

ZTEST Electronics Inc.

Consolidated Financial Statements

June 30, 2020 and 2019

(Stated in Canadian Dollars)

Independent Auditors' Report

To the Shareholders of
ZTEST Electronics Inc.:

Opinion

We have audited the consolidated financial statements of ZTEST Electronics Inc. (the "Company"), which comprise the consolidated statement of financial position as at June 30, 2020 and 2019, and the consolidated statements of changes in equity, comprehensive loss, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the consolidated Financial Statements

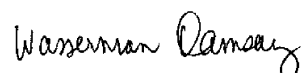
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Kevin Ramsay.



Markham, Ontario
October 26, 2020

Chartered Professional Accountants
Licensed Public Accountants

ZTEST Electronics Inc.

Consolidated Statements of Financial Position

(Stated in Canadian Dollars)

June 30, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash	\$ 220,403	\$ 66,628
Accounts receivable	512,068	591,575
Inventories (note 4)	732,961	636,894
Prepaid expenses	18,781	7,960
	1,484,213	1,303,057
Equipment (note 5)	210,918	258,976
Right-of-use asset (note 3)	112,099	-
Investments (note 6)	1	737,640
Lease deposit (note 3)	-	35,000
	\$ 1,807,231	\$ 2,334,673
Liabilities		
Current liabilities		
Bank operating loan (note 7)	\$ -	\$ 150,000
Accounts payable and accrued liabilities (note 10)	898,237	857,322
Customer deposits	25,000	-
Current portion of lease liability (note 3)	79,296	-
Current portion of long-term debt (note 8)	-	3,291
	1,002,533	1,010,613
Long-term debt (note 8)	40,000	-
	1,042,533	1,010,613
Shareholders' Equity		
Share capital (note 9)	23,613,546	23,394,174
Warrants (note 9)	217,665	182,956
Contributed surplus (note 9)	1,538,667	1,533,373
Deficit	(24,605,180)	(23,786,443)
	764,698	1,324,060
	\$ 1,807,231	\$ 2,334,673

The accompanying notes are an integral part of these consolidated financial statements

Approved by the Board:

Signed: "Steve Smith"

Director

Signed: "K. Michael Guerreiro"

Director

ZTEST Electronics Inc.**Consolidated Statement of Changes in Equity**

(Stated in Canadian Dollars)

June 30, 2020

	Share Capital	Warrants	Contributed, Surplus	Deficit	Total
Balance, June 30, 2018	\$ 23,215,877	\$ 137,470	\$ 1,531,134	\$ (23,442,258)	\$ 1,442,223
Stock options exercised	27,426	-	(12,426)	-	15,000
Private placement	150,871	60,151	-	-	211,022
Warrants expired	-	(14,665)	14,665	-	-
Net loss for the year	-	-	-	(344,185)	(344,185)
Balance, June 30, 2019	23,394,174	182,956	1,533,373	(23,786,443)	1,324,060
Shares for debt	153,450	-	-	-	153,450
Private placement	65,922	40,003	-	-	105,925
Warrants expired	-	(5,294)	5,294	-	-
Net loss for the year	-	-	-	(818,737)	(818,737)
Balance, June 30, 2020	\$ 23,613,546	\$ 217,665	\$ 1,538,667	\$ (24,605,180)	\$ 764,698

The accompanying notes are an integral part of these consolidated financial statements

ZTEST Electronics Inc.**Consolidated Statements of Comprehensive Loss**

(Stated in Canadian Dollars)

For the years ended June 30, 2020 and 2019

	2020	2019
Product sales	\$ 3,888,898	\$ 4,399,062
Cost of product sales (note 4)	2,660,103	3,182,586
	1,228,795	1,216,476
Expenses		
Selling, general and administrative (note 11)	1,262,788	1,450,077
Interest expense - long-term debt	5	1,260
Interest expense - lease liability (note 3)	7,141	-
Interest expense - other	5,608	10,254
Financing fees (note 10)	16,181	19,283
Depreciation of equipment	4,688	4,938
Foreign exchange loss	13,486	4,749
	1,309,897	1,490,561
Loss before other income and provisions, and income taxes	(81,102)	(274,085)
Other income and provisions		
Interest income	4	9
Equity in loss of Conversance Inc. (note 6)	(54,549)	(70,110)
Provision for impairment of Conversance Inc. (note 6)	(683,090)	-
	(737,635)	(70,101)
Loss before provision for income taxes	(818,737)	(344,186)
Provision for income taxes (note 12)	-	-
Net loss and comprehensive loss for the year	\$ (818,737)	\$ (344,186)
Net loss per share		
Basic	\$ (0.04)	\$ (0.02)
Fully diluted	\$ (0.04)	\$ (0.02)
Weighted average shares outstanding		
Basic	21,704,385	20,632,025
Fully diluted	21,704,385	20,632,025

The accompanying notes are an integral part of these consolidated financial statements

ZTEST Electronics Inc.

Consolidated Statements of Cash Flows

(Stated in Canadian Dollars)

For the years ended June 30, 2020 and 2019

	2020	2019
Cash flow from operating activities		
Net loss for the year	\$ (818,737)	\$ (344,186)
Items not involving cash		
Depreciation of equipment	52,198	63,978
Depreciation of right of use asset	102,798	-
Imputed interest on lease liability	7,141	-
Equity in loss of Conversance Inc.	54,549	70,110
Provision for impairment of Conversance Inc.	683,090	-
	81,039	(210,098)
Changes in non-cash working capital items		
Accounts receivable	79,507	(111,954)
Inventories	(96,067)	(73,657)
Prepaid expenses	(10,821)	11,542
Customer deposits	25,000	(36,895)
Accounts payable and accrued liabilities	194,365	310,477
	273,023	(110,585)
Cash flow from investing activities		
Purchase of equipment	(4,140)	(1,942)
Cash flow from financing activities		
(Repayment) proceeds from bank operating loan, net	(150,000)	40,000
Proceeds of long-term debt	40,000	-
Repayment of long-term debt	(3,291)	(39,493)
Repayment of lease obligation	(107,742)	-
Proceeds from share issuances	105,925	226,022
	(115,108)	226,529
Increase in cash	153,775	114,002
Cash (deficiency), beginning of year	66,628	(47,374)
Cash, end of year	\$ 220,403	\$ 66,628

Supplemental Disclosure of Cash Flow Information:

During the year the Company had cash flows arising from interest and income taxes paid as follows:

Interest	\$ 5,624	\$ 11,590
Income taxes	\$ -	\$ -

The accompanying notes are an integral part of these consolidated financial statements

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2020 and 2019

1. Business of the Company

ZTEST Electronics Inc. (“the Company”) amalgamated under the laws of Ontario and carries on business at 523 McNicoll Avenue, Toronto, Ontario designing, developing, and assembling printed circuit boards and other electronic equipment. The Company's shares trade on the Canadian Securities Exchange (“CSE”) under the symbol “ZTE”.

2. Significant Accounting Policies

Statement of compliance

The Company has prepared these consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on October 26, 2020.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of presentation and going concern considerations

These consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting, except for cash flow information, and in accordance with IFRS applicable to a “going concern”. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. If the going concern assumption were not appropriate for these consolidated financial statements then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

Basis of consolidation

These consolidated financial statements include the accounts of the Company as well as the following subsidiaries' assets and liabilities and revenues and expenses, arising subsequent to the date of acquisition:

Permotech Electronics Corporation (“PEC”)	- 100% owned
Twenty49 Ltd	- 100% owned
Northern Cross Minerals Inc.	- 66.7% owned (inactive)

Significant accounting judgments and estimates

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and also in future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant estimates and judgments include, but are not limited to, the assessment of the Company as a going concern, recoverability of inventory, the inputs used in applying the Black-Scholes valuation model, and the recognition and valuation of deferred tax amounts.

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

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2020 and 2019

2. Significant Accounting Policies - continued

Financial instruments - continued

<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.

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.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the amount, net of the estimated costs to complete assemblies and sell them, which the Company expects to realize from the sale of inventory in the ordinary course of business. An assessment of net realizable value is completed at the end of each reporting period and any resulting write-downs, or recovery of previous write-downs, are reflected in income for the period. Current assessments have determined that net realizable values equal or exceed the corresponding costs and accordingly all inventories are currently carried at cost.

Investments

Non-controlling interests, which are not financial instruments, and are less than a 20% ownership interest, are initially recorded at the cost of acquisition plus any directly attributable transaction costs. Subsequent to the acquisition date the investment is carried at amortized value, representing the initial carrying value net of any impairment provisions. An investment of this type is considered impaired when its carrying amount exceeds its recoverable amount.

Non-controlling interests, which are not financial instruments, and are equal to or exceeding a 20% ownership interest (an equity instrument), are initially recorded at the cost of acquisition plus any directly attributable transaction costs. Subsequent to the acquisition date the investment is adjusted for the post-acquisition change in the investor's share of the investee's net assets and for any impairment provisions.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2020 and 2019

2. Significant Accounting Policies - continued

Investments - continued

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.

Equipment

Equipment is stated at cost. Depreciation is provided over the related assets' estimated useful lives using the following methods and annual rates:

Computer equipment	-	30%	declining balance
Office equipment	-	20%	declining balance
Manufacturing equipment	-	20%	declining balance
Leasehold improvements	-	10 yrs	straight-line

The Company reviews the estimated useful lives, residual values and depreciation method at the end of each reporting period, accounting for the effect of any changes in estimate on a prospective basis.

Revenue recognition

Revenue is recognized when the risks and rewards of ownership pass to the customer, the amount of revenue can be measured reliably, and the ability to collect is reasonably assured, which typically arises when the product is delivered.

Share based payment transactions

The fair value of share options granted to employees is recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black Scholes option pricing model, after considering the terms and conditions upon which the options were granted. At the end of each financial reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Foreign exchange

As at the transaction date all asset, liability, revenue, and expense amounts denominated in foreign currencies are translated into Canadian dollars using the exchange rate in effect as at that date. At the end of each financial reporting period all monetary assets and liabilities are translated into Canadian dollars using the exchange rate in effect as at that date. The resulting foreign exchange gains and losses are included in income for the period.

Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in profit and loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2020 and 2019

2. Significant Accounting Policies - continued

Income taxes - continued

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in profit and loss and comprehensive (loss) income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At the end of each financial reporting period, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the financial reporting period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

Stock options and warrants outstanding are excluded from the computation of diluted loss per share if their inclusion would increase the income per share, or decrease the loss per share, or if their exercise price exceeds the average market price of the Company's shares for the financial reporting period.

Segment disclosure

The Company has a single location and operating segment accordingly, all revenues are generated in Canada and all assets are located in Canada.

3. Changes in Accounting Policies

The Company's 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 Company's 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 (<i>note 11</i>)	(102,798)
Balance at June 30, 2020	<u>\$ 112,099</u>

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2020 and 2019

3. Changes in Accounting Policies - continued

Lease liability

Present value of lease payments remaining upon adoption of IFRS 16	\$	179,897
Lease payments paid during period		(107,742)
Interest imputed at 5.7%		7,141
Balance at June 30, 2020		79,296
Less current portion		(79,296)
Balance at June 30, 2020	\$	-

4 Inventories

The carrying value of inventories is comprised of:

	2020	2019
Raw materials and supplies ⁽¹⁾	\$ 684,648	\$ 609,921
Work in process	29,511	22,615
Finished goods	18,802	4,358
	\$ 732,961	\$ 636,894

⁽¹⁾ Raw materials and supplies is presented net of provisions for obsolete and/or slow-moving items in the amount of \$28,527 (2019 - \$25,413). Management makes estimates of future demand when establishing appropriate provisions. To the extent that actual inventory losses differ from these estimates both inventories and net loss will be affected.

Inventory utilization during the year was as follows:

	2020	2019
Raw materials and supplies used	\$ 1,868,875	\$ 2,136,502
Labour costs (note 15)	647,450	800,911
Shipping costs	60,750	79,051
Depreciation	47,509	59,040
Repairs and maintenance	24,765	51,748
Stencils and tooling	22,095	31,182
Packaging costs	10,000	17,080
Net change in finished goods and work in process	(21,341)	7,072
Cost of product sales	\$ 2,660,103	\$ 3,182,586

5. Equipment

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Cost:					
Balance, June 30, 2018	\$ 183,106	\$ 71,277	\$ 2,594,244	\$ 84,143	\$ 2,932,770
Additions	1,942	-	-	-	1,942
Balance, June 30, 2019	185,048	71,277	2,594,244	84,143	2,934,712
Additions	1,370	-	2,770	-	4,140
Balance, June 30, 2020	\$ 186,418	\$ 71,277	\$ 2,597,014	\$ 84,143	\$ 2,938,852

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2020 and 2019

5. Equipment - continued

	Computer Equipment	Office Equipment	Manufacturing Equipment	Leasehold Improvements	Total
Accumulated Depreciation:					
Balance, June 30, 2018	\$ (176,685)	\$ (69,983)	\$ (2,298,302)	\$ (66,788)	\$ (2,611,758)
Depreciation	(2,217)	(259)	(59,188)	(2,314)	(63,978)
Balance, June 30, 2019	(178,902)	(70,242)	(2,357,490)	(69,102)	(2,675,736)
Depreciation	(2,050)	(207)	(47,627)	(2,314)	(52,198)
Balance, June 30, 2020	\$ (180,952)	\$ (70,449)	\$ (2,405,117)	\$ (71,416)	\$ (2,727,934)
Carrying Amounts:					
June 30, 2019	\$ 6,146	\$ 1,035	\$ 236,754	\$ 15,041	\$ 258,976
June 30, 2020	\$ 5,466	\$ 828	\$ 191,897	\$ 12,727	\$ 210,918

6. Investments

The Company holds a non-controlling interest in Conversance Inc., a private Canadian technology company. The shares of Conversance Inc. are subject to a hold period and, unless permitted under securities legislation, the shares may not be traded before the date that is four months and a day after the issuer becomes a reporting issuer in any province or territory.

Conversance Inc. is engaged in the development of its proprietary technology and has not yet produced any revenues. The timing of such revenues, if any, is not currently determinable. The absence of cash flows, or the ability to predict when any may arise, makes it infeasible for the Company to ascertain the value of Conversance Inc. as a going concern as at June 30, 2020. Accordingly, the carrying value of the investment has been reduced to \$1.

	2020	2019
155,000 Class A common shares representing a 15.05% interest	\$ 294,562	\$ 294,562
62,500 Class A common shares representing a 4.86% interest	330,450	330,450
78,750 Class A common shares representing a 5.38% interest	504,750	504,750
Investment representing a 25.29% interest (2019 – 25.29%)	1,129,762	1,129,762
Impairment provision	(977,652)	(294,562)
Equity in post-acquisition loss	(152,109)	(97,560)
Aggregate investment	\$ 1	\$ 737,640

Subsequent to June 30, 2020, ZTEST entered into an agreement with the founder and majority shareholder of Conversance Inc. whereby ZTEST issued 1,250,000 Convertible First Preferred Shares Series 1 to that majority shareholder in exchange for 25,000 Class A common shares of Conversance Inc. The ZTEST Series 1 shares will be automatically converted to common shares of ZTEST if, and only if, Conversance completes an arm's length financing through which it issues at least 130,139 Class A common shares from treasury, at a price of at least \$10.00 per Class A common share, by June 30, 2021. If such a financing is not completed then the ZTEST Series 1 shares will be redeemed for an aggregate price of \$1 and the 25,000 Class A common shares of Conversance Inc. will be returned to the majority shareholder. If such a financing does proceed then ZTEST retains its right to maintain its 25.29% interests by subscribing for the requisite number of Class A common shares of Conversance, at the same price and payment terms applicable to the financing. As an additional element of this transaction, ZTEST was granted an option by Conversance Inc., to acquire 75,000 Class A common shares from treasury, in exchange for a cash payment of \$1,000,000, until December 31, 2022.

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2020 and 2019

7. Bank operating loan

	2020	2019
Line of credit, which can be drawn to a maximum of \$250,000, 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.	\$ -	\$ (150,000)

8. Long-Term Debt

	2020	2019
Canadian Emergency Business Account (CEBA), non-interest bearing until December 31, 2022 then 5% per annum, payable monthly until maturity December 31, 2025. Principal repayments are not required until maturity. The principal amount may be pre-paid in whole or in part at any time without penalty. Provided the loan balance is no more than \$10,000 as at December 31, 2022 the remaining balance of the loan will be forgiven.	\$ 40,000	\$ -
Term loan bearing interest at the TD Bank prime lending rate plus 1.75% matured July 2019.	-	3,291
	40,000	3,291
Less: Current portion	-	3,291
	\$ 40,000	\$ -
The minimum annual future principal repayments are as follows:		
2020		\$ -
Remaining		40,000
		\$ 40,000

9. Share Capital

Authorized:

Unlimited Common shares

Unlimited Preferred shares in one or more series.

Issued:

	2020	2019
Common shares	\$ 23,613,546	\$ 23,394,174
Common shares:	Number of Shares ⁽¹⁾	Amount
Balance June 30, 2018	20,173,696	\$ 23,215,877
Exercise of stock options	150,000	27,426
Private placement ⁽²⁾	780,000	150,871
Balance June 30, 2019	21,103,696	\$ 23,394,174
Shares issued in settlement of debt ⁽³⁾	1,023,000	153,450
Private placement ⁽⁴⁾	750,000	65,922
Balance June 30, 2020	22,876,696	\$ 23,613,546

⁽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.

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2020 and 2019

9. Share Capital - continued

- (2) The Company completed a private placement, through two closings, whereby an aggregate of 780,000 working capital units were issued for gross proceeds of \$234,000. In the first closing 440,000 units were issued for gross proceeds of \$132,000 and in the second 340,000 units were issued for gross proceeds of \$102,000. Each unit consisted of one common share and one-half common share purchase warrant. Each full common share purchase warrant entitled the holder to acquire one additional common share of the Company at a price of \$0.40 until eighteen months following the closing date however this expiry date was extended until December 28, 2020. The Company paid finders' fees of \$11,760, incurred other costs of \$11,218, attributed a value of \$51,176 to the common share purchase warrants, and issued 39,200 broker warrants valued at \$8,975. Each broker warrant entitles the holder to acquire one common share of the Company for \$0.30 until eighteen months following the closing date.
- (3) In accordance with agreements between the Company and its Chief Executive Officer and a former Director, the Company issued 1,023,000 common shares, valued at \$0.15 per share, in settlement of amounts aggregating \$153,450 that were due them as at December 31, 2019 (*note 10*).
- (4) 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 finders' 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 February 28, 2021.

Details of warrants outstanding:

	Number of Warrants	Amount
Balance June 30, 2018	3,256,250	\$ 137,470
Warrants issued via private placement	390,000	51,176
Broker warrants issued via private placement	39,200	8,975
Warrants expired	(43,750)	(14,665)
Balance June 30, 2019	3,641,700	\$ 182,956
Warrants issued via private placement	750,000	38,756
Broker warrants issued via private placement	10,500	1,247
Warrants expired	(23,800)	(5,294)
Balance June 30, 2020	4,378,400	\$ 217,665

	Number of Warrants	Exercise Price	Expiry Date
Issued Dec. 15, 2016	2,900,000	\$ 0.06	Dec. 15, 2021
Issued Jan. 30, 2018 ⁽¹⁾	312,500	\$ 0.40	Jan. 31, 2021
Issued Dec. 28, 2018 ⁽²⁾	220,000	\$ 0.40	Dec. 28, 2020
Issued Jan. 31, 2019 ⁽²⁾	170,000	\$ 0.40	Dec. 28, 2020
Issued Jan. 31, 2019 ⁽³⁾	15,400	\$ 0.30	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

(1) These warrants will expire on the earlier of January 31, 2021, and the date that is thirty seven days after the tenth consecutive trading day for which the closing price for the Company's shares is at least \$0.40.

(2) During the reporting period the Company obtained regulatory approval for the expiry date of these warrants to be extended to December 28, 2020.

(3) These warrants were not exercised and therefor expired July 31, 2020.

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2020 and 2019

9. Share Capital - continued

Details of warrants outstanding - continued:

	Number of Warrants	Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning of year	3,641,700	\$ 0.19	Aug. 16, 2021
Warrants issued during the year	760,500	\$ 0.25	Feb. 28, 2021
Warrants expired during the year	(23,800)	\$ 0.30	Jun. 28, 2020
Warrants altered during the year	(702,500)	\$ 0.71	Apr. 30, 2020
Warrants altered during the year	702,500	\$ 0.40	Jan. 12, 2021
End of year	4,378,400	\$ 0.15	Aug. 30, 2021

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

	2020	2019
Dividend yield	Nil	Nil
Risk free interest rate (%)	1.27	1.76 – 1.84
Expected stock volatility (%)	119.88	116.25 – 116.52
Expected life (years)	1.0	1.5

Details of options outstanding:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted Mar. 3, 2016	400,000 ⁽¹⁾	400,000	\$ 0.05	Mar. 3, 2021
Granted December 21, 2016	50,000 ⁽²⁾	50,000	\$ 0.15	Aug. 31, 2020
Granted January 12, 2018	200,000 ⁽²⁾	200,000	\$ 0.95	Jul. 17, 2020
Granted January 12, 2018	350,000 ⁽¹⁾	350,000	\$ 0.95	Jan. 12, 2023

⁽¹⁾ Directors and/or Officers of the Company hold these options.

⁽²⁾ The expiry date has been amended to be six months from the date of resignation of the former employee or former Director that holds them. None were exercised and therefore all expired as of the stated expiry dates.

	Common Shares Under Option	Weighted Average Price/Option	Weighted Average Expiry Date
Beginning of the year	1,200,000	\$ 0.52	Oct 12, 2021
Expired during the year	(200,000)	\$ 0.35	Jul. 9, 2019
Expiry date reduced during the year ⁽¹⁾	(250,000)	\$ 0.79	Oct 26, 2022
Expiry date reduced during the year	250,000	\$ 0.79	July 26, 2020
End of year	1,000,000	\$ 0.55	Sep. 2, 2021

⁽¹⁾ The expiry date has been amended to be six months from the date of resignation of the former employee or former Director that holds them. These options expired subsequent to the financial reporting date.

No stock options were granted during the years ended June 30, 2020 or June 30, 2019.

Share based payment transactions and contributed surplus

The Company has a stock option plan. The aggregate number of common shares reserved for issuance under this plan cannot exceed 20% of the aggregate number of common shares of the Company that are issued and outstanding. The Company has granted options for the purchase of common shares to employees, directors, officers and other service providers. The fair values of stock options granted have been determined using the Black-Scholes model and are added to contributed surplus as follows:

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2020 and 2019

9. Share Capital - continued

Share based payment transactions and contributed surplus - continued:

	2020	2019
Contributed surplus, beginning of year	\$ 1,533,373	\$ 1,531,134
Stock options exercised	-	(12,426)
Warrants expired	5,294	14,665
Contributed surplus, end of year	\$ 1,538,667	\$ 1,533,373

10. Related Party Transactions and Balances

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.

All expenses and year end balances with related parties are at exchange amounts established and agreed to by the related parties. All transactions with related parties are in the normal course of operations and have been carried out on the same terms as those accorded to unrelated parties.

Description	2020	2019
Employee and consultant compensation	\$ 446,773	\$ 499,711
Professional fees	38,457	37,954
Finance fees	16,181	19,283
Professional fees classified as share issuance costs	5,000	10,318
	\$ 506,411	\$ 567,266
Stock-based compensation	\$ -	\$ -

During the year, \$153,450 owing to related parties was settled through the issuance of 1,023,000 common shares of the Company. As at June 30, 2020 \$359,210 (2019 - \$352,759) was payable to key management personnel and included in accounts payable and accrued liabilities.

11. Selling, general and administrative expenses

Selling, general and administrative expenses are comprised of the following amounts:

	2020	2019
Employee and consultant compensation (<i>notes 10 and 15</i>)	\$ 841,418	\$ 1,005,099
Occupancy costs (<i>note 3</i>)	266,277	260,270
Insurance	33,197	31,931
Professional fees (<i>note 10</i>)	64,067	66,979
Shareholder services	16,377	25,071
Other	41,452	60,727
	\$ 1,262,788	\$ 1,450,077

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2020 and 2019

12. Income Taxes

Current Income Taxes

A reconciliation of combined federal and provincial corporate income taxes at the Company's effective tax rate of 26.50% (2019 – 26.50%) is as follows:

	2020	2019
Net loss before income taxes	\$ (818,737)	\$ (344,186)
Expected income tax recovery	\$ (216,965)	\$ (91,209)
Expenses not deductible for income tax purposes	195,474	18,910
Change in tax benefits not recognized	21,491	72,299
Income tax expense	\$ -	\$ -

Deferred Tax

The following table summarizes the components of deferred tax:

	2020	2019
Deferred tax assets:		
Non-capital losses carried forward	\$ 24,508	\$ 2,673
Deferred tax liabilities:		
Temporary timing differences	(24,508)	(2,673)
Net deferred tax liabilities	\$ -	\$ -

Unrecognized Deferred Tax Assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2020	2019
Inventory	\$ 28,527	\$ 25,413
Share issuance costs	41,876	53,378
Property, plant and equipment	39,429	46,409
Resource related expenditures	349,050	349,050
Scientific research and experimental development	1,050,618	1,050,618
Non-capital loss carry-forwards	1,921,405	2,068,522
Net capital loss carry-forwards	15,592,989	15,592,989

Share issue costs expire from 2021-2023 and non-capital loss carry-forwards expire as disclosed below. The remaining deductible temporary differences may be carried forward indefinitely but net capital loss carry-forwards can only be used to reduce capital gains. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

Tax Loss Carry-Forwards

The potential income tax benefits resulting from the application of income tax losses have not been recognized in these consolidated financial statements. The following losses, which may be subject to verification by Canada Revenue Agency, will expire at the end of the taxation years as follows:

Year	
2027	\$ 35,599
2030	174,603
2031	577,958
2032	14,862
2033	76,561
Sub-total	\$ 879,583

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2020 and 2019

12. Income Taxes - continued

Tax Loss Carry-Forwards - continued

Year

Balance forward	\$	879,583
2034		125,170
2035		136,504
2036		69,013
2037		184,366
2038		294,158
2039		284,449
2040		246,498
	\$	2,219,741

13. Capital disclosures

The Company's objective when managing capital is to ensure its ability to meet operating commitments as they become due and to provide return for shareholders. This is achieved by continuously monitoring actual and projected cash flows and making adjustments to capital as necessary. Except for the repayment terms associated with long-term debt instruments, there are no externally imposed capital requirements.

	2020	2019
Long-term debt	\$ 40,000	\$ 3,291
Share capital	23,613,546	23,394,174
Warrants	217,665	182,956
Contributed surplus	1,538,667	1,533,373
Deficit	(24,605,180)	(23,786,443)
Net capital under management	\$ 804,698	\$ 1,327,351

14. Financial risk factors

The Company is exposed in varying degrees to the following financial instrument related risks:

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 years ended June 30, 2020 and June 30, 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 Company's revenues during a reporting period. During the current year the Company had two major customers which represented 20% and 19% of total revenues. In the prior year two major customers accounted for 14% and 12% of total revenues. Amounts due from major customers represented 17% of accounts receivable at June 30, 2020 (2019 - 9%). 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.

Notes to Consolidated Financial Statements

(Stated in Canadian Dollars)

June 30, 2020 and 2019

14. Financial risk factors - continued

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. At June 30, 2020 the Company had current financial assets of \$732,471 (2019 - \$591,575) available to settle current financial liabilities of \$1,002,533 (2019 - \$943,985). The Company manages its liquidity risk through the management of its capital (*note 13*) 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 fiscal year, the Company has reported a foreign exchange loss of \$13,486 (2019 – loss of \$4,749).

Sensitivity to market risks

At June 30, 2020 the Company had:

- A bank operating loan that had not been drawn upon (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 would have no impact upon interest expense – other over the next 12 month period.
- US\$61,399 (June 30, 2019 – US\$63,433) included in accounts receivable. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of \$3,070 in future cash inflow.
- US\$114,337 (June 30, 2019 –US\$155,987) 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 \$5,717 in future cash outflow.

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

15. COVID-19 and related subsequent events

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. Many of these restrictions remain in place as of the financial reporting date.

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 approval of these unaudited condensed consolidated financial statements, the Company, including its subsidiaries and investee company, have operated free of positive tests 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-19 cannot be accurately predicted at this time. This includes the potential impact the pandemic may have on the Company's 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 2021.

To help mitigate the uncertainty created by COVID-19, the Company has availed itself of subsidies made available to it by the Canadian Federal government. The Company obtained subsidy under the Canada Emergency Business Account (CEBA) and the Canada Emergency Wage Subsidy (CEWS). The Company obtained CEBA benefit in the form of a \$40,000 loan (*note 7*) which is interest free, and requires no repayment prior to December 31, 2022. The Company also obtained CEWS benefit during the year in the amount of \$164,535 which has been applied to reduce labour costs (*note 4*) and Employee and consultant compensation (*note 11*). The Company will continue to monitor all government subsidies and will make application wherever it satisfies the eligibility criteria.

ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2020

(Prepared as at October 26, 2020)

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 consolidated financial and operating performance for the year ended June 30, 2020. The MD&A was prepared as of October 26, 2020 and was approved by the Board of Directors on October 26, 2020. It should be read in conjunction with the consolidated financial statements of the Company 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.

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.

<u>Name</u>	<u>Position(s)</u>
Steve Smith ⁽¹⁾	Chairman, President & Chief Executive Officer
K. Michael Guerreiro ^(1*)	Director (Independent), and Director of PEC
Zachery Dingsdale ⁽¹⁾	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

⁽¹⁾ Member of the audit committee

Corporate Performance

The final fiscal quarter of 2020, and right up to present, has been dominated by the uncertainties caused by, and repercussions arising from, the COVID-19 pandemic. Manufacturing companies were deemed essential, and exempted from the March 24, 2020 mandated closure of all non-essential workplaces, but the way in which people interacted and business was conducted had already been altered dramatically. The Company recommended that all personnel that could feasibly do so, work remotely, and took steps to ensure that it provided a safe workplace for those that could 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. Having said that, 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.

ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2020

(Prepared as at October 26, 2020)

Corporate Performance - continued

As alluded to above, the Company has been the beneficiary of government subsidies made available to qualifying companies as a result of COVID-19. The first subsidy obtained was through the Canadian Emergency Business Account (CEBA) with subsequent amounts being received under the Canadian Emergency Wage Subsidy (CEWS). CEBA is comprised of a loan in the amount of \$40,000 which is interest-free, with no repayment terms, until December 31, 2022. The loan may be repaid, in whole or in part, at any time and should the loan balance be no more than \$10,000 as at December 31, 2022 then the remaining balance will be forgiven. Any loan balance remaining after December 31, 2022 will bear interest at 5% and be payable monthly until maturity December 31, 2025. CEWS is a subsidy payable to qualifying companies based upon payroll paid to eligible employees during specified four-week intervals. To date the Company has received CEWS in the aggregate amount of \$180,422 including \$164,535 pertaining to the 2020 fiscal year and \$76,584 related to the first quarter of 2021. The Company will continue to monitor government subsidy programs and to make application for any subsidies for which it meets the qualification criteria.

In January 2020, just as COVID-19 was emerging, the Company announced that it was proceeding with a non-brokered private placement and debt settlement. The placement and debt settlement closed in February with the Company issuing 750,000 working capital units at \$0.15 each for gross proceeds of \$112,500 and settling debts of \$153,450, owed to insiders of the Company, through the issuance of 1,023,000 common shares at a price of \$0.15 each. Each working capital unit was comprised of one common share and one common share purchase warrant which entitles the holder to buy an additional common share of the Company at \$0.25 until February 2021. The Company incurred legal fees of \$5,000, paid a finder \$1,575, and issued 10,500 broker warrants with each broker warrant entitling the holder to acquire one common share of the Company at \$0.15 until February 2021.

As a result of the private placement, and the subsidies received, the Company was able to improve upon its cash position and its liquidity. At June 30, 2019, the Company had cash of \$66,628 and its current financial assets were equal to 65% of its current financial liabilities. In comparison, at June 30, 2020 cash has increased to \$220,403 and current financial assets have risen to be equal to 73% of current financial liabilities. There are no assurances that these balances will continue to improve but the enhanced position will certainly aid in enduring the future implications of the pandemic.

While the Company's manufacturing operations continued, many other businesses were impacted more dramatically by the pandemic, including the Company's investee, Conversance Inc. Conversance made progress during the period, including the successful internal testing of its proprietary Chronicle system, but the development of commercial industry-specific applications has been slowed by COVID-19. As at June 30, 2020, Conversance remains in the pre-commercial phase. In accordance with IFRS, these delays prompted an assessment as to whether the Company's investment may be impaired. It was determined that, while Conversance remains in the pre-commercial phase, there is no objective means by which its value, or the value of Chronicle, may be determined. In the absence of an objective value, the Company was required to record a provision for impairment of \$683,090, and reduce the carrying value of its investment to \$1.

This provision should not be construed to suggest that the Company does not believe in the potential for Conversance Inc. Throughout the fourth quarter of 2020 the Company remained in close communication with Joseph Chen, the founder of Conversance Inc. and the primary developer of Chronicle. These discussions led to the transaction between ZTEST, Conversance, and Joseph Chen that was announced September 14, 2020. Through this transaction ZTEST issued 1,250,000 Series 1 Preference shares to Joseph Chen 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.

ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2020

(Prepared as at October 26, 2020)

Corporate Performance - continued

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

	June 2020	For the fiscal quarters ended:		
		Mar. 2020	Dec. 2019	Sept. 2019
Total Revenues	1,077,137	1,102,355	828,703	880,703
Net income (loss) from operations	178,572	(13,191)	(148,254)	(98,229)
Per share - basic	0.008	(0.001)	(0.007)	(0.005)
Net income (loss) for the period	(511,798)	(24,194)	(162,103)	(120,642)
Per share - basic	(0.024)	(0.001)	(0.008)	(0.006)
Total assets	1,807,231	2,306,150	2,120,412	2,314,453
Total long-term financial liabilities	40,000	-	26,809	54,201
Total liabilities	1,042,533	1,029,654	1,079,097	1,111,035

	June 2019	For the fiscal quarters ended:		
		Mar. 2019	Dec. 2018	Sept. 2018
Total Revenues	1,269,697	1,065,043	1,097,839	966,483
Net income (loss) from operations	5,518	(102,068)	(73,351)	(104,184)
Per share - basic	0.000	(0.005)	(0.004)	(0.005)
Net income (loss) for the period	(11,385)	(127,279)	(87,749)	(117,773)
Per share - basic	(0.001)	(0.006)	(0.004)	(0.006)
Total assets	2,268,045	2,463,838	2,373,935	2,287,820
Total long-term financial liabilities	-	-	-	-
Total liabilities	943,985	1,128,394	1,004,124	956,800

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

Results of Operations

Revenues for the final quarter of 2020, and for the 2020 fiscal year, each lagged behind the figures reported for the comparable periods in 2019. Comparison of the fourth quarter results is impeded by the impact of COVID-19 on the current year and by customer's accelerated delivery requests that produced higher revenues in Q4 2019. Those accelerated deliveries also had a negative effect on the start of the 2020 fiscal year, thereby contributing to the 11.6% decline in annual revenues.

Although revenues declined, the total gross margins for the 2020 year rose in comparison to 2019. This result is aided by CEWS in the amount of \$105,129 that is attributable to 2020 production wages. Without this CEWS, gross margins would have declined by \$92,810, or 7.6%, in the 2020 fiscal year. Although no decline can be considered favourable, it is encouraging that the 7.6% decline in margins is less than the corresponding decline in revenues. Gross margin, as a percentage of revenues, had declined to 27.7% in 2019 and a concerted effort was made to grow this figure in 2020. These efforts apparently produced favourable results as the 2020 margin was 31.6% of annual revenues while the margin, adjusted to eliminate CEWS benefits, was 28.9% of revenues. Management will continue investigating all product costs and alternatives for enhancing margins as a percentage of periodic revenues.

ZTEST Electronics Inc.

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Results of Operations - continued

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

<u>Years ended</u>	<u>June 20</u>	<u>June 19</u>	<u>Change</u>
Raw materials and supplies consumed	\$ 1,868,875	\$ 2,136,502	\$ (267,627)
Labour costs incurred	647,450	800,911	(153,461)
Depreciation	47,509	59,040	(11,531)
Other costs	117,610	179,061	(61,451)
Net change in finished goods and work in process	(21,341)	7,072	(28,413)
<u>Total cost of product sales</u>	<u>\$ 2,660,103</u>	<u>\$ 3,182,586</u>	<u>\$ (522,483)</u>

<u>Three month periods ended</u>	<u>June 20</u>	<u>June 19</u>	<u>Change</u>
Raw materials and supplies consumed	\$ 553,743	\$ 564,255	\$ (10,512)
Labour costs incurred	78,473	210,236	(131,763)
Depreciation	11,891	14,760	(2,869)
Other costs	26,426	48,318	(21,892)
Net change in finished goods and work in process	(4,506)	36,161	(40,667)
<u>Total cost of product sales</u>	<u>\$ 666,027</u>	<u>\$ 873,730</u>	<u>\$ (207,703)</u>

The cost of raw materials and supplies consumed have declined in each of the four fiscal quarters of 2020, when compared to the same periods one year earlier, resulting in a decline of 12.5% for the year. These costs frequently vary from one period to the next, with many potential causes, but tend to be reasonably comparable when looked at over the longer term. For example, the fourth quarter costs are less than 2% lower than they had been in June 2019 even though revenues for the same periods declined more than 15%. In contrast, the cost decline of 12.5% for the year is not exceedingly different from the revenue decline for the same period of 11.6%. Customers have a choice between supplying the components themselves and having them supplied by the Company. Furthermore, the number and value of components are not consistent from one board to the next. These factors mean that costs incurred in one period, particularly shorter periods, are not going to be consistent as a percentage of periodic revenues, nor are they necessarily indicative of future periods. The Company continually promotes the supply of components as an effective solution for its customers, but will continue to provide the option for customers to contract for the assembly of materials that they themselves supply.

As noted above, Labour costs incurred for 2020 are reported net of CEWS in the amount of \$105,129, with 100% of that subsidy occurring in the final quarter. If not for the subsidy, the decline for the quarter would have been \$26,634 while the decline for the year would have been \$48,332. 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, although this matching can never be absolute. During the fourth quarter of 2020, labour supply was managed but also took 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 and this must be combined with labour costs incurred to determine the total labour costs included in cost of product sales. The combined annual labour costs for 2020, before CEWS, are 9.5% less than they had been during 2019 while the costs for the fourth quarter of 2020 are 27.3% lower than 2019 levels. Changes in labour costs are typically less than the change in revenues for the corresponding period. A 9.5% cost reduction, during a period when revenues declined 11.6%, is within expectations. The fourth quarter results appear more anomalous, with a cost decline of 27.3% while revenues declined 15.2%. Just as the number and value of components are not consistent from one board to the next, labour costs also vary and this variance can provide the appearance of inconsistency. The Q4 2019 costs exceeded 19% of periodic revenues while for Q4 2020 they were less than 17%. In contrast, the average for fiscal 2020 was 18.8% while the average for fiscal 2019 was 18.4% supporting that this seemingly anomalous result does not appear when looking at longer periods.

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Results of Operations - continued

Depreciation is a function of time and the carrying value of the manufacturing equipment in use. No significant additions have been necessary 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 for the periods ended June 30 were as follows:

Years ended	June 20	June 19	Change
Employee and consultant compensation	\$ 841,418	\$ 1,005,099	\$ (163,681)
Occupancy costs	266,277	260,270	6,007
Professional fees	64,067	66,979	(2,912)
Insurance	33,197	31,931	1,266
Shareholder services	16,377	25,071	(8,694)
Other costs	41,452	60,727	(19,275)
Total selling, general and administrative	\$ 1,262,788	\$ 1,450,077	\$ (187,289)

Three month periods ended	June 20	June 19	Change
Employee and consultant compensation	\$ 131,281	\$ 269,925	\$ (138,644)
Occupancy costs	62,357	66,719	(4,362)
Professional fees	13,001	17,303	(4,302)
Insurance	8,527	8,122	405
Shareholder services	4,150	3,233	917
Other costs	8,045	16,612	(8,567)
Total selling, general and administrative	\$ 227,361	\$ 381,914	\$ (154,553)

Employee and consultant compensation costs, which include salaries, benefits, consulting fees, and independent directors' fees, have declined more than 16% in 2020, with the majority of that reduction arising in the final quarter. The fourth quarter reduction was aided by CEWS benefit of over \$59,000, but also included reductions of approximately \$48,000 in consulting fees, \$21,000 in salaries and benefits, and \$11,000 in payroll taxes. The reduction in consulting fees arises as a result of a reduction in fees charged by the Company's CEO as well as there being no recurrence of fees incurred in relation to efforts made to initiate operations in Twenty49. The reduction of salaries and benefits is due to attrition and reduced sales commissions while the payroll tax reduction arises as a result of a legislated increase in certain exemption limits.

Occupancy costs underwent a change in the current year, with the adoption of IFRS 16. In prior years the monthly base rental payments were charged as occupancy costs. Under IFRS 16 these base rental payments are now applied as a reduction of the Company's lease liability while depreciation of the right-of-use asset is now accounted for as occupancy costs. The lease payments made in 2020 were \$107,742 and the depreciation charges were \$102,798 so reported occupancy costs are \$4,944 less than they would have been before the adoption of IFRS 16. In spite of this IFRS 16 cost reduction, occupancy costs rose by \$6,007 for the year. This increase is primarily due to a hydro rebate program that was in effect during the 2nd quarter of 2019 but did not recur during the current year. The Company's 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 fees for legal services and a prorated portion of the estimated cost of the upcoming audit of the annual financial statements. Audit costs have remained consistent from 2019 to 2020 while legal fees have declined year over year. A significant portion of legal fees relate to matters of corporate administration and governance for which there was a reduced requirement in 2020, as compared to 2019.

Shareholder services were up somewhat in the final quarter of 2020, compared to 2019, with higher recurring fees from the CSE accounting for about a third of the increase while the remainder comes from anomalously low fees in Q4 2019. On a year to date basis costs have declined by about 35% due to costs attributable to the December 2018 AGM not having recurred in the current year.

Insurance expense and other costs are all closely monitored, and are within management expectations, although some of the reduction in other costs is attributable to reduced travel and promotional activities as a consequence of the pandemic.

The Company's financing costs for the periods were as follows:

Years ended	June 20	June 19	Change
Interest expense ó long term	\$ 5	\$ 1,260	\$ (1,255)
Interest expenses ó lease liability	7,141	-	7,141
Interest expense ó other	5,608	10,254	(4,646)
Financing fees	16,181	19,283	(3,102)
Total financing expenses	\$ 28,935	\$ 30,797	\$ (1,862)

Three month periods ended	June 19	June 19	Change
Interest expense ó long term	\$ -	\$ 117	\$ (117)
Interest expenses ó lease liability	1,247	-	1,247
Interest expense ó other	401	2,672	(2,271)
Financing fees	3,889	5,509	(1,620)
Total financing expenses	\$ 5,537	\$ 8,298	\$ (2,761)

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 periods.

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 less use of its bank operating line in each of the four quarters of the current fiscal year, compared to 2019, 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. This agreement was terminated July 2020 so there will be no recurrence of this cost subsequent to that date.

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Liquidity

At June 30, 2020 the Company had working capital of \$481,680 (2019- \$292,444) and current financial assets of \$732,471 (2019- \$658,203) available to settle current financial liabilities of \$1,002,533 (2019- \$1,010,613). The Company also has access to a \$250,000 bank operating line, of which \$Nil (2019 - \$150,000) had been drawn as of June 30, 2020.

In addition, the Company must also address the payment of the following amounts as at June 30, 2020:

	Due by June 2021	Due by June 2022	Due by June 2023	Due after June 2023	Total Due
Long-term debt	\$ -	\$ -	\$ -	\$ 40,000	\$ 40,000
Lease liability	79,296	-	-	-	79,296
	<u>\$ 79,296</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,000</u>	<u>\$ 119,296</u>

Capital Resources

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

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 finders' 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 former Director of Permtech Electronics Corporation. 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 ⁽³⁾ 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:

Year ended June 30	2020	2019
Salaries and benefits ⁽¹⁾	\$ 265,543	\$ 269,927
Consulting fees ⁽¹⁾	162,000	188,969
Directors' fees ⁽¹⁾	19,230	40,815
Legal fees ⁽²⁾	34,957	34,454
Accounting fees ⁽²⁾	3,500	3,500
Financing fees	16,181	19,283
Legal fees accounted for as share issuance costs	5,000	10,318
Cash based expenditures	<u>\$ 506,411</u>	<u>\$ 567,266</u>
Share-based payments	<u>\$ -</u>	<u>\$ -</u>

⁽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.

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Related Party Transactions - continued

During the year, \$153,450 owing to related parties was settled through the issuance of 1,023,000 common shares of the Company. The following balances are due to related parties, and were reported in the consolidated financial statements as an element of accounts payable and accrued liabilities, as at June 30 of each year:

	2020	2019
Salaries and benefits payable	10,669	15,273
Directors' fees payable	37,937	47,020
Consulting fees payable	276,773	262,013
Legal fees payable	33,831	28,453

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

Description	Expiry Date	Common Shares
Stock options @ \$0.05 per share	Mar. 3, 2021	400,000
Stock options @ \$0.95 per share	July 17, 2020	200,000
Stock options @ \$0.95 per share	Jan. 12, 2023	350,000

During the year ended June 30, 2020, 200,000 stock options held by a former Director of the Company expired, 200,000 options had their expiry date reduced to the date that is six months after the resignation of the former Director that holds them, and no new stock options were granted. In July 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:

Common shares issued	Quantity	Amount
Balance as at June 30, 2018	20,173,696	\$ 23,215,877
Issued on exercise of stock options	150,000	27,426
Issued through private placement, net of costs ⁽¹⁾	780,000	150,871
Balance as at June 30, 2019	21,103,696	23,394,174
Issued through private placement, net of costs ⁽¹⁾	750,000	65,922
Issued in settlement of debts	1,023,000	153,450
Balance as at June 30, 2020 and as at the date of this document	22,876,696	\$ 23,613,546

⁽¹⁾ Costs include finders' fees, legal and brokerage fees, and the value of the warrants and broker warrants as determined using the Black-Scholes valuation model.

Series 1 Preference shares issued	Quantity	Amount
Balance as at June 30, 2020	Nil	\$ -
Issued to acquire shares of Conversance Inc.	1,250,000	1
Balance as at the date of this document	1,250,000	\$ 1

The Company has the following common shares reserved to satisfy the potential exercise of the following:

Common shares reserved	Expiry Date	Common Shares
To be issued for Class A shares ⁽¹⁾		8,246
Warrants @ \$0.30 per share	July 2020	15,400
Balance forward		23,646

ZTEST Electronics Inc.

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Convertible Instruments and Other Securities - continued

Balance forward		23,646
Stock options @ \$0.95 per share ⁽²⁾	July 2020	200,000
Stock options @ \$0.15 per share ⁽³⁾	Aug. 2020	50,000
Warrants @ \$0.40 per share ⁽⁴⁾	Dec. 2020	390,000
Warrants @ \$0.40 per share ⁽⁵⁾	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
<hr/>		
Common shares reserved as at June 30, 2020		5,386,646
Warrants @ \$0.30 per share - expired	July 2020	(15,400)
Stock options @ \$0.95 per share - expired	July 2020	(200,000)
Stock options @ \$0.15 per share - expired	Aug. 2020	(50,000)
Conversion of Series 1 Preference shares	June 2021	1,250,000
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Common shares reserved as at the date of this document		6,371,246

⁽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 year, the expiry date of these stock options was reduced to be the date that was six months after the resignation of the former Director that held them. These options expired subsequent to the financial reporting date.

⁽³⁾ During the year, the expiry date of these stock options was reduced to be the date that was six months after the resignation of the former employee that held them. These options expired subsequent to the financial reporting date.

⁽⁴⁾ During the year, the Company obtained regulatory approval for the expiry date of these warrants to be extended to December 28, 2020.

⁽⁵⁾ During the year, the Company obtained regulatory approval for the exercise price of these warrants to be reduced from \$1.10 or \$0.40 and for the expiry date of these warrants to be extended to the earlier of January 31, 2021, and the date that is thirty seven days after the tenth consecutive trading day for which the closing price for the Company's shares is at least \$0.40.

Fully diluted number of shares	Quantity
Shares issued at June 30, 2020	22,876,696
Shares reserved at June 30, 2020	5,386,646
Fully diluted number of shares at June 30, 2020	28,263,342
Change in shares reserved after June 30, 2020	984,600
Fully diluted number of shares as at the date of this document	29,247,942

Additional disclosures relative to stock options are as follows:

No stock options were granted during the years ended June 30, 2019 or June 30, 2020, or after the fiscal year end. 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 year	1,200,000	\$ 0.52	Oct. 12, 2021
Expired during the year	(200,000)	0.35	Jul. 9, 2019
Expiry date reduced during the year ⁽¹⁾	(250,000)	0.79	Oct. 26, 2022
Expiry date reduced during the year	250,000	0.79	July 26, 2020

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Convertible Instruments and Other Securities - continued

End of the year	1,000,000	0.55	Sep. 2, 2021
Expired after the end of the year	(250,000)	0.79	Jul. 26, 2020
As at the date of this document	750,000	0.47	Jan. 14, 2022

As at the date of this document, the following stock options, each of which has vested and are held by Directors and/or Officers of the Corporations, are outstanding. The Company has no ability to cause these options to be exercised:

	Common Shares Under Option	Exercise Price	Expiry Date
Granted March 3, 2016	400,000 ⁽¹⁾	\$ 0.05	Mar. 3, 2021
Granted January 12, 2018	350,000 ⁽¹⁾	\$ 0.95	Jan. 12, 2023

Additional disclosures relative to share purchase warrants are as follows:

The following weighted average assumptions were used to calculate the fair value of the warrants issued during the years ended June 30:

	2020	2019
Dividend yield	Nil	Nil
Risk free interest rate (%)	1.27	1.76 ó 1.84
Expected stock volatility (%)	119.88	116.25 ó 116.52
Expected life (years)	1.0	1.5

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 year	3,641,700	\$ 0.19	Aug. 16, 2021
Issued during the year	760,500	\$ 0.25	Feb. 28, 2021
Expired during the year	(23,800)	\$ 0.30	Jun. 28, 2020
Terms altered during the year	(702,500)	\$ 0.71	Apr. 30, 2020
Terms altered during the year	702,500	\$ 0.40	Jan. 12, 2021
End of the year	4,378,400	\$ 0.15	Aug. 30, 2021
Expired after the year	(15,400)	\$ 0.30	Jul. 31, 2020
Balance as at the date of this document	4,363,000	\$ 0.15	Sep. 1, 2021

As at the date of this document, the following share purchase warrants are outstanding:

	Number of Warrants	Exercise Price	Expiry Date
Issued Dec. 15, 2016	2,900,000	\$ 0.06	Dec. 15, 2021
Issued Jan. 30, 2018	312,500	\$ 0.40	Jan. 31, 2021
Issued Dec. 28, 2018	390,000	\$ 0.40	Dec. 28, 2020
Issued Dec. 28, 2018	750,000	\$ 0.25	Feb. 28, 2021
Issued Dec. 28, 2018	10,500	\$ 0.15	Feb. 28, 2021

Changes in Accounting Policy

The Company's 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.

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Changes in Accounting Policy - continued

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 Company's 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 (<i>note 11</i>)		(102,798)
Balance at June 30, 2020	\$	112,099

Lease liability

Present value of lease payments remaining upon adoption of IFRS 16	\$	179,897
Lease payments paid during period		(107,742)
Interest imputed at 5.7%		7,141
Balance at June 30, 2020		79,296
Less current portion		(79,296)
Balance at June 30, 2020	\$	-

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 its carrying amount exceeds its recoverable amount.

During the 2017 fiscal year the Company determined that the fair value of its investment in Conversance Inc. was not currently determinable resulting in an impairment provision of \$294,562, to reduce the carrying value of the investment to \$Nil.

Non-controlling interests, which are not financial instruments, and are equal to or exceeding a 20% ownership interest (an equity instrument) is considered impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occur after the initial recognition of the asset (a 'loss event') and that loss event, or events, has an impact on the estimated future cash flows of the non-controlling interest that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognized.

Some items that may be taken into consideration in determining whether a loss event has occurred include significant financial difficulty of the investee, a breach of contract such as a default or delinquency in payments by the investee, it becomes probable that the investee will enter bankruptcy or other financial reorganization, or significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the investee operates, and such changes indicate that the cost of the equity instrument may not be recovered.

During the Year ended June 30, 2020 the Company determined that a loss event had occurred and that the value of Conversance Inc. could not be reliably determined resulting in a reduction of the carrying value of the investment to \$1.

Risk Factors

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. Many of these restrictions remain in place as of the financial reporting date.

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 Company's personnel, including its subsidiaries and investee company, have tested positive for COVID-19.

ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2020

(Prepared as at October 26, 2020)

Risk Factors - continued

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-19 cannot be accurately determined or predicted at this time. This includes the potential impact the pandemic may have on the Company's suppliers and customers as well as the market risks described below. 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 2021.

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. The Company obtained 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 during the year in the amount of \$164,535, plus \$76,584 related to payroll paid subsequent to the year. These subsidies have been applied to reduce labour costs and Employee and consultant compensation in the reporting period in which they were paid. The Company will continue to monitor all government subsidies and will make application wherever it satisfies the eligibility criteria.

In addition to COVID-19, 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 in varying degrees to certain financial instrument related risks. 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. The Company incurred no bad debts during the years ended June 30, 2020 and June 30, 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 Company's revenues during a reporting period. During the current year the Company had two major customers which represented 20% and 19% of total revenues. In the prior year two major customers accounted for 14% and 12% of total revenues. Amounts due from major customers represented 17% of accounts receivable at June 30, 2020 (2019 - 9%). 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.

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Risk Factors - continued

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. At June 30, 2020 the Company had current financial assets of \$732,471 (2019 - \$591,575) available to settle current financial liabilities of \$1,002,533 (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 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 fiscal year, the Company has reported a foreign exchange loss of \$13,486 (2019 a loss of \$4,749).

Sensitivity to market risks

At June 30, 2020 the Company had:

- A bank operating loan that had not been drawn upon (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 would have no impact upon interest expense a other over the next 12 month period.
- US\$61,399 (June 30, 2019 a US\$63,433) included in accounts receivable. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of \$3,070 in future cash inflow.
- US\$114,337 (June 30, 2019 a US\$155,987) 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 \$5,717 in future cash outflow.

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

Forward-looking Information

Certain statements in this MD&A may constitute a 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 aestimatea, abelievea, aanticipatea, aintenda, aexpecta, aplan, amaya, ashoulda, awilla, 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 aRisk Factorsa. 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.