

ZTEST Electronics Inc.

Management's Discussion and Analysis
For The Nine Month Period Ended March 31, 2018
(Prepared as at May 28, 2018)

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 nine months ended March 31, 2018. The MD&A was prepared as of May 28, 2018 and was approved by the Board of Directors on May 28, 2018. It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the nine months ended March 31, 2018, and the audited consolidated financial statements for the year ended June 30, 2017, 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, Permotech Electronics Corporation ("PEC"), the Company operates a single business segment designing, developing, and assembling printed circuit boards and other electronic equipment.

The Company held its annual general meeting on December 19, 2017 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 subcommittees noted below were formed.

<u>Name</u>	<u>Position(s)</u>
Wojciech Drzazga ^(5, 6)	Chairman and Chief Executive Officer
William J. Brown ^(1*, 3, 6)	Director (Independent)
K. Michael Guerreiro ^(2, 3, 6)	Director (Independent)
Steve Smith ^(1, 2)	Director (Independent)
Brendan Purdy ^(1, 2, 4)	Director (Independent)
Michael D. Kindy, CPA, CA	VP Finance & Chief Financial Officer
William R. Johnstone, LLB	Corporate Secretary

* Acts as Committee Chair

(1) Member of the Audit Committee

(2) Member of the Strategic Planning Committee

(3) Member of the Compensation Committee

(4) Mr. John Perreault was re-elected as a Director of the Company at the December 19, 2017 annual general meeting but resigned his positions as an Officer and Director of the Company at the start of the Board meeting that immediately followed. The Board accepted Mr. Perreault's resignation and then appointed Mr. Brendan Purdy to fill the vacancy. Mr. Purdy had been presented to the Company as a nominee for the Board however, his nomination had not been made in accordance with the Company's Advance Notice Provisions, so he was ineligible to be elected at the meeting. Mr. Perreault continues in his role as the President and Chief Operating Officer of the Company's operating subsidiary, Permotech Electronics Corporation.

(5) Mr. Wojciech Drzazga has announced his resignation as the Company's Chairman and Chief Executive Officer, effective June 15, 2018. Mr. Drzazga will continue in his roles as a Director and as the Chief Executive Officer of the Company's operating subsidiary, Permotech Electronics Corporation.

(6) Serves as a Director of the Company's operating subsidiary, Permotech Electronics Corporation.

Corporate Performance

At the December 19, 2018 meeting of the Company's Board of Directors, the Strategic Planning Committee was requested to investigate and then advise the Board with respect to the Company's mid-range and long-range strategic plans as well as its investment opportunities. In accordance with the Committee's recommendations, the Board approved the completion of a private placement financing for the specific purpose of increasing the Company's investment in Conversance Inc. ("Conversance").

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Corporate Performance - continued

Conversance is a Waterloo based private company focused on developing and marketing proprietary Artificial Intelligence supported distributed ledger technologies. In December 2016 the Company acquired a 15.05% interest in Conversance, plus an option to acquire a further 4.86% interest. In January 2018 the Company exercised this option by paying \$140,000 and issuing 275,000 common shares valued at \$189,200, thereby increasing its holdings to 19.91%. Then, on February 28, 2018, the Company paid \$500,000 to acquire an additional 5.38% and increased its holdings to 25.29%.

The February 2018 investment was funded, in part, by the private placement transaction through which the Company generated gross proceeds of \$531,250. In association with the February investment the Company held options permitting it to increase its holdings in Conversance to a maximum of 34.99%. These options were allowed to lapse. The Company continues to have the right to nominate one Director, out of a total of three, to the Conversance Board of Directors and to participate in future financings of Conversance.

The combination of the Company's percentage interest in Conversance, and the associated rights the Company holds, provides the Company with what is defined under IFRS as significant influence relative to Conversance. Whenever significant influence exists, the Company is required to recognize its proportionate share of the investee's results of operations. Conversance remains in the development phase and has not yet commenced commercial operations. The Company's 25.29% share of losses arising from March 1, 2018 to March 31, 2018 was \$9,940.

In addition to the Company's proportionate share of the Conversance operating loss, the Company also realized losses from its own operations during the fiscal quarter ended March 31, 2018. During the preceding quarter the Company endured a seasonal downturn and was anticipating the market rebound that traditionally follows. The most recent quarter not only reflects a delay in that anticipated market rebound but also reflects the impact of having certain of its customers defer the delivery of products. The Company's operations subsequent to the end of the quarter, including the existing order log and the shipment of some previously deferred orders, suggest that the long-awaited rebound is finally underway and improved results are expected from future operations.

The loss reported for the third fiscal quarter was exacerbated by the recognition of \$591,996 in share-based payment expense as a consequence of stock options granted during the period. Even though this expense has no impact upon the Company's overall equity position, the impact on the reported loss remains significant. The number of options granted, and the terms associated with those options, were generally consistent with prior option grants. However, the market price for the Company's common shares at the date of grant, and the corresponding exercise price for the options, were each significantly higher than they had been at the time of previous grants and this correlates directly with the higher valuations attributed to the stock options in accordance with the Black-Scholes valuation model.

In January 2018, the Company granted stock options to Directors and/or Officers of the corporation, and to two consultants that were being retained to provide current and future services. The options granted to Directors and/or Officers vested on the date of grant and gave rise to \$493,017 of share-based payment expense. The consultant options were subject to vesting periods whereby 25% of the options would vest on each three-month anniversary subsequent to the date of grant. Prior to the first vesting date, and prior to any tangible services being provided, the service agreements were terminated by mutual consent and each of the consultants surrendered their stock options. Until just prior to the termination dates there was an expectation that 100% of these stock options would vest thereby requiring the Company to accrete the value determined under the Black-Scholes valuation model to income over the vesting periods. Accordingly, the Company recognized \$98,979 in share-based payment expense during the quarter in relation to these now surrendered options.

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Corporate Performance - continued

Although share-based payments have no impact upon cash flows, the repressed operating volumes do. The Company managed this well as operating activities used a net of only \$14,046 in available cash during the quarter but the Company did end the quarter having utilized about one quarter of its bank operating loan, and with lower liquidity values. Pressure on cash flow is expected to persist through the final quarter of the year when operating volume is expected to return to more traditional levels.

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

	For the fiscal years ended:		
	June 2017	June 2016	June 2015
Total Revenues	3,754,883	4,211,885	3,945,720
Net (loss) income from operations	(203,576)	(42,595)	(33,397)
Per share - basic	(0.014)	(0.004)	(0.003)
Net (loss) income for the year	(497,880)	(42,553)	560,333
Per share - basic	(0.035)	(0.004)	0.053
Total assets	1,783,512	1,708,698	1,770,999
Total long-term financial liabilities	42,784	82,276	121,769
Total liabilities	862,688	661,368	720,921

	For the fiscal quarters ended:				
	Mar. 2018	Dec. 2017	Sept. 2017	June 2017	Mar. 2017
Total Revenues	729,743	800,502	1,145,035	1,158,812	1,099,568
Net (loss) income from operations	(741,021)	(148,014)	44,797	60,350	33,568
Per share - basic	(0.038)	(0.008)	0.002	0.004	0.002
Net (loss) income for the period	(750,957)	(148,013)	44,797	33,569	33,569
Per share - basic	(0.038)	(0.008)	0.002	0.002	0.002
Total assets	2,224,813	1,399,349	1,662,504	1,783,512	1,954,654
Total long-term financial liabilities	13,164	23,037	32,911	42,784	52,656
Total liabilities	753,008	544,242	686,883	862,688	819,716

	For the fiscal quarters ended:				
	Dec. 2016	Sept. 2016	June 2016	Mar. 2016	Dec. 2015
Total Revenues	668,803	827,700	1,013,950	1,094,232	1,223,691
Net (loss) income from operations	(180,899)	(116,595)	(81,112)	(15,550)	66,133
Per share - basic	(0.015)	(0.011)	(0.008)	(0.001)	0.006
Net (loss) income for the period	(180,788)	(116,548)	(81,112)	(15,550)	65,452
Per share - basic	(0.015)	(0.011)	(0.008)	(0.001)	0.006
Total assets	1,648,537	1,535,979	1,708,698	1,843,819	1,890,491
Total long-term financial liabilities	62,530	72,403	82,276	92,149	102,022
Total liabilities	550,418	585,197	661,368	715,377	786,304

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

Results of Operations

As alluded to previously, there were negative market conditions throughout the recent quarter that impacted upon the Company's operating results. Total revenues for the quarter were lower than either of the preceding quarters of this fiscal year and were almost 34% lower than the corresponding period in 2017. In spite of the third quarter results, revenues for the nine month period in 2018 remained about 3% higher than the revenues reported for the first nine months of 2017.

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Results of Operations - continued

Whenever revenues are somewhat repressed the gross margin tends to be impacted by a greater result due to costs that are not entirely correlated with revenue. The gross margin realized in the third quarter was just over 25% of revenues as compared to 31% for the third quarter of 2017. The effect of the third quarter has been to reduce year-to-date margins to 29.4%. However, just like the revenues, this is ahead of the 28.8% from the corresponding period one year ago.

Operating results for the first seven weeks of the fourth quarter suggest that revenues, and the resulting gross margin, are both likely to approach more traditional levels for that period.

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

Nine month periods:	2018	2017	Change
Raw materials and supplies consumed	\$ 1,254,733	\$ 1,197,128	\$ 57,605
Labour costs incurred	535,410	499,866	35,544
Depreciation	54,646	65,818	(11,172)
Repairs and maintenance	9,913	38,349	(28,436)
Other costs	66,116	60,911	5,205
Net change in finished goods and work in process	(33,071)	(12,795)	(20,276)
Total cost of product sales	\$ 1,887,747	\$ 1,849,277	\$ 38,470

Three month periods:	2018	2017	Change
Raw materials and supplies consumed	\$ 335,488	\$ 529,747	\$ (194,259)
Labour costs incurred	192,171	183,523	8,648
Depreciation	18,510	21,949	(3,439)
Repairs and maintenance	4,095	7,066	(2,971)
Other costs	21,426	21,569	(143)
Net change in finished goods and work in process	(25,389)	(8,100)	(17,289)
Total cost of product sales	\$ 546,301	\$ 755,754	\$ (209,453)

Raw materials and supplies consumed, prior to the most recent quarter, had been trending higher in 2018. For the most recent quarter these costs approximated 46% of revenue which is not far off the almost 47% for the nine month period. In comparison, during the third quarter of 2017 these costs were approximately 48% of revenues which served to raise the nine month cost to just over 46% of revenues. There is not a significant disparity in these percentages but the effect of the third quarter of 2018 being below the average for the year while the 2017 quarter was greater than the average for that year accentuates the value of the difference. The Company continuously promotes the supply of components as a cost-effective solution for its customers, who also have the option to contract for only the assembly of materials that they themselves supply.

Labour costs incurred represent the Company's labour utilization during the period. The costs for the fiscal quarter ended March 31, 2018 were almost 5% greater than 2017 levels while the current nine month period provided costs that are more than 7% greater than 2017 was. The 7% increase is primarily a reflection of the higher operating levels experienced during the first six months of the year. The increase in costs for the quarter, while revenues lagged, is a reflection of a few orders having greater than average labour requirements but is also a reflection of orders being produced but having shipments delayed at the request of customers. The net change in finished goods and work in process is a measurement of the labour costs added to inventory during the period. The sum of the two labour figures provides the net labour costs included in cost of product sales for the period. The net figure for the first nine months of 2018 is 3.1% greater than it was for the same period in 2017, which is also the percentage increase in revenues between those same periods. Although costs for the most recent quarter were higher as a percentage of sales than they were in 2017, there is significant comparability when the period of comparison is greater. Management strives hard to match labour supply to labour demand and the comparability over the nine month period suggests that these efforts are achieving the desired results.

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Results of Operations - continued

Depreciation costs continued to decline, with the expense for both the three month and nine month periods ending in 2018 being lower than for 2017. Depreciation is a function of time and the carrying value of the manufacturing equipment in use and no significant additions have been necessary since the end of the 2014 fiscal year. Management continually evaluates equipment needs and monitors the equipment market for opportunities but there are no substantial additions currently being investigated or contemplated.

Repairs and maintenance costs are considerably lower for the periods ended March 31, 2018 than they were at March 31, 2017. 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 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:	2018	2017	Change
Employee and consultant compensation	\$ 678,651	\$ 628,959	\$ 49,692
Occupancy costs	197,531	198,562	(1,031)
Professional fees	73,943	50,037	23,906
Shareholder services	22,899	19,399	3,500
Insurance	23,016	22,293	723
Other costs	45,433	44,446	987
Total selling, general and administrative	\$ 1,041,473	\$ 963,696	\$ 77,777

Three month periods:	2018	2017	Change
Employee and consultant compensation	\$ 223,260	\$ 207,505	\$ 15,755
Occupancy costs	58,974	65,603	(6,629)
Professional fees	20,986	12,939	8,047
Shareholder services	5,718	3,583	2,135
Insurance	7,928	7,350	578
Other costs	13,487	11,918	1,569
Total selling, general and administrative	\$ 330,353	\$ 308,898	\$ 21,455

Employee and consultant compensation costs have risen in 2018, as compared to 2017, as a result of increases in Directors' fees and consulting fees. In December 2017 the Company added a fourth independent Director to its Board and in January 2018 they also began paying fees to the independent Directors of the subsidiary company. Consulting fees have increased as a consequence of incremental services provided by the Chief Financial Officer and, earlier in the year, having retained a consultant to provide business development services.

Occupancy costs consist primarily of rent and utility charges for the Company's operating facility. Basic rental charges increased by 2.7% in 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 Company's operating facility lease runs through March 2021 and occupancy costs are expected to remain generally comparable throughout that lease term.

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Results of Operations - continued

Professional fees are comprised of legal services and a prorated estimate of the cost of the ensuing audit of the annual financial statements. The Company changed auditors prior to the 2017 annual audit and realized a reduction in fees of approximately \$2,300 per quarter. Legal fees however have risen in both the recent fiscal quarter and on a year to date basis as a consequence of additional corporate governance services, fees related to the annual general meeting held December 17, 2017, and services ancillary to the private placement and investments in Conversance Inc. Legal fees related specifically to the private placement and the investments were accounted for as costs of those transactions.

Shareholder services, which include all regulatory and similar costs associated with managing the Company's securities and communicating with stakeholders, have remained fairly consistent for the periods presented. Each of the nine month periods include all costs associated with annual shareholders' meetings held in December of each year which is why the quarterly costs are less than one third of the year to date expense. The slightly higher expense in 2018 is attributed to the private placement that was completed. Both insurance expense and other costs are closely monitored, are within management expectations, and are reasonably consistent from period to period.

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

Nine month periods:	2018	2017	Change
Interest expense ó long term	\$ 2,481	\$ 3,544	\$ (1,063)
Interest expense ó other	1,120	503	617
Total financing expenses	\$ 3,601	\$ 4,047	\$ (446)
Three month periods:	2018	2017	Change
Interest expense ó long term	\$ 723	\$ 1,048	\$ (325)
Interest expense ó other	511	226	285
Total financing expenses	\$ 1,234	\$ 1,274	\$ (40)

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 ó other represents interest arising from the use of the operating line as well as miscellaneous interest charges incurred. The Company made temporary use of its bank operating line during the first fiscal quarter and drew upon it again in the third fiscal quarter resulting in the modest increase to 2018 interest costs.

Liquidity

At March 31, 2018, the Company had working capital of \$284,052 (June 30, 2017 ó \$538,184) and current financial assets of \$401,031 (June 30, 2017 ó \$830,960) available to settle current financial liabilities of \$739,844 (June 30, 2017 ó \$819,904). The Company also has access to a \$250,000 bank operating line, of which \$60,000 (June 30, 2017 ó \$Nil) had been drawn as of March 31, 2018.

In addition to satisfying the cost of operations the Company must also address the settlement of the following obligations as at March 31, 2018:

	Due by Mar. 2019	Due by Mar. 2021	Due by Mar. 2023	Due after Mar. 2023	Total Due
Long-term debt	39,493	13,164	-	-	52,657
Operating lease	105,705	215,486	-	-	321,191
All obligations	\$ 145,198	\$ 228,650	\$ -	\$ -	\$ 373,848

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Capital Resources

During the period the Company completed a private placement whereby it raised gross proceeds of \$531,250 through the issuance of 625,000 units at a price of \$0.85 per unit. Each unit was comprised of one common share and one-half (1/2) share purchase warrant. Each full share purchase warrant entitles the holder to acquire one additional common share at a price of \$1.10 until January 31, 2019. In the event that the closing price, on the Canadian Securities Exchange (CSE), for the Company's common shares is at least \$2.00 for twenty consecutive trading days, and that twentieth day is at least four months after the financing closes, the expiry date for the warrants will be reduced to the date that is thirty days after that twentieth trading day. The Company incurred costs of \$53,328 in connection with this financing and issued 43,750 broker warrants with each broker warrant entitling the holder to acquire one additional common share at a price of \$0.85 until January 30, 2019. The net proceeds of this financing were used to fund the Company's additional investment in Conversance Inc.

The Company has a \$250,000 commercial line of credit from which \$60,000 (June 30, 2017 - \$Nil) was drawn as at March 31, 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

All related party transactions involve key management personnel, whom the Company compensates for services rendered. These include salaries and benefits paid to Wojciech Drzazga (CEO) and John Perreault (President and COO), consulting fees and accounting fees paid to Michael D. Kindy (CFO), consulting fees paid to a company in which William J. Brown (Director) is a principal, legal fees paid to a legal firm in which William R. Johnstone (Corporate Secretary) is a partner, Directors' fees paid to independent Directors, and share-based payments. Compensation rates are agreed to by the key management personnel 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	2018	2017
Salaries and benefits ⁽¹⁾	\$ 203,480	\$ 204,601
Consulting fees ⁽¹⁾	67,800	41,325
Directors' fees ⁽¹⁾	40,345	27,060
Legal fees ⁽²⁾	53,909	19,548
Accounting fees ⁽²⁾	3,500	3,500
Legal fees accounted for as investment acquisition costs	-	15,000
Legal fees accounted for as share issuance costs	15,000	7,500
Cash based expenditures	\$ 384,034	\$ 318,444
Share-based payments	\$ 493,017	\$ 26,208

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

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

The following 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:

	2018	2017
Salaries and benefits payable	10,570	9,348
Directors' fees payable	6,145	-
Consulting fees payable	130,886	125,800
Legal fees payable	8,165	2,000

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Related Party Transactions - continued

The following stock options have been issued to Directors and/or Officers of the Company and were outstanding as at March 31, 2018:

Description	Expiry Date	Number of Common Shares
Stock options @ \$0.10 per share	Dec. 31, 2018	300,000
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

During the nine month period ended March 31, 2018, 150,000 stock options held by Directors and/or Officers of the Company were exercised, 130,000 expired and 600,000 new stock options were granted.

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, 2016	17,173,696	\$ 22,418,782
Common shares issued on exercise of stock options	200,000	37,085
Common shares issued on exercise of warrants	1,900,000	165,131
Common shares issued through private placement	625,000	531,250
Less: amount allocated to warrants ⁽¹⁾		(57,615)
Less: costs of the offering ⁽²⁾		(67,956)
Common shares issued to acquire investment	275,000	189,200
Common shares at March 31, 2018 and as at the date of this document	20,173,696	\$ 23,215,877

⁽¹⁾ Determined using the Black-Scholes valuation model.

⁽²⁾ Costs include finders' fees, legal and brokerage fees, and the value of the broker warrants as determined using the Black-Scholes valuation model.

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 @ \$0.10 per share	Dec. 2018	300,000
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 at March 31, 2018 and as at the date of this document		4,764,496

⁽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.

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Convertible Instruments and Other Securities - continued

Fully diluted number of shares	Quantity
Shares issued at March 31, 2018 and as at the date of this document	20,173,696
Shares reserved at March 31, 2018 and as at the date of this document	4,764,496
Fully diluted number of shares at March 31, 2018 and as at the date of this document	24,938,192

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

	Mar. 31 2018	Mar. 31 2017
Dividend yield	Nil	Nil
Risk free interest rate (%)	1.62 to 1.98	1.19
Expected stock volatility (%)	99.36 to 154.07	135.35
Expected life (years)	1 - 5	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	1,230,000	\$ 0.09	June 20, 2020
Granted during the period	1,040,000	0.95	Aug. 27, 2021
Exercised during the period	(200,000)	0.10	Jul. 27, 2021
Expired during the period	(570,000)	0.76	Sept. 14, 2017
End of the period and as at the date of this document	1,500,000	0.43	Aug. 2, 2021

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 December 31, 2013	300,000 ⁽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

⁽¹⁾ 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 2018	Mar. 31 2017
Dividend yield	Nil	Nil
Risk free interest rate (%)	1.61	1.20
Expected stock volatility (%)	70.49	130.19
Expected life (years)	1	5

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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	4,900,000	\$ 0.06	Aug. 14, 2021
Issued during the period	356,250	\$ 1.07	Jan. 30, 2019
Exercised during the period	1,900,000	\$ 0.07	Apr. 21, 2021
Expired during the period	100,000	\$ 0.10	Oct. 31, 2017
End of the period 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. 31, 2019

Changes in Accounting Policy

The accounting policies followed by the Company are established in accordance with International Financial Reporting Standards (IFRS) and once policies are established they will not, as a matter of policy, be revised unless IFRS changes. There were no changes in accounting policy during the current period.

Accounting Standards Effective For Future Periods

IFRS 9, *Financial Instruments*: effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of the financial statements for their assessment of the amounts, timing and uncertainty of future cash flows.

IFRS 15, *Revenue from Contracts with Customers*: effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, replaces existing revenue standards and interpretations with a single standard and provides additional guidance on revenue recognition for contracts with customers.

Management anticipates that these standards will be adopted in the Company's financial statements for the year beginning July 1, 2018 and has not yet considered the potential impact of their adoption.

Financial Instruments

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

<u>Financial assets:</u>	<u>Classification</u>
Cash and cash equivalents	Fair value through profit and loss
Accounts receivable	Loans and receivables
<u>Financial liabilities:</u>	<u>Classification</u>
Bank operating loan	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Customer deposits	Other financial liabilities
Long-term debt	Other financial liabilities

Fair value through profit and loss:

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

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Financial Instruments - continued

Loans and receivables:

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

Other financial liabilities:

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

Impairment of financial assets:

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

Impairment of financial assets - continued:

Evidence of impairment could include:

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

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

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

Financial instruments recorded at fair value:

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

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

As of March 31, 2018 and June 30, 2017 cash and cash equivalents are measured at fair value and are classified within Level 1 of the fair value hierarchy.

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Financial Instruments - continued

Financial instruments recorded at amortized cost:

Financial instruments recorded at amortized cost are amortized using the market rates of interest prevailing at the inception of the financial instrument applied to expected future cash flows. The amortized cost is recomputed in the event that the underlying terms, and therefore the expected future cash flows, of the financial instrument are altered with any change in the amortized cost being charged to income for the period.

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

Risk Factors

Events seemingly unrelated to the Company, or to its industry, may adversely affect its finances or operations in ways that are hard to predict or defend against. For example, credit contraction in financial markets may hamper the 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 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 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. No bad debts (March 31, 2017 - \$1,286) were recognized during the nine-month period ended March 31, 2018.

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Risk Factors - continued

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 Company's revenues during a reporting period. During the nine-month period ended March 31, 2018, the Company had two major customers who together represented 25% of total revenues. In the comparative period, there were two major customers which together represented 24% of revenues. Amounts due from major customers represented 1% of accounts receivable at March 31, 2018 (Mar. 2017 - 24%). 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.

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, 2018, the Company realized a gain on foreign exchange in the amount of \$9,192 (Mar. 2017 a gain of \$682).

Sensitivity to market risks

At March 31, 2018, the Company had a term loan balance of \$52,657 (June 30, 2017 a \$82,277) which bears interest at the TD Bank prime lending rate plus 1.75%. A 1% increase in the TD Bank prime lending rate as at the financial reporting date would result in additional interest expense of \$347 over the next 12-month period.

At March 31, 2018, the Company had US\$47,556 (June 2017 a US\$46,339) included in cash. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of \$2,762 in carrying value.

At March 31, 2018, the Company had US\$15,064 (June 2017 a US\$46,339) 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 \$875 in future cash inflow.

At March 31, 2018, the Company had US\$33,464 (June 30, 2017 a US\$3,488) included in prepaid expenses. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in recognition of \$1,943 in additional future expenses.

At March 31, 2018, the Company had US\$35,396 (June 30, 2017 a US\$63,707) included in customer deposits. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of \$2,055 in future revenue.

At March 31, 2018, the Company had US\$109,903 (June 2017 a US\$195,669) 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 \$6,387 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 Company's immediate market risk exposures.

Forward-looking Information

Certain statements in this MD&A may constitute "forward-looking" 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 "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.

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Forward-looking Information - continued

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, 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.