

## ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Three Month Period Ended September 30, 2020

(Prepared as at November 24, 2020)

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### **General**

The following management's discussion and analysis (MD&A) of the financial condition and results of operations of ZTEST Electronics Inc. (ZTEST or the Company) constitutes management's review of the factors that affected the Company's interim condensed consolidated financial and operating performance for the three months ended September 30, 2020. The MD&A was prepared as of November 24, 2020 and was approved by the Board of Directors on November 24, 2020. It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the three months ended September 30, 2020, and the audited consolidated financial statements for the year ended June 30, 2020, 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](http://www.sedar.com).

### **The Company**

ZTEST is located at 523 McNicoll Avenue, Toronto, Ontario. Through its wholly-owned subsidiary, Permotech Electronics Corporation (PEC), the Company operates a single business segment designing, developing, and assembling printed circuit boards and other electronic equipment. The Company's shares trade on the Canadian Securities Exchange under the symbol "ZTE".

The Company held its annual general meeting on January 8, 2019 resulting in the re-election of the Steve Smith, K. Michael Guerreiro and Brendan Purdy. The inaugural meeting of the Board was held immediately following the annual general meeting, during which the Officers of the Company were reappointed and the Audit Committee was reformed. In November 2019, Zachery Dingsdale was appointed to the Board and he was then appointed to the Audit Committee in January 2020, following the resignation of Brendan Purdy from the Board on January 17, 2020.

<b>Name</b>	<b>Position(s)</b>
Steve Smith <sup>(1)</sup>	Chairman, President & Chief Executive Officer
K. Michael Guerreiro <sup>(1*)</sup>	Director (Independent), and Director of PEC
Zachery Dingsdale <sup>(1)</sup>	Director (Independent)
Michael D. Kindy, CPA, CA	VP Finance & Chief Financial Officer
William R. Johnstone, LLB	Corporate Secretary
John Perreault	Officer of PEC

\* Acts as Committee Chair

<sup>(1)</sup> Member of the audit committee

### **Corporate Performance**

The first quarter of the 2020 fiscal year continued to be dominated by the uncertainties caused by, and repercussions arising from, the COVID-19 pandemic. The Company has operated continuously throughout the pandemic but the way in which people interact and business is conducted has been altered dramatically. All personnel that can feasibly work remotely continue to do so, and safety measures remain in place to provide a safe workplace for those that can not. The Company is proud of how its personnel have conducted themselves throughout this pandemic and that there have been no positive cases of COVID-19 at its facility.

Although the Company's operating facility has remained COVID-free, that should not imply that the pandemic had no impact. There have been implications in the supply chain for materials and supplies, alterations to scheduled deliveries of finished product, inefficiencies caused by physical distancing and the use of personal protective equipment, and many other factors that impacted the Company's operations. Although there have certainly been implications, the Company can report that, with the aid of government subsidies, the COVID related factors affecting operations to date have been far more inconvenient than devastating. However, the pandemic continues, and the number of infections in many parts of the world are rising, so future implications of the pandemic for the Company, its personnel, its industry, its customers, its suppliers, and the broader scope domestic and international markets, cannot currently be estimated.

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### Corporate Performance - continued

During the period, the Company was a beneficiary of the Canadian Emergency Wage Subsidy (CEWS). CEWS is a government subsidy, based upon payroll paid to eligible employees, that has been made available to qualifying companies as a result of COVID-19. The Company received subsidy in the amount of \$76,584 during the first quarter of 2021. This subsidy is included in net income for the period through the reduction of labour costs included in cost of product sales and employee compensation included in expenses. The Company will continue to monitor government subsidy programs and to make application for any subsidies for which it may meet the qualification criteria.

The Company also completed a previously announced transaction with Joseph Chen, the founder and majority shareholder of Conversance Inc. Through this transaction ZTEST issued 1,250,000 Series 1 Preference shares in exchange for 25,000 Class A shares of Conversance and received an option from Conversance to acquire an additional 75,000 Class A shares of Conversance, from treasury, for \$1 million on or before December 31, 2022. The 1,250,000 Series 1 Preference shares will be automatically converted into common shares of the Company if, on or before June 30, 2021, one or more arm's-length investors purchase at least 130,139 shares of Conversance from treasury, at a price of at least \$10.00 per share. ZTEST also retains its right to participate in any future financing of Conversance to maintain its current ownership interests. If this financing has not occurred by June 30, 2021 then, subject to further agreement of the parties, the Series 1 Preference shares will be repurchased for \$1 and the 25,000 Class A shares of Conversance will be returned to Joseph Chen.

In spite of the pandemic, the first quarter provided positive results from operations as periodic revenues exceeded \$1 million for the sixth time in the last eight quarters and reported positive net income of \$81,886. This ends a series of eleven consecutive quarters for which net losses were reported. There have been instances during this time period for which the Company reported net income from operations however, in each previous case, that was offset by non-operating expenses. There were no non-operating expenses in the current period so net income from operations and net income for the period were identical.

The Company also realized tangible improvements in liquidity during this fiscal quarter. The Company generated positive cash flow from operations for the third time in the five most recent quarters and added to its overall cash position for the fourth time in those same five fiscal quarters. This enhanced cash position contributed to growth of almost 25% in working capital as current financial assets increased 19% at the same time that current financial liabilities declined by almost 5%.

Although the first quarter has been positive, the Company recognizes that COVID-19 adds an aspect of uncertainty to all aspects of business. Management continues to navigate through these uncertainties while working to generate growth in revenues and profitability and to further enhance liquidity and capital under management. The following data may provide some additional insights relative to the Company's operating performance and financial position:

	For the fiscal years ended:		
	June 2020	June 2019	June 2018
Total Revenues	3,888,898	4,399,062	3,686,132
Net loss from operations	(81,102)	(274,085)	(856,314)
Per share - basic	(0.004)	(0.013)	(0.046)
Net loss for the year	(818,737)	(344,186)	(883,756)
Per share - basic	(0.038)	(0.017)	(0.047)
Total assets	1,807,231	2,268,045	2,226,121
Total long-term financial liabilities	40,000	-	3,291
Total liabilities	1,042,533	943,985	783,898

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**Corporate Performance - continued**

	Sept. 2020	For the fiscal quarters ended:		
		June 2020	Mar. 2020	Dec. 2019
Total Revenues	1,053,501	1,077,137	1,102,355	828,703
Net income (loss) from operations	81,886	178,572	(13,191)	(148,254)
Per share - basic	0.004	0.008	(0.001)	(0.007)
Net income (loss) for the period	81,886	(511,798)	(24,194)	(162,103)
Per share - basic	0.004	(0.024)	(0.001)	(0.008)
Total assets	1,841,370	1,807,231	2,306,150	2,120,412
Total long-term financial liabilities	40,000	40,000	-	26,809
Total liabilities	994,785	1,042,533	1,029,654	1,079,097

  

	Sept. 2019	For the fiscal quarters ended:		
		June 2019	Mar. 2019	Dec. 2018
Total Revenues	880,703	1,269,697	1,065,043	1,097,839
Net income (loss) from operations	(98,229)	5,518	(102,068)	(73,351)
Per share - basic	(0.005)	0.000	(0.005)	(0.004)
Net income (loss) for the period	(120,642)	(11,385)	(127,279)	(87,749)
Per share - basic	(0.006)	(0.001)	(0.006)	(0.004)
Total assets	2,314,453	2,268,045	2,463,838	2,373,935
Total long-term financial liabilities	54,201	-	-	-
Total liabilities	1,111,035	943,985	1,128,394	1,004,124

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

**Results of Operations**

As noted previously, periodic revenues exceeded \$1 million, representing an improvement of almost 20% over the same period one year earlier. This increase in revenues also resulted in growth of almost 34% in gross margin year over year. This increase in gross margin was aided by CEWS benefits in the amount of \$49,581, without which the margins would have grown by just over 15%. If the CEWS benefits are ignored, then the gross margin was 29.2% of periodic revenues. This is an improvement over the 28.9% realized for the 2020 fiscal year, again ignoring the CEWS benefits received, and the 27.7% realized in the 2019 fiscal year. These results show that efforts to grow the gross margin, that began late in the 2019 fiscal year, continue to provide positive results. Management will continue efforts to grow revenues and to investigate alternatives for enhancing margins as a percentage of periodic revenues.

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

Three month periods ended September 30	2020	2019	Change
Raw materials and supplies consumed	\$ 531,064	\$ 405,783	\$ 125,281
Labour costs incurred	143,711	194,211	(50,500)
Depreciation	9,571	11,836	(2,265)
Other costs	26,440	29,899	(3,459)
Net change in finished goods and work in process	(14,273)	(27,896)	13,623
Total cost of product sales	\$ 696,573	\$ 613,833	\$ 82,680

The cost of raw materials and supplies consumed were equal to 50.4% of periodic revenues for the first quarter of 2010 as compared to 46.1% for the first quarter of 2020. It is not uncommon for these costs to fluctuate from quarter to quarter as the mix varies between products for which customers supply the components themselves and those for which they are supplied by the Company. As an example, the costs for the first quarter of 2020 were 46.1% of revenues while for the entire 2020 fiscal year these costs equated to 48.1% of revenues. It is not anticipated that the results of the most recent quarter represent a consistent increase in this cost and management consistently promotes the benefits customers may derive from the Company's provision of the raw materials and supplies necessary to complete the assembly of their products.

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### Results of Operations - continued

As noted previously, labour costs incurred for the first quarter of 2021 are reported net of CEWS in the amount of \$49,581 which accounts for virtually all of the cost decline realized year over year. This means that the gross labour costs, before CEWS, were virtually identical for the periods presented. Labour costs incurred is typically reflective of the Company's efforts to match labour supply with current and expected future demand, based on the labour element of known customer orders. This matching can never be absolute and continues to take into consideration which personnel did or did not want to be present as a consequence of COVID-19.

The net change in finished goods and work in process is a measure of the change in labour costs included in inventory. This cost must be combined with labour costs incurred to determine the net labour costs included in cost of product sales. These aggregate costs were \$129,438 for the current period, or \$179,019 before considering the CEWS benefits. For the first quarter of 2020 the aggregate costs were \$166,315 meaning that current year costs are 7.6% greater. It has been noted in prior periods that aggregate labour costs tend to move in the same direction as revenues, but at a lesser percentage change. It has also been noted previously that in periods when material costs rise as a percentage of periodic revenues, labour costs tend to decline as a percentage of periodic revenues. Taking these two factors into consideration, an increase of 7.6% in aggregate labour costs in a period when revenues rise almost 20% is within expectations.

Depreciation is a function of time and the carrying value of the manufacturing equipment in use. No significant additions have been necessary in recent years 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's expectations.

Selling, general and administrative expenses, and the changes realized, were as follows:

Three month periods ended September 30	2020	2019	Change
Employee and consultant compensation	\$ 163,519	\$ 250,448	\$ (86,929)
Occupancy costs	66,562	70,746	(4,184)
Professional fees	23,721	13,174	10,547
Shareholder services	4,309	3,250	1,059
Insurance	8,526	8,072	454
Other costs	7,137	9,204	(2,067)
<b>Total selling, general and administrative</b>	<b>\$ 273,774</b>	<b>\$ 354,894</b>	<b>\$ (81,120)</b>

Employee and consultant compensation costs, which include salaries, benefits, consulting fees, and independent directors' fees, declined almost 35% in comparison to the September 2019 fiscal quarter. This decline was aided by CEWS benefits received in the amount of \$27,003. In addition, the Company had the CEO reduce his remuneration by 50%, one employee retired and another reduced their workweek and remuneration by more than 50%, and there has been a reduction in certain payroll taxes. It is expected that the employee that retired will be replaced in the near future, which will add to remuneration costs of future periods.

Occupancy costs includes amortization of the right of use asset, all common are costs related to the leased facility, and utility costs. Each of these has been consistent from period to period with the exception of utility costs. The reduced utility costs are reflective of rate reductions in effect throughout the first quarter as a result of the COVID-19 pandemic. This rate reduction ended, at least in part, on November 1, 2020 so this form of savings should not be anticipated to continue. The Company's current facility lease runs through March 2021 and occupancy costs are expected to remain generally comparable throughout that lease term. A five year lease extension has been negotiated, which will result in increased costs commencing in the fourth quarter of this year.

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### Results of Operations - continued

Professional fees are comprised of fees for legal services and a prorated portion of the estimated cost of the upcoming audit of the annual financial statements. Audit costs have remained consistent while legal fees have increased. A significant portion of legal fees relate to matters of corporate administration and governance for which there was additional requirement in the current period, including facilitating the issuance of preferred shares in conjunction with the acquisition of shares of Conversance Inc.

Shareholder services, insurance expense and other costs are all closely monitored, and are within management expectations.

The Company's cost of borrowing, and the changes realized, were as follows:

Three month periods ended September 30	2020	2019	Change
Interest expense ó long term	\$ -	\$ 5	\$ (5)
Interest expense ó other	162	1,428	(1,266)
Interest expense ó lease liability	878	2,319	(1,441)
Financing fees	-	3,469	(3,469)
<b>Total financing expenses</b>	<b>\$ 1,040</b>	<b>\$ 7,221</b>	<b>\$ (6,181)</b>

The Company had a single long-term debt instrument outstanding that matured close to the start of the 2019 fiscal period. There has been no long-term debt incurred since that time.

Interest expense ó other represents interest arising from the use of the Company's operating line as well as miscellaneous interest charges incurred. The Company made no use of its bank operating line in the most recent quarter.

In accordance with IFRS 16 Leases, the Company recognizes imputed interest on its lease liability, which will mature March 2021. The reduction in expense is reflective of the declining balance of this obligation.

The Company was subject to an agreement with a related party whereby it could offer to sell specific accounts receivable to that related party at a discount from the face value of the receivable. That discount was accounted for as financing fees at the time of the sale. The agreement was terminated July 2020.

### Liquidity

At September 30, 2020, the Company had working capital of \$599,927 (June 30, 2020 ó \$481,680) and current financial assets of \$874,431 (June 30, 2020 ó \$732,471) available to settle current financial liabilities of \$954,785 (June 30, 2020 ó \$1,002,533). The Company also has access to a \$250,000 bank operating line, of which \$Nil (June 30, 2020 ó \$Nil) had been drawn as of September 30, 2020.

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, 2020:

	Due by Sept. 2021	Due by Sept. 2022	Due by Sept. 2023	Due after Sept. 2023	Total Due
Long-term debt	\$ -	\$ -	\$ -	\$ 40,000	\$ 40,000
Lease liability	53,239	-	-	-	53,239
	<b>\$ 53,239</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 40,000</b>	<b>\$ 93,239</b>

### Capital Resources

The Company has a \$250,000 commercial line of credit from which \$Nil (June 2020 - \$Nil) was drawn as at September 30, 2020. 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.

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### Capital Resources - continued

The Company has not issued any securities, or completed any financing transactions, since June 30, 2020.

### Related Party Transactions

The Company had transactions during the periods with key management personnel and with 1114377 Ontario Inc., a company controlled by the spouse of a former Director of PEC. These include consulting fees paid to Steve Smith (President and CEO), consulting fees and accounting fees paid to Michael D. Kindy (CFO), Directors' fees paid to independent Directors of the Company and its subsidiary, salaries and benefits paid to John Perreault and Wojciech Drzazga<sup>(3)</sup> as officers of PEC, 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	2020	2019
Consulting fees <sup>(1)</sup>	\$ 36,569	\$ 49,500
Directors' fees <sup>(1)</sup>	10,500	7,770
Salaries and benefits <sup>(1)</sup>	33,664	66,755
Legal fees <sup>(2)</sup>	16,845	6,924
Financing fees	-	3,469
Cash based expenditures	\$ 97,578	\$ 134,418
Share-based payments	\$ -	\$ -

(1) Reported in the consolidated financial statements as an element of employee and consultant compensation.

(2) Reported in the consolidated financial statements as an element of professional fees.

(3) Wojciech Drzazga was CEO of PEC until June 14, 2020.

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:

	2020	2019
Consulting fees payable	\$ 297,719	\$ 312,519
Directors' fees payable	\$ 48,727	\$ 53,742
Salaries and benefits payable	\$ 6,605	\$ 15,781
Legal fees payable	\$ 48,501	\$ 36,387

The following stock options have been issued to Directors and/or Officers of the Company and were outstanding as at September 30, 2020, and as at the date of this document:

Description	Expiry Date	Number of Common Shares
Stock options @ \$0.05 per share	Mar. 3, 2021	400,000
Stock options @ \$0.95 per share	Jan. 12, 2023	350,000

During the period ended September 30, 2020, 200,000 stock options held by a former director expired.

### Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Shares issued	Quantity	Amount
Common shares at September 30, 2020, and at the date of this document	22,876,696	\$23,613,546
Series 1 preference shares at September 30, 2020, and at the date of this document	1,250,000	1
Total share capital		\$23,613,547

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**Convertible Instruments and Other Securities - continued**

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:

Common shares reserved	Expiry Date	Number of Common Shares
To be issued for Class A shares <sup>(1)</sup>		8,246
Warrants @ \$0.40 per share <sup>(4)</sup>	Dec. 2020	390,000
Warrants @ \$0.40 per share <sup>(5)</sup>	Jan. 2021	312,500
Warrants @ \$0.25 per share	Feb. 2021	750,000
Warrants @ \$0.15 per share	Feb. 2021	10,500
Stock options @ \$0.05 per share	Mar. 2021	400,000
Warrants @ \$0.06 per share	Dec. 2021	2,900,000
Stock options @ \$0.95 per share	Jan. 2023	350,000
Conversion of Series 1 Preference shares	June 2021	1,250,000
<b>Shares reserved at September 30, 2020, and at the date of this document</b>		<b>6,371,246</b>

<sup>(1)</sup> Following the 2013 conversion of Class A Special Shares to common shares, 8,246 common shares remain reserved to be issued if and when the remaining Class A shareholders identify themselves to the Company.

Fully diluted number of shares	Quantity
Shares issued as at Sept. 30, 2020, and as at the date of this document	22,876,696
Shares reserved as at Sept. 30, 2020, and as at the date of this document	6,371,246
<b>Fully diluted position Sept. 30, 2020, and as at the date of this document</b>	<b>29,247,942</b>

Additional disclosures relative to stock options are as follows:

	Average Common Shares Under Option	Weighted Price per Option	Average Expiry Date
Balance at June 30, 2020	1,000,000	\$ 0.55	Sep. 2, 2021
Expired during the period	(250,000)	0.79	Jul. 26, 2020
<b>Balance as at Sept. 30, 2020, and as at the date of this document</b>	<b>750,000</b>	<b>\$ 0.47</b>	<b>Jan. 14, 2022</b>

No stock options were granted during the periods presented. As at the date of this document the following stock options, each of which has vested and is held by Directors and/or officers of the Company, are outstanding:

	Common Shares Under Option	Exercise Price	Expiry Date
Granted March 3, 2016	400,000	\$ 0.05	Mar. 3, 2021
Granted January 12, 2018	350,000	\$ 0.95	Jan. 12, 2023
<b>Total stock options outstanding</b>	<b>750,000</b>		

The Company has no ability to cause these options to be exercised.

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### Convertible Instruments and Other Securities - continued

Additional disclosures relative to share purchase warrants are as follows:

	Number of Warrants	Weighted Average Price per Warrant	Weighted Average Expiry Date
Balance at June 30, 2020	4,378,400	\$ 0.15	Aug. 30, 2021
Expired during the period	(15,400)	0.30	July 31, 2020
Balance as at September 30, 2020, and as at the date of this document	3,641,700	\$ 0.19	Aug. 16, 2021

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

	Sept. 30 2020	June 30 2020
Dividend yield	None issued	Nil
Risk free interest rate (%)	None issued	1.27
Expected stock volatility (%)	None issued	119.88
Expected life (years)	None issued	1.0

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 Jan. 31, 2019	170,000	\$ 0.40	July 31, 2020
Issued Feb. 28, 2020	750,000	\$ 0.25	Feb. 28, 2021
Issued Feb. 28, 2020	10,500	\$ 0.15	Feb. 28, 2021
Total share purchase warrants outstanding	4,363,000		

### Financial instruments

The Company's financial instruments are comprised of the following:

<u>Financial assets:</u>	<u>Classification</u>
Cash	Amortized cost
Accounts receivable	Amortized cost
<u>Financial liabilities:</u>	<u>Classification</u>
Bank operating loan	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Customer deposits	Amortized cost
Lease liability	Amortized cost
Long-term debt	Amortized cost

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

*The effective interest method* - The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to the net carrying amount on initial recognition.



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### **Impairment of Non-financial Assets**

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss.

Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the income for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in income for the period.

### **Impairment of Investments**

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

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 there were no loss events nor any events that would cause a reversal, in whole or in part, of the impairment provision recognized during the fiscal year ended June 30, 2020.

### **Risk Factors**

Events seemingly unrelated to the Company, or to its industry, may adversely affect its finances or operations in ways that are hard to predict or defend against. For example, credit contraction in financial markets may hamper the Company's ability to access credit when needed or rapid changes in foreign exchange rates may adversely affect its financial results. Finally, a reduction in credit, combined with reduced economic activity, may adversely affect businesses and industries that constitute a significant portion of the Company's customer base. As a result, these customers may need to reduce their purchases, or the Company may experience greater difficulty in collecting amounts due from them. Any of these events, or others caused by uncertainty in world financial markets, may have a material adverse effect on the Company's business, operating results, and financial condition.

In addition to the foregoing, the Company is exposed to credit risk, concentration of credit risk, liquidity risk, and currency risk. The Company's primary risk management objective is to protect earnings and cash flow and, ultimately, shareholder value. Risk management strategies, as discussed below, are designed and implemented to ensure that the Company's risks and the related exposure are consistent with its business objectives and risk tolerance. There have been no changes to the risk management strategies during the current period.

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### **Risk Factors - continued**

#### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is in its accounts receivable. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. It has been determined that no allowance is required, as all amounts outstanding are considered collectible. The Company incurred no bad debts during the periods ended September 30, 2020 or September 30, 2019.

#### Concentration of credit risk

Concentration of credit risk arises when one or more customers individually account for 10% or more of the Company's revenues during a reporting period. The Company had 2 customers during the current period, representing 20% and 15% of revenues (Sept. 30, 2019 - 2 customers, 17% and 15% of revenues). Amounts due from these customers represented 36% of accounts receivable at September 30, 2020 (Sept. 30, 2019 - 6%). The loss of, or significant curtailment of purchases by, such a 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, 2020 the Company had current financial assets of \$874,431 (June 30, 2020 - \$732,471) available to settle current financial liabilities of \$954,785 (June 30, 2020 - \$1,002,533). 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 Company's reputation.

#### Market risks

The Company is exposed to interest rate risk due a bank operating loan that has a floating interest rate as well as currency risk related to accounts receivable, accounts payable, customer deposits, and nominal amounts of cash prepaid expenses, and customer deposits, 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 \$861 (Sept. 30, 2019 a loss of \$1,863).

#### Sensitivity to market risks

At September 30, 2020, the Company had:

- A bank operating loan that had not been drawn upon (June 30, 2020 - \$Nil) which bears interest predicated upon the TD Bank prime lending rate. 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 no additional interest expense over the next 12 month period.
- US\$46,399 (June 30, 2020 a US\$61,399) 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 \$2,320 in future cash inflow.
- US\$109,059 (June 30, 2020 a US\$114,337) 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 \$5,453 in future cash outflow.

Based upon observations of recent market trends management believes that each of these outcomes is possible.

## **ZTEST Electronics Inc.**

Management's Discussion and Analysis

For The Three Month Period Ended September 30, 2020

(Prepared as at November 24, 2020)

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### **Forward-looking Information**

Certain statements in this MD&A may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and its subsidiary, or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this report, the words "estimate", "believe", "anticipate", "intend", "expect", "plan", "may", "should", "will", the negative thereof or other variations thereon or comparable terminology are intended to identify forward-looking statements. Such forward-looking statements reflect the current expectations of the management of the Company with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results, performance or achievements to differ materially from those expressed or implied by those forward-looking statements, such as reduced funding, long sales cycles, currency and interest rate fluctuations, increased competition and general economic and market factors and including the risk factors summarized above under the heading "Risk Factors". New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those expressed or implied in such forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements contained in this MD&A speak only as of the date hereof. The Company does not undertake or assume any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.