quarter of 2018 and first quarter of 2019 but by the end of the first quarter signals were beginning to appear to indicate that these trends may not persist much longer.

Cash flow management and the strategic use of existing cash resources has always been a significant element of the Companyôs risk management processes. This management aspect has become progressively more challenging as cash flow from operations has been negative through seven of the previous eight fiscal quarters. It is far too early to call the trend to be over however the first quarter of 2019 provided positive cash flow from operations.

Corporate Performance - continued

One of the aspects that has been putting pressure on cash flow recently is the acquisition of inventories. As a custom manufacturer inventories are never acquired on speculation, only in response to production orders placed by customers. While it may, at times, be a number of months before inventory is converted into finished product there is no doubt that rising inventory values are indicative of rising order volumes. Inventory values started to rise at the end of the third quarter of 2018 in preparation for the improved revenues reported for the fourth quarter of 2018 and first quarter of 2019. Inventory values have risen again in the first quarter of 2019 in preparation for production, and corresponding revenues, over the next few quarters.

There is no doubt that the Company still has work to do to raise its liquidity and cash resources to more favourable levels but the results of the first quarter, the improved revenues compared to recent periods, the positive cash flow from operations, the build up of inventory to supply future production of existing orders, are all positive indicators that the work done to date is providing benefit.

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

	For the fiscal years ended:		
	June 2018	June 2017	June 2016
Total Revenues	3,686,132	3,754,883	4,211,885
Net loss from operations	(856,314)	(203,576)	(42,595)
Per share - basic	(0.046)	(0.014)	(0.004)
Net loss for the year	(883,756)	(497,881)	(42,553)
Per share - basic	(0.047)	(0.035)	(0.004)
Total assets	2,226,121	1,783,512	1,708,698
Total long-term financial liabilities	3,291	42,784	82,276
Total liabilities	783,898	862,688	661,368

	For the fiscal quarters ended:			
	Sept. 2018	June 2018	Mar. 2018	Dec. 2017
Total Revenues	966,483	1,010,852	729,743	800,502
Net income (loss) from operations	(104,184)	(12,076)	(741,021)	(148,014)
Per share - basic	(0.005)	(0.001)	(0.038)	(0.008)
Net income (loss) for the period	(116,203)	(29,583)	(750,957)	(148,013)
Per share - basic	(0.006)	(0.001)	(0.038)	(0.008)
Total assets	2,287,820	2,226,121	2,224,813	1,399,349
Total long-term financial liabilities	-	3,291	13,164	23,037
Total liabilities	956,800	783,898	753,008	544,242

	For the fiscal quarters ended:			
	Sept. 2017	June 2017	Mar. 2017	Dec. 2016
Total Revenues	1,145,035	1,158,812	1,099,568	668,803
Net income (loss) from operations	44,797	60,350	33,568	(180,899)
Per share - basic	0.003	0.004	0.002	(0.015)
Net income (loss) for the period	44,797	(234,114)	33,569	(180,788)
Per share - basic	0.003	(0.014)	0.002	(0.015)
Total assets	1,662,504	1,783,512	1,954,654	1,648,537
Total long-term financial liabilities	32,911	42,784	52,656	62,530
Total liabilities	686,883	862,688	819,716	550,418

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

Results of Operations

Revenues for the first quarter were 15.6% less than they had been during the comparable period one year earlier. This decline in revenues also contributed to a decline in gross margin percentage from 32% of revenues at September 2017 to 26% at September 2018. The different elements of cost of product sales were as follows:

Three month periods ended September 30	2018	2017	Change
Raw materials and supplies consumed	$ 453,501	$ 580,669	$ (127,168)
Labour costs incurred	199,736	182,154	17,582
Depreciation	14,760	18,068	(3,308)
Repairs and maintenance	7,946	4,753	3,193
Other costs	28,867	23,866	5,001
Net change in finished goods and work in process	6,897	(31,245)	38,142
Total cost of product sales	$ 711,707	$ 778,265	$ (66,558)

The cost of raw materials and supplies consumed declined by 21.9% year over year and also declined to 46.9% of periodic revenues as compared to 50.7% for the period ended September 30, 2017. It is noted each period that these costs are incurred at our customersô discretion, since they also have the option of providing their own materials, and that this discretion contributes to inconsistent results when comparing individual quarters. In some quarters this choice made by customers leads to costs that exceed the norm yet still appear to be in decline. This is supported by material costs that equated to 45.4% of annual revenues for the 2018 fiscal year and 45.6% for the 2017 fiscal year. Management consistently promotes the benefits customers may derive from our provision of the necessary materials, however management also has no control over this choice and recognizes that this frequently leads to cost variances, particularly over shorter time periods.

The cost of labour incurred in any given period is reflective of the Companyôs continual efforts to match, as closely as possible, labour supply with current and expected future demand. While there is no absolute correlation, it is quite common for labour supply to decline in periods when revenues decline. It was previously noted that revenues declined by 15.6% year over year yet the labour costs incurred rose by 9.7% over this same period. This result does not mean there was excess labour supply, only that the cost of supply rose. Effective January 1, 2018 the government of Ontario legislated a wage increase of almost 23%, along with other employment benefits that also add to the cost of labour. Given that the Companyôs cost increase was less than half of the legislated increase it follows that labour quantity did decline, just as one may have expected.

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. It is common for aggregate labour costs in cost of product sales to rise as a percentage of periodic revenues in periods when material costs decline as a percentage of those same revenues. For the quarter ended September 30, 2018 labour costs in cost of product sales equated to 21.4% of revenues while they had been 13.2% of revenues at September 2017. An increase in this percentage may have been expected but an increase of this magnitude was only made possible by the increased cost of labour supply.

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 2018 were greater than the costs incurred during the period ended September 2017 but neither the total cost or the increase were very significant. 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 expectations.

Results of Operations - continued

Selling, general and administrative expenses were as follows:

Three month periods ended September 30	2018	2017	Change
Employee and consultant compensation	$ 246,359	$ 222,649	$ 23,710
Occupancy costs	68,369	74,003	(5,634)
Professional fees	14,659	9,215	5,444
Shareholder services	3,250	3,072	178
Insurance	7,928	7,418	510
Other costs	12,899	10,934	1,965
Total selling, general and administrative	$ 353,464	$ 327,291	$ 26,173

Employee and consultant compensation costs, which include salaries, benefits, consulting fees, and independent directorsô fees, rose 10.6% in comparison to the 2017 fiscal quarter. Most individual elements of this cost category were quite comparable from one period to the other, with the exception of consulting fees. Consulting fees typically vary from period to period, according to the Companyøs requirement for services, however the Company retained a new CEO effective July 3, 2018 and there was no similar fee in the 2017 period.

Occupancy costs consist primarily of rent, common area costs, and utility charges for the Companyøs operating facility. Basic rental charges increased by 1.0% in January 2018 (2.7% January 2017). 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 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. Audit costs have remained consistent from 2017 to 2018. Legal costs have risen as a consequence of incremental general business and corporate governance services.

Shareholder services, insurance expense and other costs are all closely monitored, are within management expectations, and are reasonably consistent from period to period.

The Companyøs cost of borrowing was as follows:

Three month periods ended September 30	2018	2017	Change
Interest expense ï long term	$ 509	$ 914	$ (405)
Interest expense ï other	2,488	467	2,021
Financing fees	3,205	-	3,205
Total financing expenses	$ 6,202	$ 1,381	$ 4,821

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 ï other represents interest arising from the use of the operating line as well as miscellaneous interest charges incurred. During the first quarter of 2018 the Company made more consistent use of its bank operating line than it had in 2017 thereby contributing to the rise in costs.

During the first 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 September 30, 2018, the Company had working capital of $193,286 (June 30, 2018 ï $281,753) and current financial assets of $413,161 (June 30, 2018 ï $479,621) available to settle current financial liabilities of $956,800 (June 30, 2018 ï $780,607). The Company also has access to a $250,000 bank operating line, of which $130,000 (June 30, 2018 ï $110,000) had been drawn as of September 30, 2018.

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, 2018:

	Due by Sept. 2019	Due by Sept. 2020	Due by Sept. 2021	Total Due
Long-term debt	$ 32,911	$ -	$ -	$ 32,911
Operating leases	107,064	107,743	53,871	268,678
	$ 139,975	$ 107,743	$ 53,871	$ 301,589

Capital Resources

The Company has not completed any financing transactions since June 30, 2018. 50,000 stock options were exercised during the period, providing gross proceeds of $5,000.

The Company has a $250,000 commercial line of credit from which $130,000 (June 30, 2018 - $110,000) was drawn as at September 30, 2018. 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 paid to Michael D. Kindy (CFO), Directorsô fees paid to independent Directors, 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:

Three month periods ended September 30	2018	2017
Consulting fees (1)	$ 41,400	$ 19,995
Directorsô fees (1)	12,225	11,880
Salaries and benefits (1)	66,247	67,837
Legal fees (2)	7,722	2,278
Financing fees	3,205	-
Cash based expenditures	$ 130,799	$ 101,990
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.
(3) Wojciech Drzazga is CEO of Permatech Electronics Corp. and was also CEO of ZTEST until his resignation on June 15, 2018.
(4) John Perreault is President and COO of Permatech Electronics Corp. and was also President and COO of ZTEST until his resignation on December 19, 2017.

Related Party Transactions - continued

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:

	2018	2017
Consulting fees payable	$ 175,119	$ 145,572
Directorsô fees payable	$ 31,957	$ -
Salaries and benefits payable	$ 10,273	$ 9,451
Legal fees payable	$ 13,467	$ 2,444
Financing fees payable	$ 2,319	$ -

The following stock options have been issued to Directors and/or Officers of the Company, or its subsidiary, and were outstanding as at September 30, 2018:

Description	Expiry Date	Number of Common Shares
Stock options @ $0.10 per share	Dec. 31, 2018	250,000
Stock options @ $0.05 per share	Mar. 3, 2021	400,000
Stock options @ $0.15 per share	Dec. 21, 2021	150,000
Stock options @ $0.95 per share	Jan. 12, 2023	600,000

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Shares issued	Quantity	Amount
Common shares as at June 30, 2018	20,173,696	$23,215,877
Common shares issued on exercise of stock options	50,000	9,142
Common shares as at September 30, 2018, and as at the date of this document	20,223,696	$23,225,019

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 exercise of warrants and options along with the expiry date associated therewith.

Shares reserved	Expiry Date	Number of Common Shares
Common shares to be issued for Class A shares [1]		8,246
Stock options @ $0.10 per share	Dec. 2018	250,000
Broker warrants @ $0.85 per share	Jan. 2019	43,750
Warrants @ $1.10 per share	Jan. 2019	312,500
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	200,000
Stock options @ $0.95 per share	Dec. 2021	600,000
Shares reserved as at Sept. 30, 2018, and as at the date of this document		4,714,496

[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.

Convertible Instruments and Other Securities - continued

Fully diluted number of shares	Quantity
Shares issued as at Sept. 30, 2018	20,223,696
Shares reserved as at Sept. 30, 2018	4,714,496
Fully diluted position Sept. 30, 2018, and as at the date of this document	24,938,192

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 periods ended:

	Sept. 30 2018	June 30 2018
Dividend yield	None granted	Nil
Risk free interest rate (%)	None granted	1.62 ï 1.98
Expected stock volatility (%)	None granted	99.36 ï 154.07
Expected life (years)	None granted	1 - 5

	Average Common Shares Under Option		Weighted Price per Option	Average Expiry Date
Balance at June 30, 2018	1,500,000	$	0.43	Aug. 2, 2021
Expired during the period	(50,000)		0.10	Dec. 31, 2018
Balance as at Sept. 30, 2018, and as at the date of this document	1,450,000	$	0.44	Sept. 4, 2021

As at the date of this document the following stock options, each of which has vested, are outstanding:

	Common Shares Under Option		Exercise Price	Expiry Date
Granted December 31, 2013	250,000 (1)	$	0.10	Dec. 31, 2018
Granted March 3, 2016	400,000 (1)	$	0.05	Mar. 3, 2021
Granted December 21, 2016	150,000 (1)	$	0.15	Dec. 21, 2021
Granted December 21, 2016	50,000	$	0.15	Dec. 21, 2021
Granted January 12, 2018	600,000 (1)	$	0.95	Jan. 12, 2023
Total stock options outstanding	1,450,000			

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

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 periods ended:

	Sept. 30 2018	June 30 2018
Dividend yield	None issued	Nil
Risk free interest rate (%)	None issued	1.61
Expected stock volatility (%)	None issued	70.49
Expected life (years)	None issued	1

Convertible Instruments and Other Securities - continued

	Number of Warrants		Weighted Average Price per Warrant	Weighted Average Expiry Date
Balance at June 30, 2018, September 30, 2018, and as at the date of this document	3,256,250	$	0.17	Aug. 22, 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	43,750	$	0.85	Jan. 30, 2019
Issued Jan. 30, 2018	312,500	$	1.10	Jan. 30, 2019
Total share purchase warrants outstanding	3,256,250			

Changes in Accounting Policy

The Companyôs 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
- 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 ï 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.

Changes in Accounting Policy - continued

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 Companyœs revenue recognition policy is characterized. The new policy is described as follows:

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.

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 assetœs 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 armœs 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 September 30, 2018 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 Companyǿs 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 Companyǿs 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 Companyǿs 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 Companyǿs 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 Companyǿs 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 period.

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 Companyǿs primary exposure to credit risk is in its accounts receivable. To help mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. It has been determined that all outstanding amounts are collectible. No bad debts were recorded in the periods ended September 30, 2018 or September 30, 2017**.**

Concentration of credit risk

Concentration of credit risk arises when one or more customers, defined as a major customer, individually account for 10% or more of the Companyǿs revenues during a reporting period. During the current period the Company had 2 major customers which represented 13% and 12%, respectively, of total revenues. In the comparative period, there was 1 major customer representing 22% of revenues. Amounts due from major customers represented 19% of accounts receivable at September 30, 2018 (September 30, 2017 - 19%). 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 September 30, 2018 the Company had current financial assets of $413,161 (June 30, 2018 - $479,621) available to settle current financial liabilities of $956,800 (June 30, 2018 - $780,607). The Company manages its liquidity risk through the management of its capital *(note 14)* 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 Companyǿs 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, 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 period the Company has reported a foreign exchange gain of $1,897 (Sept. 30, 2017 ï gain of $7,962).

Sensitivity to market risks
At September 30, 2018, the Company had:

- $32,911 (June 30, 2018 - $42,784) in long term debt and a bank operating loan in the amount of $130,000 (June 30, 2018 - $110,000) each of which bears interest predicated upon the TD Bank prime lending rate. The bank operating loan is revolving, meaning it may increase or decrease in based on daily cash requirements. Based upon the current amount due on the operating loan, a 1% increase in the TD Bank prime lending rate, as at the financial reporting date, would result in additional interest expense ï long-term debt of $150 and interest expense ï other of $1,300 over the next 12 month period.
- US$8,944 (June 30, 2018 ï 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 $135 in future cash inflow.
- US$8,303 (June 30, 2018 ï 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 recognition of $125 in additional future expenses.
- US$7,959 overdraft (June 30, 2018 ï US$16,417 overdraft) included in bank indebtedness. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $120 in carrying value.
- US$162,096 (June 30, 2018 ï 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 $2,440 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.