ZTEST Electronics Inc.

Managementôs Discussion and Analysis
For The Nine Month Period Ended March 31, 2020
(Prepared as at May 27, 2020)

General

The following managementôs discussion and analysis (ñMD&Aò) of the financial condition and results of operations of ZTEST Electronics Inc. (ñZTESTò or the ñCompanyò) constitutes managementôs review of the factors that affected the Companyôs interim condensed consolidated financial and operating performance for the nine months ended March 31, 2020. The MD&A was prepared as of May 27, 2020 and was approved by the Board of Directors on May 27, 2020. It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the nine months ended March 31, 2020, and the audited consolidated financial statements for the year ended June 30, 2019, including the notes thereto. Unless otherwise stated, all amounts discussed herein are denominated in Canadian dollars.

Additional information about the Company can be found at www.sedar.com.

The Company

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

The Company held its annual general meeting on January 8, 2019 resulting in the 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.

Name	**Position(s)**
Steve Smith (1)	Chairman, President & Chief Executive Officer
K. Michael Guerreiro (1*)	Director (Independent), Director of PEC, Director of Conversance Inc.
Brendan Purdy (2)	Director (Independent)
Zachery Dingsdale (3)	Director (Independent)
Michael D. Kindy, CPA, CA	VP Finance & Chief Financial Officer
William R. Johnstone, LLB	Corporate Secretary
Wojciech Drzazga	Director and Officer of PEC
John Perreault	Officer of PEC
William J. Brown	Director of PEC

* Acts as Committee Chair
(1) Member of the audit committee
(2) Resigned from the Board January 17, 2020.
(3) Appointed to the audit committee January 2020.

Corporate Performance

The third quarter of 2020 produced some favourable results for the Company as revenues returned to more traditional levels, gross margin percentages continued to improve, liquidity was enhanced, and capital under management increased.

Revenues for the three-month period ended March 31, 2020 were $1,102,355. Following two consecutive quarters that produced below average revenues this is a welcome return to more traditional levels. This represents an improvement of 3.5% in comparison to one year earlier and an increase of more than 33% in comparison to the immediately preceding quarter. In addition, the emerging trend of improving margins continued as margins exceeded 31% for the quarter and are now over 29% year-to-date. In comparison, the margins realized to March 31, 2019 were 24% for the quarter and 26% for the nine-month period.

Corporate Performance - continued

As operating results begin to improve it is not uncommon to experience improvements in liquidity as well. The first six months of this fiscal year had presented the Company with some challenges that had resulted in a working capital deficiency and an increased reliance on the bank operating loan. As at March 31, 2020 working capital has returned to 77% of what is had been at the start of the fiscal year and the balance of the bank operating loan is lower than it was at both the start of the quarter and the start of the year.

Each of the aforementioned results are positive steps forward but there is still work to be done as the Company is not yet profitable. In the last fiscal quarter, the Company reported a net loss from operations of $13,191 and that increases the year-to-date operating loss to $259,674. Continuing to enhance revenues and improve margins is necessary in order to move from the near break-even of this past period to positive and sustained profitability.

With these operating results it should also be no surprise that the Company is having difficulty producing consistent positive cash flows from operations. Third quarter operations used cash flow of $14,100 and that reduced the cumulative cash flow from operations to $15,773. Even the positive year-to-date result does not provide much flexibility so, to help alleviate cash flow pressure, the Company completed a working capital financing through which gross proceeds of $112,500 were raised and it settled obligations of $153,450 using its common shares.

The Company has had some challenging reporting periods, and indications are that progress is being made overcoming those challenges, but we must acknowledge the possibility, or probability, that this progress may be interrupted as a result of the emergence of the world-wide COVID-19 pandemic.

The Company has taken steps to provide a safe work environment for its personnel and has continued to operate throughout the pandemic. Production of existing orders continues as does the processing and scheduling of new orders for future production. However, regardless of the precautions taken by the Company, it cannot predict the impact this pandemic may have upon its customers or its suppliers and how that may, in turn, impact upon the business of the Company.

Management will continue, throughout and beyond these uncertain times, to drive revenue and margin growth while striving to first achieve, and then exceed, financial stability.

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

	For the fiscal years ended:		
	June 2019	June 2018	June 2017
Total Revenues	4,399,062	3,686,132	3,754,883
Net loss from operations	(274,085)	(856,314)	(203,576)
Per share - basic	(0.013)	(0.046)	(0.014)
Net loss for the year	(344,186)	(883,756)	(497,880)
Per share - basic	(0.017)	(0.047)	(0.035)
Total assets	2,268,045	2,226,121	1,783,512
Total long-term financial liabilities	-	3,291	42,784
Total liabilities	943,985	783,898	862,688

	For the fiscal quarters ended:			
	Mar. 2020	Dec. 2019	Sept. 2019	June 2019
Total Revenues	1,102,355	828,703	880,703	1,269,697
Net income (loss) from operations	(13,191)	(148,254)	(98,229)	5,518
Per share - basic	(0.001)	(0.007)	(0.005)	0.000
Net income (loss) for the period	(24,194)	(162,103)	(120,642)	(11,385)
Per share - basic	(0.001)	(0.008)	(0.006)	(0.001)
Total assets	2,306,150	2,120,412	2,314,453	2,268,045
Total long-term financial liabilities	-	26,809	54,201	-
Total liabilities	1,029,654	1,079,097	1,111,035	943,985

Corporate Performance - continued

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

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

Results of Operations

As alluded to previously, the Company has reported revenues for the quarter that are 3.5 % greater than was reported the quarter ended March 31, 2019, and that gross margins for this period exceeded 31%. There are many factors impacting upon the margins including product mix, smaller order sizes, and aggressive competition. Management is continuously investigating all production costs with the intent to find alternatives for enhancing margins as a percentage of periodic revenues.

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

Nine-month periods:	2020	2019	Change
Raw materials and supplies consumed	$ 1,315,132	$ 1,572,247	$ (257,115)
Labour costs incurred	568,977	590,675	(21,698)
Depreciation	35,618	44,280	(8,662)
Other costs	91,184	130,743	(39,559)
Net change in finished goods and work in process	(16,835)	(29,089)	12,254
Total cost of product sales	$ 1,994,076	$ 2,308,856	$ (314,780)

Three-month periods:	2020	2019	Change
Raw materials and supplies consumed	$ 504,226	$ 550,546	$ (46,320)
Labour costs incurred	195,593	203,782	(8,189)
Depreciation	11,891	14,760	(2,869)
Other costs	32,567	64,388	(31,821)
Net change in finished goods and work in process	13,283	(25,254)	38,537
Total cost of product sales	$ 757,560	$ 808,222	$ (50,662)

The cost of raw materials and supplies consumed have declined in each of the first three fiscal quarters of 2020, when compared to the same periods one year earlier. These costs frequently vary from one period to the next, with many potential causes, but product mix and labour mix are the two most significant. Product mix refers to the choice customers have between supplying the components themselves and having them supplied by the Company. Labour mix is in reference to the amount of labour necessary to assemble a given circuit board. When there is an increase in customer supplied components or an increase in the average amount of labour per board this will translate into higher labour costs and lower component costs. Revenues for the nine months ended March 2020 are more than 11% lower than March 2019 levels but, for these same periods, material costs have declined more than 16% while labour costs have declined less than 2%. This inverse relationship between parts and labour is even more pronounced in the latest quarter when revenues rose 3.5%, materials declined 8.4%, and labour increased 17%. There has been shifts in both the product mix and the labour mix with each contributing to these results. Management consistently promotes the benefits customers will derive from our provision of necessary components but also recognizes that it has no control over this choice.

Results of Operations - continued

Aggregate labour costs for a period are comprised of two elements being the labour costs incurred and the change in finished goods and work in process. Labour costs incurred in the most recent quarter declined while the change in finished goods and work in process increased providing total labour costs that were $30,348, or 17%, higher. Labour costs incurred is reflective of the Companyôs continual efforts to match, as closely as possible, labour supply with current and expected future demand. Labour in inventory is primarily a function of when products are produced versus when they are shipped to the customer, which is primarily influenced by the customer. Management makes a continuous and concerted effort to minimize labour costs incurred to the greatest extent possible without impairing future production capabilities.

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 expectations.

Selling, general and administrative expenses for the periods ended March 31 were as follows:

Nine-month periods:	2020	2019	Change
Employee and consultant compensation	$ 710,137	$ 735,174	$ (25,037)
Occupancy costs	203,920	193,551	10,369
Professional fees	51,066	49,676	1,390
Shareholder services	12,227	21,838	(9,611)
Insurance	24,670	23,809	861
Other costs	33,407	44,115	(10,708)
Total selling, general and administrative	$ 1,035,427	$ 1,068,163	$ (32,736)

Three-month periods:	2020	2019	Change
Employee and consultant compensation	$ 229,061	$ 235,183	$ (6,122)
Occupancy costs	65,402	65,217	185
Professional fees	16,471	19,141	(2,670)
Shareholder services	5,481	5,344	137
Insurance	8,526	8,082	444
Other costs	11,297	17,033	(5,736)
Total selling, general and administrative	$ 336,238	$ 350,000	$ (13,762)

Employee and consultant compensation costs, which include salaries, benefits, consulting fees, and independent directorsô fees, were 2.6% lower in the most recent quarter, in comparison to one year earlier, reflecting a minor reduction in the use of consulting services. Expenses for the nine-month period also reflect the benefit of a voluntary reduction in directors fees executed by two independent directors during the 2^{nd} quarter thereby accounting for the decline in comparison to 2019 costs.

Occupancy costs underwent a change in the current period with the adoption of IFRS 16. In prior periods the monthly base rental payments were charged as occupancy costs. Under IFRS 16 the base rental payments are now applied as a reduction of the Companyôs lease liability while depreciation of the right-of-use asset is now accounted for as occupancy costs. The lease payments made in the first nine months of the year were $80,806 and the depreciation charges were $77,099 so reported occupancy costs are $3,707 less than they would have been before the adoption of IFRS 16. In spite of this IFRS 16 cost reduction, occupancy costs rose by $185 in the quarter and $10,369 for the first nine months. This increase is primarily due to a hydro rebate program that was in effect during the 2^{nd} quarter of 2019 but did not recur during the current period. The Company`s lease runs through March 2021 and occupancy costs are expected to remain generally comparable throughout that lease term.

Results of Operations - continued

Professional fees are comprised of fees for legal services, costs for income tax filings, and a prorated portion of the estimated cost of the upcoming audit of the annual financial statements. Each of these fees have remained quite comparable over the periods presented.

Shareholder services have declined in the current periods as a result of costs incurred during the December 2018 period with respect to the general meeting of shareholders held during that period. No similar charges were incurred during the nine-month period.

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:		2020		2019		Change
Interest expense ï long term	$	5	$	1,143	$	(1,138)
Interest expense ï lease liability		5,894		-		5,894
Interest expense ï other		5,207		7,582		(2,375)
Financing fees		12,292		13,774		(1,482)
Total financing expenses	$	23,398	$	22,499	$	899

Three-month periods:		2020		2019		Change
Interest expense ï long term	$	-	$	247	$	(247)
Interest expense ï lease liability		1,608		-		1,608
Interest expense ï other		1,826		2,607		(781)
Financing fees		5,171		4,811		360
Total financing expenses	$	8,605	$	7,665	$	940

The Company had a single long-term debt instrument, which matured in the first month of the current fiscal year, such that there was virtually no expense incurred. With no long-term debt at this time there will be no expense for the foreseeable future.

As noted previously, the company adopted IFRS 16 Leases effective July 1, 2019. At adoption, the Company recognized a lease liability based on the present value of the remaining lease payments and this liability is subjected to interest accretion over the life of the lease. Prior to July 31, 2019 there was no lease liability recognized and as a result there is no similar expense in the comparative period.

Interest expense ï other represents interest arising from the use of the Companyôs operating line as well as miscellaneous interest charges incurred. The Company made less use of its bank operating line in the first two quarters of the current fiscal year, leading to the reduction in interest costs.

The Company is subject to an agreement with a related party whereby it may offer to sell specific accounts receivable to that related party. If the related party accepts, they assume all collection risks associated with that receivable in exchange for a discount from the face value of the receivable. The discount is accounted for as financing fees at the time of the sale.

Liquidity

At March 31, 2020, the Company had working capital of $224,295 (June 30, 2019 ï $292,444) and current financial assets of $574,990 (June 30, 2019 ï $591,575) available to settle current financial liabilities of $1,029,654 (June 30, 2019 ï $943,985). The Company also has access to a $250,000 bank operating line, of which $115,000 (June 30, 2019 ï $150,000) had been drawn as of March 31, 2020.

In addition to satisfying the cost of operations the Company must also address the settlement of the following obligations as at March 31, 2020:

Liquidity - continued

	Due by Mar. 2021	Due by Mar. 2022	Due after Mar. 2022	Total Due
Lease liability	$ 104,985	$ -	$ -	$ 104,985

Capital Resources

The Company has a $250,000 commercial line of credit from which $115,000 (June 30, 2019 - $150,000) was drawn as at March 31, 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.

In February 2020, the Company completed a private placement whereby an aggregate of 750,000 working capital units were issued for gross proceeds of $112,500. Each unit consisted of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one additional common share of the Company at a price of $0.25 until twelve months following the closing date. The Company paid findersô fees of $1,575, incurred other costs of $5,000, attributed a value of $38,756 to the common share purchase warrants, and issued 10,500 broker warrants valued at $1,247. Each broker warrant entitles the holder to acquire one common share of the Company for $0.15 until twelve months following the closing date.

Related Party Transactions

The Company had transactions during the period with key management personnel and with 1114377 Ontario Inc., a company controlled by the spouse of a Director of Permatech Electronics Corporation. These include consulting fees paid to Steve Smith (President and CEO), consulting fees paid to Michael D. Kindy (CFO), Directorsô fees paid to independent Directors, salaries and benefits paid to Wojciech Drzazga and John Perreault as officers of Permatech Electronics Corporation, legal fees paid to a legal firm in which William R. Johnstone (Corporate Secretary) is a partner, financing fees paid to 1114377 Ontario Inc., and share-based payments related to key management personnel. Compensation rates are agreed to by the related parties and are predicated upon prevailing market rates. The following expenses, involving these related parties, have arisen during the reporting periods:

Nine-month periods ended March 31	2020	2019
Salaries and benefits (1)	$ 199,789	$ 198,149
Consulting fees (1)	130,500	139,219
Directorsô fees (1)	11,265	33,045
Legal fees (2)	28,205	36,925
Accounting fees (2)	3,500	1,750
Financing fees	12,292	13,774
Legal fees accounted for as investment acquisition costs	-	-
Legal fees accounted for as share issuance costs	5,000	10,318
Cash based expenditures	$ 390,551	$ 433,180
Share-based payments	$ -	$ -

(1) Charged to net income as an element of employee and consultant compensation.
(2) Charged to net income 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:

	2019	2018
Salaries and benefits payable	$ 16,289	$ 10,497
Consulting and Director fees payable (1)	$ 291,007	$ 249,041
Legal fees payable	$ 26,201	$ 30,706

(1) During the period, the Company settled $153,500 owing to these related parties in exchange for 1,023,000 common shares.

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, 2020:

Description	Expiry Date	Number of Common Shares
Stock options @ $0.05 per share	Mar. 3, 2021	400,000
Stock options @ $0.95 per share (1)	Jul. 17, 2020	200,000
Stock options @ $0.95 per share	Jan. 12, 2023	350,000

(1) The former Director that holds these options resigned January 17, 2020 and, in accordance with the terms of the options, the expiry date was amended from Jan. 12, 2023 to Jul. 17, 2020.

During the period, 200,000 stock options held by a director of Permatech Electronics Corporation expired.

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Shares issued	Quantity	Amount
Common shares as at June 30, 2019	21,103,696	$23,394,174
Common shares issued through private placement	750,000	65,922
Common shares issued in settlement of debt	1,023,000	153,450
Common shares at March 31, 2020 and as at the date of this document	22,876,696	$23,613,546

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
Warrants @ $0.30 per share	June 2020	23,800
Warrants @ $0.40 per share	June 2020	220,000
Warrants @ $0.30 per share	July 2020	15,400
Warrants @ $0.40 per share	July 2020	170,000
Stock options @ $0.95 per share (2)	Jul. 2020	200,000
Warrants @ $0.40 per share (3)	Jan. 2021	312,500
Warrants @ $0.15 per share	Feb. 2021	10,500
Warrants @ $0.25 per share	Feb. 2021	750,000
Stock options @ $0.05 per share	Mar. 2021	400,000
Warrants @ $0.06 per share	Dec. 2021	2,900,000
Stock options @ $0.15 per share	Dec. 2021	50,000
Stock options @ $0.95 per share	Jan. 2023	350,000
Shares reserved at March 31, 2020 and as at the date of this document		5,410,446

(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.

(2) During the period, the former Director that holds these options resigned. In accordance with the terms of these options the expiry date was amended from Jan. 12, 2023 to Jul. 17, 2020, which is six months from the date of resignation.

(3) During the period, these warrants were altered such that they may be exercised at $0.40 until the earlier of January 31, 2021 and the thirty seventh day after the closing price for the Company`s shares has been at least $0.40 for ten consecutive trading days.

Convertible Instruments and Other Securities - continued

Fully diluted number of shares	Quantity
Shares issued at March 31, 2020 and as at the date of this document	22,876,696
Shares reserved at March 31, 2020 and as at the date of this document	5,410,446
Fully diluted number of shares at March 31, 2020 and as at the date of this document	28,287,142

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, 2019	1,200,000	$	0.52	Oct. 12, 2021
Expired during the period	(200,000)		0.35	Jul. 9, 2019
Altered during the period [1]	(200,000)		0.95	Jan. 12, 2023
Altered during the period	200,000		0.95	Jul. 17, 2020
Balance at March 31, 2020 and as at the date of this document	1,000,000	$	0.50	Sep. 25, 2021

[1] The former Director that holds these options resigned. In accordance with the terms of these options the expiry date was amended from Jan. 12, 2023 to Jul. 17, 2020, which is six months from the date of resignation.

The following stock options, each of which has vested, are outstanding:

	Common Shares Under Option		Exercise Price	Expiry Date
Granted January 12, 2018	200,000 [1]	$	0.95	Jul. 17, 2020
Granted March 3, 2016	400,000 [1]	$	0.05	Mar. 3, 2021
Granted December 21, 2016	50,000	$	0.15	Dec. 21, 2021
Granted January 12, 2018	350,000 [1]	$	0.95	Jan. 12, 2023
Total stock options outstanding	1,000,000			

[1] Directors and/or Officers of the Company hold these options.

No stock options were granted during the periods ended March 31, 2020 or March 31, 2019.

The following provides additional details with respect to share purchase warrants to the date of this document:

	Number of Warrants		Weighted Average Price per Warrant	Weighted Average Expiry Date
Balance at June 30, 2019	3,641,700	$	0.19	Aug. 16, 2021
Issued during the period	760,500		0.25	Feb.28, 2021
Altered during the period	(312,500)		1.10	Jan. 31, 2020
Altered during the period	312,500		0.40	Jan. 31, 2021
Balance as at the date of this document	4,402,200	$	0.15	Aug. 13, 2021

Convertible Instruments and Other Securities - continued

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	$	0.40	Jan. 31, 2021
Issued Dec. 28, 2018	220,000	$	0.40	June 28, 2020
Issued Dec. 28, 2018	23,800	$	0.30	June 28, 2020
Issued Jan. 31, 2019	170,000	$	0.40	July 31, 2020
Issued Jan. 31, 2019	15,400	$	0.30	July 31, 2020
Issued Feb. 28, 2020	750,000	$	0.55	Feb. 28, 2021
Issued Feb. 28, 2020	10,500	$	0.15	Feb. 28, 2021
Total share purchase warrants outstanding	4,402,200			

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

	Mar. 31 2020	June 30 2019
Dividend yield	Nil	Nil
Risk free interest rate (%)	1.27	1.76 ï 1.84
Expected stock volatility (%)	119.88	116.25 ï 116.52
Expected life (years)	1.0	1.5

Changes in Accounting Policy

The Companyôs accounting policies typically change only when there is a change in IFRS. Effective July 1, 2019 the Company adopted IFRS 16, Leases which eliminates the classification of leases as either operating leases or finance leases and provides a single lessee accounting model, specifying how leases are recognized, measured, presented, and disclosed.

The Company occupies its operating facility under a lease that requires monthly lease payments of $8,979 until expiry March 2021. A refundable deposit of $35,000 was paid at the inception of the lease. This lease was previously classified as an operating lease in accordance with IAS 17, with the lease deposit reported as an asset, lease payments charged to net income as occupancy costs, and disclosure of the remaining lease payments as a commitment. The Company adopted IFRS 16 using the modified retrospective approach where comparative amounts are not restated.

Upon adoption of IFRS 16, the Company recognized a lease liability and a right-of-use asset. The lease liability was initially recorded at the present value of the remaining lease payments, discounted using the Companyôs incremental borrowing rate, which was determined to be prime plus 1.75% or 5.7%. The lease liability was subsequently reduced by the lease payments paid and interest, imputed at the discount rate, was added to the obligation. The right-of-use asset was initially recorded at cost, determined to be equal to the present value of the remaining lease payments plus the deposit paid at the inception of the lease. Subsequent to initial recording, the right-of-use asset is measured using the cost model where cost is reduced by any accumulated depreciation, and any accumulated impairment losses, and is adjusted for any remeasurement of the lease liability. Depreciation is calculated on a straight-line basis over the remaining term of the lease and charged to net income as an element of occupancy costs.

There have been no impairment losses and no remeasurement of the lease liability.

Right-of-use asset		
Cost recognized upon adoption of IFRS 16	$	214,897
Depreciation recorded as an element of occupancy costs		(77,099)
Balance at March 31, 2020	$	137,798

Changes in Accounting Policy - continued

Lease liability		
Present value of lease payments remaining upon adoption of IFRS 16	$	179,897
Lease payments paid during period		(80,806)
Interest imputed at 5.7%		5,894
Balance at March 31, 2020		104,985
Less current portion		(104,985)
Balance at March 31, 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 Companyþs 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 Companyþs 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 Companyþs 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 Companyþs 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 Companyþs 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 Companyþs primary exposure to credit risk is in its accounts receivable. To help mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. It has been determined that all outstanding amounts are collectible. No bad debts were recognized during the periods ended March 31, 2020 or March 31, 2019.

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 Companyþs revenues during a reporting period. During the nine-month period ended March 31, 2020 the Company had two major customers who represented 19% and 17% of total revenues. In the comparative period, there were two major customers which represented 15% and 11% of revenues. Amounts due from major customers represented 13% of accounts receivable at March 31, 2020 (Mar. 31, 2019 - 10%). The loss of a major customer, or significant curtailment of purchases by such customer, could have a material adverse effect on the Company's results of operations and financial condition. The Company monitors the relationship with all customers closely and ensures that every customer is subject to the same risk management criteria.

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. At March 31, 2020 the Company had current financial assets of $574,990 (June 30, 2019 - $591,575) available to settle current financial liabilities of $1,029,654 (June 30, 2019 - $943,985). The Company manages its liquidity risk through the management of its capital 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 Companyþs reputation.

<u>Risk Factors - continued</u>

<u>Market risks</u>
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 reported a foreign exchange loss in the amount of $15,069 (Mar. 31, 2019 ï loss of $5,761).

<u>Sensitivity to market risks</u>
At March 31, 2020, the Company had:

- A bank operating loan in the amount of $115,000 (June 30, 2019 - $150,000) 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 additional interest expense ï other of $1,150 over the next 12-month period.
- US$16,982 (June 30, 2019 ï US$74,831) included in accounts receivable. A 10% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $725 in future cash inflow.
- US$117,347 (June 30, 2019 ï US$155,987) included in accounts payable. A 10% decrease in the value of the Canadian dollar relative to the US dollar would result in an increase of $4,975 in future cash outflow.

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

<u>COVID-19 and related subsequent events</u>

On January 30, 2020 the World Health Organization (WHO) declared COVID-19 a global health emergency and on March 11, 2020 they declared it a pandemic. These WHO declarations were soon followed by announcements of numerous restrictions by domestic and international governments affecting the way people could interact and how business was conducted.

As a contract manufacturer, the Company met the Ontario definition of an essential business thus allowing it to continue operations. The Company encouraged certain personnel to work from home and took steps to facilitate physical distancing and other safety measures for those for whom working from home was not feasible. To the date of the release of these unaudited condensed consolidated financial statements, none of the Companyǿs personnel, including its subsidiaries and investee company, have tested positive for COVID-19.

The health and safety of our personnel is our top priority however continuing to operate free of COVID-19 infections does not ensure that there will be no related implications to the business. The present and future economic effects of COVID-19cannot be accurately determined or predicted at this time. This includes the potential impact the pandemic may have on the Companyǿs suppliers and customers as well as the market risks described in note 14. Although these potential effects cannot be quantified, the Company anticipates that COVID-19 could have an adverse impact on its business, results of operations, financial position and cash flows in 2020.

In an effort to help mitigate the uncertainty created by the COVID-19 pandemic, the Company has availed itself of related subsidies made available to it by the Canadian Federal government. Subsequent to the balance sheet date, the Company applied for subsidy under the Canada Emergency Business Account (CEBA) and the Canada Emergency Wage Subsidy (CEWS). The Company has obtained CEBA benefit in the form of a $40,000 loan which is interest free, and requires no repayment prior to December 31, 2022. The Company also obtained CEWS benefit in the amount of $53,852. The company will continue to monitor all government subsidies and will make application wherever it satisfies the eligibility criteria.

Forward-looking Information

Certain statements in this MD&A may constitute ñforward-lookingò statements that involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and its subsidiary, or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this report, the words ñestimateò, ñbelieveò, ñanticipateò, ñintendò, ñexpectò, ñplanò, ñmayò, ñshouldò, ñwillò, the negative thereof or other variations thereon or comparable terminology are intended to identify forward-looking statements.

Such forward-looking statements reflect the current expectations of the management of the Company with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results, performance or achievements to differ materially from those expressed or implied by those forward-looking statements, such as reduced funding, long sales cycles, currency and interest rate fluctuations, increased competition and general economic and market factors and including the risk factors summarized above under the heading ñRisk Factorsò. New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those expressed or implied in such forward-looking statements.

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