ZTEST Electronics Inc.

Managementôs Discussion and Analysis
For The Nine Month Period Ended March 31, 2019
(Prepared as at May 29, 2019)

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 nine months ended March 31, 2019. The MD&A was prepared as of May 29, 2019 and was approved by the Board of Directors on May 29, 2019. It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the nine months ended March 31, 2019, 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 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 third quarter of 2019, like the preceding three fiscal quarters, continued to show improvement after the disappointing results realized for the second and third quarters of 2018. Revenues for the quarter were, once again, more consistent with historical norms and were almost 46% greater than they had been during the comparable period ended March 31, 2018. The nine-month revenues for 2019 are almost 17% ahead of last year and equate to almost 85% of what was reported for the entire 2018 fiscal year. This return to historical norms, which shows no signs of abating in the near future, is a necessary first step to allow the Company to continue on its path to improved results.

This path is not without challenges as the Company continues to endure the lower margins that have plagued the industry since the recent downturn and also continues to manage the pressure on liquidity and cash flows that were created during the lows of fiscal 2018. Notwithstanding these issues the Company has managed to build its inventory and is well positioned to convert that inventory into finished product in accordance with in-house orders from its customers. Recovery is a slow process but the Company remains confident that it is on the appropriate course and that success will be realized through continued diligence and dogged management of all business risks.

Corporate Performance - continued

While working hard to build its core business the Company also continues to seek and monitor other growth opportunities. In the 2017 fiscal year the Company made an initial investment into Conversance Inc., a Waterloo based company that is developing its proprietary artificial-intelligence supported distributed ledger technologies. Further investment was made during the 2018 fiscal year to raise the Companyȯs interest in this venture to 25.29% and the Company continues to actively monitor and support the development of this technology.

In 2019 ZTEST added to its investment in developing technologies through the acquisition of a 30.27% interest in Twenty49 Ltd., a company that is focussed on developing its proprietary data collection hardware and software for application in the growing cannabis sector. Twenty49 is also developing a technology that will provide cities and townships with the ability to automate the collection of cannabis sales taxes from all companies selling cannabis in their jurisdictions.

It is anticipated that each of Conversance Inc. and Twenty49 Ltd. may be required to raise additional capital to fund their commercialization efforts. The Company has the right, but not the obligation, to participate in those future financings, should they arise. While each strives to complete their development and commercialization efforts, and to explore potential synergies between their technologies, they lack revenues and are reporting operating losses. The Company reports its pro-rata share of these losses in accordance with its ownership percentage.

The following data may provide some additional insights relative to the Companyȯs 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:			
	Mar. 2019	Dec. 2018	Sept. 2018	June 2018
Total Revenues	1,065,043	1,097,839	966,483	1,010,852
Net income (loss) from operations	(102,068)	(73,351)	(104,184)	(12,076)
Per share - basic	(0.005)	(0.004)	(0.005)	(0.001)
Net income (loss) for the period	(127,279)	(87,749)	(117,773)	(29,583)
Per share - basic	(0.006)	(0.004)	(0.006)	(0.001)
Total assets	2,463,838	2,373,935	2,287,820	2,226,121
Total long-term financial liabilities	-	-	-	3,291
Total liabilities	1,128,394	1,004,124	956,800	783,898

	For the fiscal quarters ended:			
	Mar. 2018	Dec. 2017	Sept. 2017	June 2017
Total Revenues	729,743	800,502	1,145,035	1,158,812
Net income (loss) from operations	(741,021)	(148,014)	44,797	60,350
Per share - basic	(0.038)	(0.008)	0.003	0.004
Net income (loss) for the period	(750,957)	(148,013)	44,797	(234,114)
Per share - basic	(0.038)	(0.008)	0.003	(0.014)
Total assets	2,224,813	1,399,349	1,662,504	1,783,512
Total long-term financial liabilities	13,164	23,037	32,911	42,784
Total liabilities	753,008	544,242	686,883	862,688

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

Results of Operations

As alluded to previously, the Company has reported revenues for the quarter, and for the nine-month period, that well exceed those reported during the comparable periods ended March 31, 2018 but these enhanced revenues are being mitigated to some degree by reduced margins. Gross margin values have increased but they have also declined as a percentage of revenues. There are many factors contributing to this including product mix, smaller order sizes, more aggressive competition, and lingering effects of increased labour costs. Management is continuously investigating all product costs with the intent to find alternatives for enhancing margins as a percentage of periodic revenues.

The different elements of cost of product sales for the periods ended March 31 were as follows:

Nine month periods:	2019	2018	Change
Raw materials and supplies consumed	$ 1,572,247	$ 1,254,733	$ 317,514
Labour costs incurred	590,675	535,410	55,265
Depreciation	44,280	54,646	(10,366)
Other costs	130,743	76,029	54,714
Net change in finished goods and work in process	(29,089)	(33,071)	3,982
Total cost of product sales	$ 2,308,856	$ 1,887,747	$ 421,109

Three month periods:	2019	2018	Change
Raw materials and supplies consumed	$ 550,546	$ 335,488	$ 215,058
Labour costs incurred	203,782	192,171	11,611
Depreciation	14,760	18,510	(3,750)
Other costs	64,388	25,521	38,867
Net change in finished goods and work in process	(25,254)	(25,389)	135
Total cost of product sales	$ 808,222	$ 546,301	$ 261,921

Raw materials and supplies consumed, have risen quite significantly in the current period. Costs for the quarter are up more than 64% and equated to more than 51% of periodic revenues. For the nine-month period the increase is less significant, at just over 25%, but those costs also exceed 50% of periodic revenues. Traditionally, these materials costs have approximated 46% of periodic revenues but the combination of more expensive componentry, more aggressive competition, and smaller order sizes, have caused this figure to slide. The Company continues to promote the supply of components as an effective solution for its customers, who also have the option to contract for only the assembly of materials that they themselves supply, but will also work with its customers to seek out a mutually beneficial solution to these escalating costs.

Labour costs incurred have also risen in 2019 although it should be noted that the percentage increase is less than the corresponding increase in revenues. Quarterly revenues rose almost 46% but quarterly labour costs rose only 6%. Although the growth in labour costs is usually less than the corresponding revenue growth, particularly when component costs rise, however this particular disparity is simply a reflection of how poor revenues were in Q3 2018 and that it was not feasible to reduce labour supply to that same effect. Looking at this over a longer timeframe tends to smooth out anomalous results as is seen when comparing the 17% increase in revenues for the nine month period to a 10% increase in labour costs. Management makes a concerted effort to match labour supply to current and upcoming demand and will continue to do keep labour as low as possible without impairing future production capabilities.

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. These aggregated labour costs typically decline as a percentage of periodic revenues when material costs rise as a percentage of those same revenues. This is once again the case for the March 2019 periods as labour declined from 22.8% to 16.7% in the quarter and from 18.8% to 17.7% for the nine month period.

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.

Other costs include repairs and maintenance, 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 periods ended March 31 were as follows:

Nine month periods:	2019	2018	Change
Employee and consultant compensation	$ 735,174	$ 678,651	$ 56,523
Occupancy costs	193,551	197,531	(3,980)
Professional fees	49,676	73,943	(24,267)
Shareholder services	21,838	22,899	(1,061)
Insurance	23,809	23,016	793
Other costs	44,115	45,433	(1,318)
Total selling, general and administrative	$ 1,068,163	$ 1,041,473	$ 26,690

Three month periods:	2019	2018	Change
Employee and consultant compensation	$ 235,183	$ 223,260	$ 11,923
Occupancy costs	65,217	58,974	6,243
Professional fees	19,141	20,986	(1,845)
Shareholder services	5,344	5,718	(374)
Insurance	8,082	7,928	154
Other costs	17,033	13,487	3,546
Total selling, general and administrative	$ 350,000	$ 330,353	$ 19,647

Employee and consultant compensation costs, which include salaries, benefits, consulting fees, and independent directorsô fees, have risen almost 10% in comparison to the 2017 expenses. Most individual elements of this cost category were quite comparable from one period to the other, with the most notable exception being that 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 Companyös operating facility. Basic rental charges increased by 1.0% in January 2018. 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 Companyös 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 2018 to 2019. Legal fees however 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 from period to period.

Results of Operations - continued

The costs of financing for the periods ended March 31 were as follows:

Nine month periods:	2019	2018	Change
Interest expense ï long term	$ 1,143	$ 2,481	$ (1,338)
Interest expense ï other	7,582	1,120	6,462
Financing fees	13,774	-	13,774
Total financing expenses	$ 22,499	$ 3,601	$ 18,898

Three month periods:	2019	2018	Change
Interest expense ï long term	$ 247	$ 723	$ (476)
Interest expense ï other	2,607	511	2,096
Financing fees	4,811	-	4,811
Total financing expenses	$ 7,665	$ 1,234	$ 6,431

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 Companyøs operating line as well as miscellaneous interest charges incurred. During the first nine months of 2019 the Company made relatively consistent use of its bank operating line while in 2018 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 March 31, 2019, the Company had working capital of $158,908 (June 30, 2018 ï $281,753) and current financial assets of $440,652 (June 30, 2018 ï $479,621) available to settle current financial liabilities of $1,128,394 (June 30, 2018 ï $780,607). The Company also has access to a $250,000 bank operating line, of which $170,000 (June 30, 2018 ï $110,000) had been drawn as of March 31, 2019.

In addition to satisfying the cost of operations the Company must also address the settlement of the following obligations as at March 31, 2019:

	Due by Mar. 2020	Due by Mar. 2021	Due after Mar. 2021	Total Due
Long-term debt	13,166	-	-	13,166
Operating lease	107,743	107,743	-	215,486
All obligations	$ 120,909	$ 107,743	$ -	$ 228,652

Capital Resources

The Company has a $250,000 commercial line of credit from which $170,000 (June 30, 2018 - $110,000) was drawn as at March 31, 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.

Capital Resources - continued

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 findersô 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 findersô 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.

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), Directorsô 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:

Nine month periods ended March 31		2019		2018
Salaries and benefits (1)	$	198,149	$	203,480
Consulting fees (1)		139,219		67,800
Directorsô fees (1)		33,045		40,345
Legal fees (2)		36,925		47,909
Accounting fees (2)		1,750		3,500
Financing fees		13,774		-
Legal fees accounted for as investment acquisition costs		-		6,000
Legal fees accounted for as share issuance costs		10,318		15,000
Cash based expenditures	$	433,180	$	384,034
Share-based payments	$	-	$	493,017

(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 are due to related parties, and were reported in the unaudited condensed interim consolidated financial statements as an element of accounts payable and accrued liabilities, as at March 31 of each year:

	2019	2018
Salaries and benefits payable	10,497	10,570
Directorsô fees payable	40,749	6,145
Consulting fees payable	208,292	130,886
Legal fees payable	30,706	8,165

The following stock options have been issued to Directors and/or Officers of the Company and were outstanding as at March 31, 2019:

Description	Expiry Date	Number of 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	Jan. 12, 2023	600,000

During the nine month period ended March 31, 2019, 150,000 options held by Directors and/or Officers were exercised and 150,000 expired. No new stock options were granted to Directors and/or Officers.

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Common shares	Number of Shares	Amount
Common shares as at June 30, 2018	20,173,969	$ 23,215,877
Common shares issued on exercise of stock options	150,000	27,426
Common shares issued through private placement	780,000	150,871
Common shares at March 31, 2019 and as at the date of this document	21,103,696	$ 23,394,174

In addition to the shares issued and outstanding the Company has issued share purchase warrants and stock options as incentives to various parties. The following list itemizes the common shares that have been reserved to satisfy the conversions and exercise of warrants and options along with the expiry date associated therewith.

Shares reserved	Expiry Date	Number of Common Shares
Common shares to be issued for Class A shares (1)		8,246
Stock options @ $0.15 per share	Jul. 2019	150,000
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
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. 2021	600,000
Shares reserved at March 31, 2019 and as at the date of this document		4,841,700

(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.

Convertible Instruments and Other Securities - continued

Fully diluted number of shares	Quantity
Shares issued at March 31, 2019 and as at the date of this document	21,103,696
Shares reserved at March 31, 2019 and as at the date of this document	4,841,700
Fully diluted number of shares at March 31, 2019 and as at the date of this document	25,945,396

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

	Mar. 31 2019	Mar. 31 2018
Dividend yield	None issued	Nil
Risk free interest rate (%)	None issued	1.62 ï 1.98
Expected stock volatility (%)	None issued	99.36 ï 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]	(150,000)		0.15	Dec. 21, 2021
Expiry date reduced during the period	150,000		0.15	Jul. 9, 2019
End of the period and as at the date of this document	1,200,000		0.52	Dec. 4, 2021

(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.

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	600,000 [1]	$	0.95	Jan. 12, 2023

(1) Directors, former directors, and/or officers of the Company hold these options.

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

	Mar. 31 2019	Mar. 31 2018
Dividend yield	Nil	Nil
Risk free interest rate (%)	1.76 ï 1.84	1.61
Expected stock volatility (%)	116.25 ï 116.52	70.49
Expected life (years)	1.5	5

Convertible Instruments and Other Securities - continued

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 Companyõs 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.

Changes in Accounting Policy - continued

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.

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 Companyös 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.

Impairment of Non-financial Assets - continued

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 assetôs 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 armôs 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.

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 Companyôs 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 Companyôs 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 Companyôs business, operating results, and financial condition.

Risk Factors - continued

In addition to the foregoing, the Company is exposed to credit risk, concentration of credit risk, liquidity risk, and currency risk. The Companyùs 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 Companyùs 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 Companyùs primary exposure to credit risk is in its accounts receivable. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. It has been determined that no allowance is required, as all amounts outstanding are considered collectible. No bad debts were recognized during the periods ended March 31, 2019 or March 31, 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 Companyùs revenues during a reporting period. During the nine-month period ended March 31, 2019 the Company had two major customers who together represented 26% of total revenues. In the comparative period, there were two major customers which together represented 25% of revenues. Amounts due from major customers represented 10% of accounts receivable at March 31, 2019 (Mar. 31, 2018 - 1%). 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 March 31, 2019 the Company had current financial assets of $440,652 (June 30, 2018 - $479,621) available to settle current financial liabilities of $1,128,394 (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 Companyùs reputation.

Market risks

The Company is exposed to interest rate risk due to obligations that have floating interest rates as well as currency risk related to cash, accounts receivable 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 nine-month period ended March 31, 2019 the Company realized a loss on foreign exchange in the amount of $5,761 (Mar. 31, 2018 ï gain of $9,192).

Sensitivity to market risks

At March 31, 2019, the Company had:

- $13,166 (June 30, 2018 - $42,784) in long term debt and a bank operating loan in the amount of $170,000 (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 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 $27 and interest expense ï other of $1,700 over the next 12 month period.
- US$109,629 (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 $7,353 in future cash inflow.
- US$4,934 (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 $331 in additional future expenses.
- US$4,701 (June 30, 2018 ï US$16,417 overdraft) included in cash or bank indebtedness. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $315 in carrying value.

Risk Factors - continued

Sensitivity to market risks - continued

- US$226,233 (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 $15,175 in future cash outflow.
- US$36,956 (June 30, 2018 ï US$27,879) included in customer deposits. A 5% decrease in the value of the Canadian dollar relative to the US dollar would result in an increase of $2,479 in future cash outflow.

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 that 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, readers 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 readers 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.