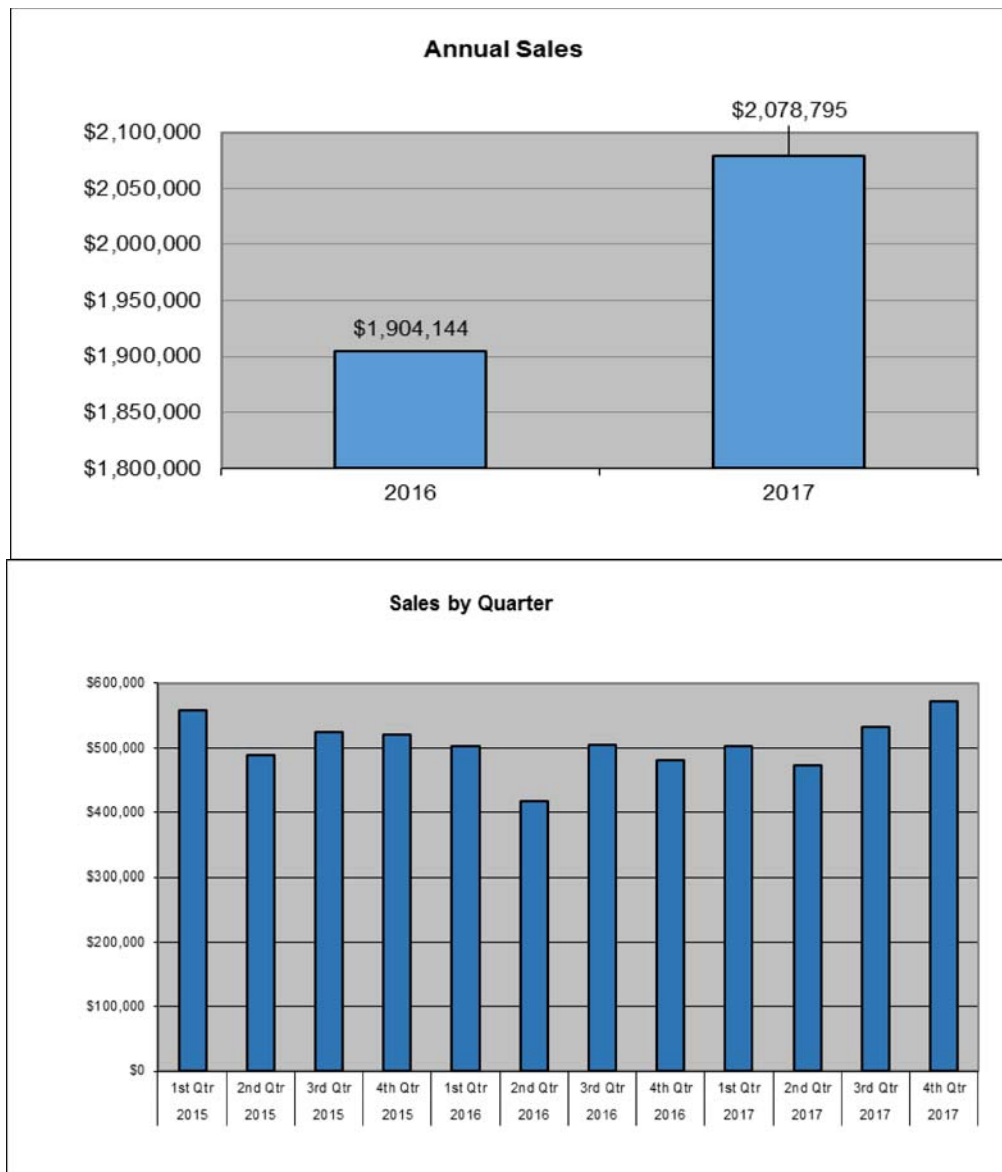




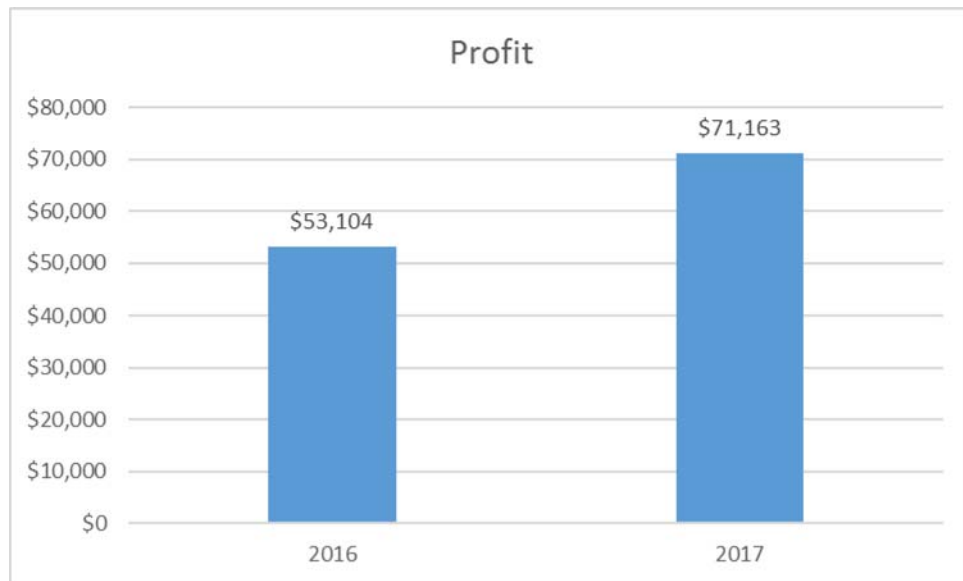
Management’s Discussion and Analysis

The following selected financial information should be read in conjunction with the financial statements and related notes contained elsewhere in this annual report.

Sales: Sales for the fiscal year ended June 30, 2017 of \$2,078,795 were up \$174,651 (9.1%) from the prior year. The quarterly and annual sales for 2016 and 2017, respectively, are shown in the charts below:

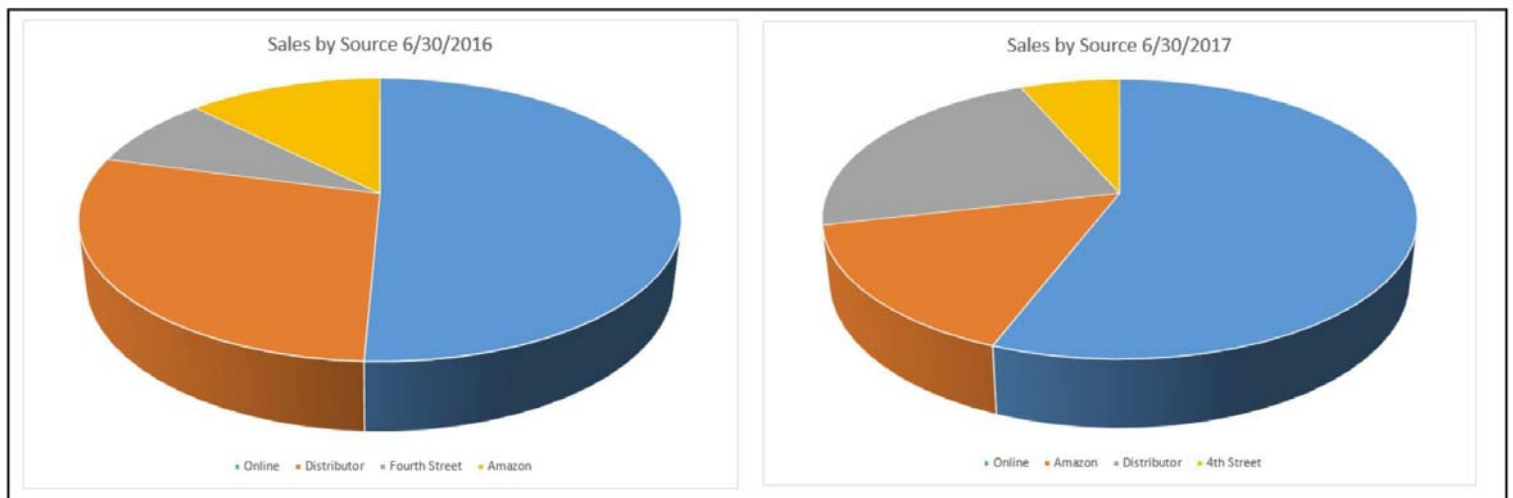


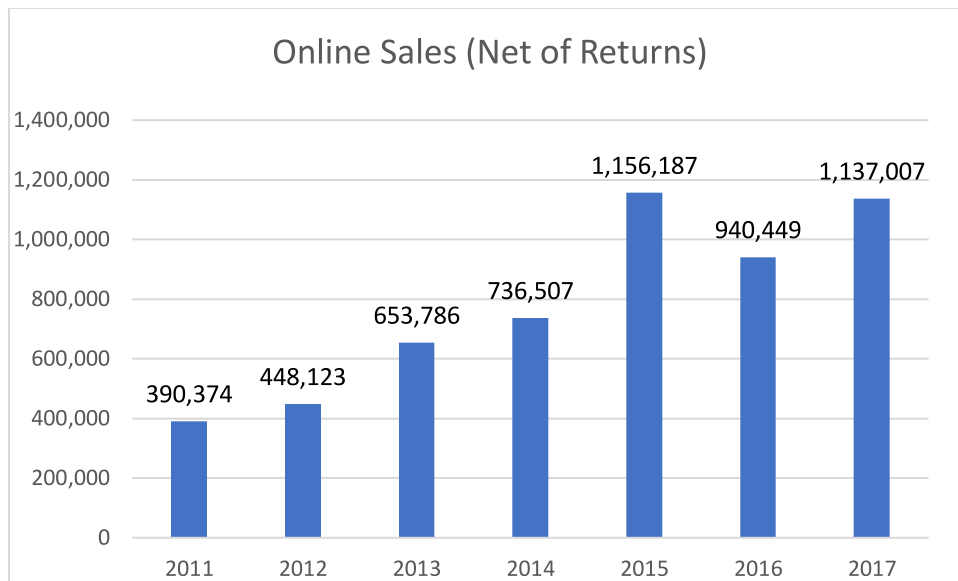
Profit: Profit increase by 34% from \$53,104 to \$71,163 for the fiscal year ending June 30, 2017. This resulted from a combination of an increasing top line sales and a greater percentage of our business sold through the Z-CoiL online website or on Amazon.



Online Sales: For the year ended June 30, 2017, we had online sales totaling \$1,137,007 up 20.9% from \$940,449 the previous year. We have several investments in online that lead to this increase. We launched a new website on a powerful ecommerce platform called Shopify. The new site benefits consumers with a clean and understandable layout and a very simple checkout. On the backend of the site, it has many options for us to create sales, recommend items before checkout and review shopping behavior. It also allows wholesalers to order, track orders and review past order history. We also continue to invest in online advertising on Google, Bing, and social media to bring customers to our site.

The online return rate increased to 17.1% from 14.6% the prior year. Although the return rate increased year over year it represents reasonable return rate for purchases made online. We actively promote our world-class 30-day risk free trial where customers can return their shoes in any condition as a means of generating sales. A large percentage of shoes are returned for size or style reasons and arrive in reasonable condition and therefore end up in our factory outlet store at 50% off. Total sales online totaled 54.7% of our total sales for the fiscal year ending June 30, 2017 up from 49.4% in the prior year.



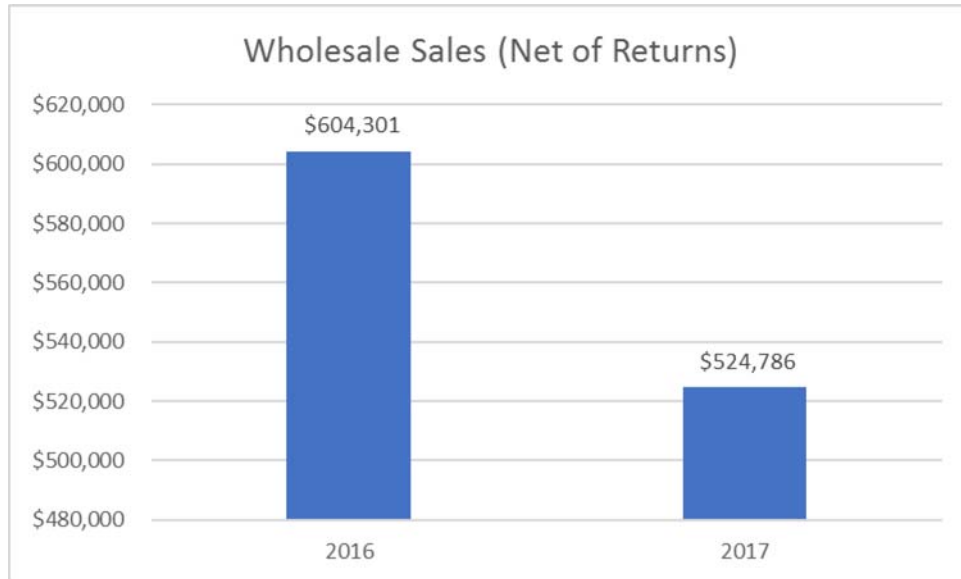


Amazon Sales: Sales totaled \$272,469 for the fiscal year, up from \$197,813 the prior year which is a 37.7% increase. We expect that Amazon will continue to show strong numbers in 2018. Amazon is a relatively new channel, as we started selling on Amazon.com in January 2015. Amazon is excellent channel for new customers to try Z-CoiLs. For many people the Z-CoiL brand is new and they do not easily trust ordering from a new website or brand, so ordering Z-CoiL from a proven and trusted online partner like Amazon is an easy choice. We often hear that people prefer to purchase on Amazon because of their easy return and exchange policy and the fact they do not need to enter payment and shipment details. We currently have a 4.6-star rating on Amazon out of 5 stars!

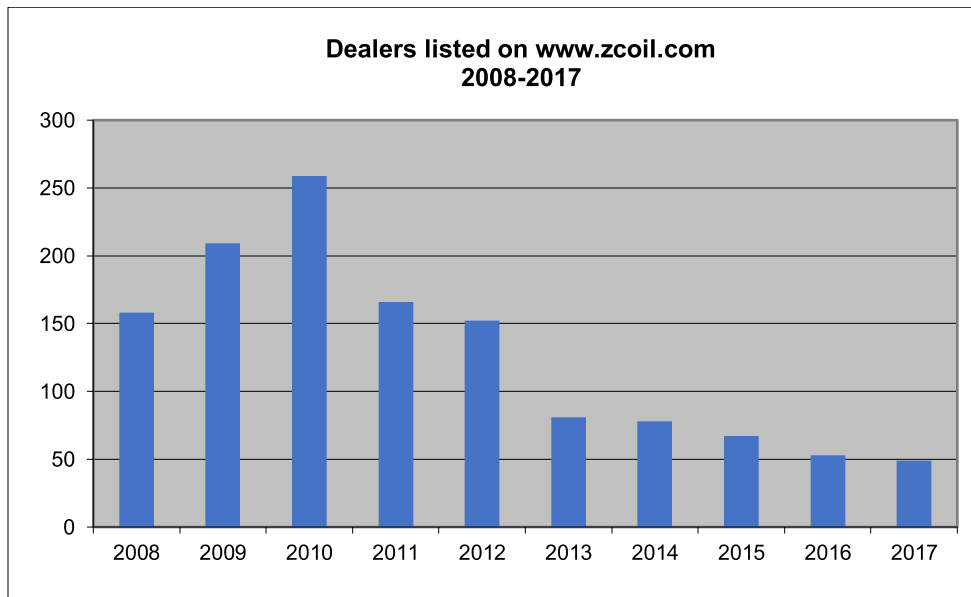


Amazon and Online combined represent nearly 68% of our total sales up from 60% the prior year. This large and growing shift is the primary reason our gross margin and profitability are increasing.

Wholesale Sales and Number of Stores: As expected, wholesale sales continue to decline. Wholesale sales were down 13% from \$604,301 in 2016 to \$524,786 in 2017. We expect this number will continue to drop as more distributors cease operations.



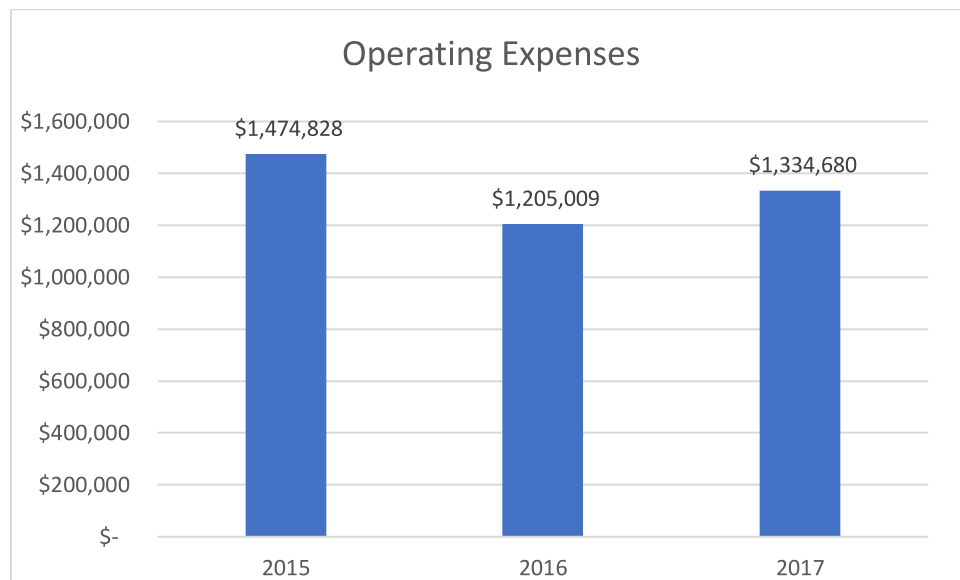
Total Number of Stores: As of June 30, 2017, Z-Tech had 174 authorized Z-CoiL retail store locations throughout the United States and Canada of which only 49 qualify to be listed on our website store locator based on sales. In 2016, there were 153 locations and 53 stores that qualified to be listed on the Z-CoiL website.



Corporate Retail Sales: Retail sales at our corporate store dropped from \$161,580 in 2016 to \$144,533 in 2017. We have converted our retail store to a clearance center for shoes returned online. We sell these slightly used shoes at 50% off. Corporate retail sales accounted for 7% of our sales in 2017 down from 8.5% in 2016.



Operating Expenses: General operating expenses increased to 1,334,680 in 2017 from \$1,205,009 in 2016 representing a 10.7% increase. We have been diligent in controlling expense in every area however driving our topline has taken more investment in advertising on social media, Amazon, Google and Bing.

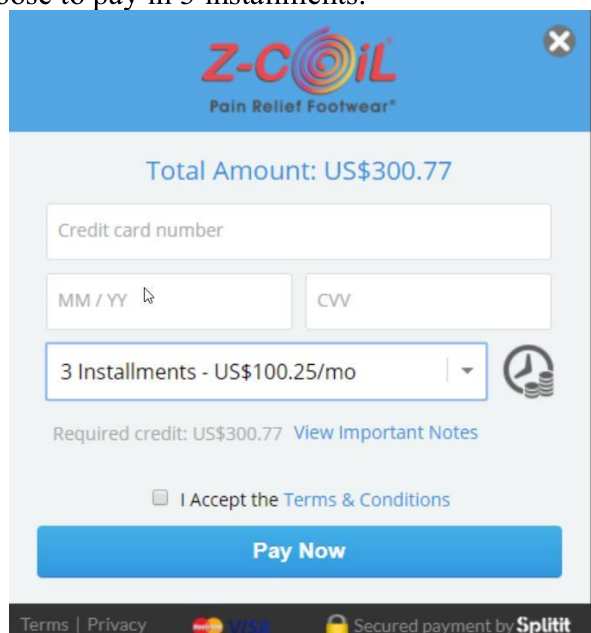


Manufacturing: South Korea remains our exclusive manufacturing source for Z-CoiL and remains a vulnerability as we are single sourced and have little say in cost and technology improvements. We have done much due diligence in regard to manufacturing in the USA with Z-CoiL. Both the USA and Asia are viable candidates for Z-CoiL manufacturing that could offset this vulnerability. However, our current volume of approximately 1,000 pair of Z-CoiL's per month does not justify the expense in tooling and other expenditures that would be required to make the transition. We expect south Korea will remain a vulnerability until we can increase our sales significantly higher.

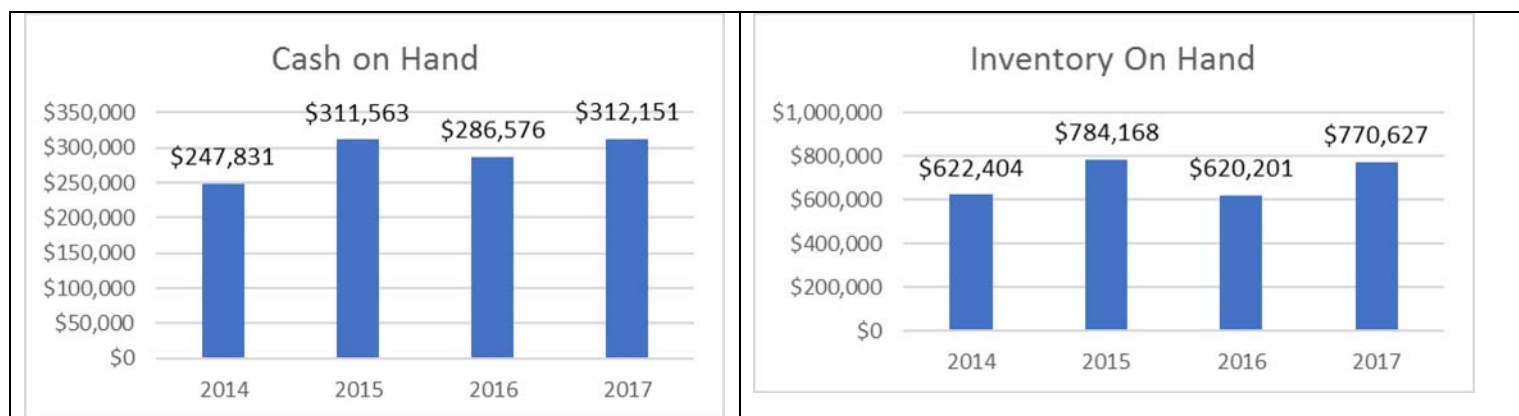
We have begun development work with Z-Fit insoles and Bio-Trek footwear lines with reputable companies in China that we expect to launch in 2018.

Cash, Inventory and Receivables: Z-Tech's cash balance as of June 30, 2017 was \$312,151 compared to \$286,576 the prior year. Our available cash fluctuates depending on the cycle of our orders. When we receive an order our inventory dollars increase and our cash decreases, and we slowly build up our cash until we receive a subsequent order.

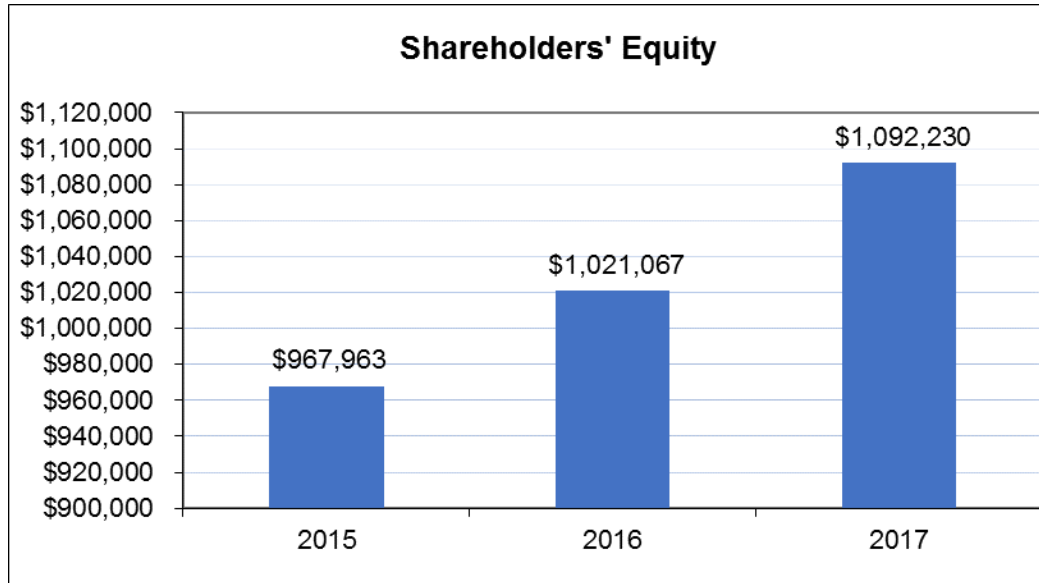
Our accounts receivable was \$15,585 as of June 30, 2017 up from \$4,952 the previous year. Accounts receivable increased because we started offering three easy payments on our web site as an effort to increase sales. Many consumers have requested a payment option and this year we succeeded in finding a partner who allows us to offer easy payments. Consumers and choose to pay in 3 installments.



Inventory as of June 30, 2017 was \$770,627 up from \$620,201 the previous year.



Shareholder Equity: Shareholder Equity increased to \$1,092,230 or 6.9% in 2017.



Moving Forward: While we are pleased with our sales and profitability results for the prior two years we remain diligent and committed to marketing and sales strategies that move us into the sales arena that would provide a reasonable return on investment to our shareholders.

The marketplace is shifting quickly and benefiting those brands who are most agile and adaptive and crushing those brands who do not. Dozens of shoe brands have closed their doors or reorganized after bankruptcy including one of our primary competitors Spira® shoes from El Paso Texas.

As a means of staying agile, last year we initiated several aggressive initiatives including the launch of an entirely new website and much more aggressive lead generation marketing. If you are on a mailing list and getting bombarded with emails, we apologize for the inconvenience but we track the metrics of these emails and they are proving fruitful, even if they are annoying at times. We increased our email list from about 30,000 subscribers to over 80,000 last year.

In 2018, we hope to launch a new modified Z-Fit insole and an improved Bio-Trek shoe to appeal to many consumers who are not quite ready for Z-CoiL.

While many of these initiatives are exciting, they are also capital intensive and represent a financial threat to the company if they fail. We believe we need to continue to walk the fine line between risk and caution as a means of growing the Z-Tech corporation.

We hope to see you for this year's shareholder meeting.

