



TINKERINE STUDIOS LTD.

1st Quarter 2020

Management Discussion & Analysis Report

For the three months ended March 31, 2020



Ditto™ Pro 3D Printer & Tinkerine U online 3D content



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MANAGEMENT DISCUSSION AND ANALYSIS
FOR
Tinkerine Studios Ltd. (“the Company”)

Financial Highlight

Quarter ended March 31, 2020

Financial Highlights

	Year Ended March 31 2020	Year Ended March 31 2019
Revenue	\$ 40,845	\$ 51,862
Cost of Goods Sold	32,507	40,993
Gross Margin	8,338	10,869
EBITDA	(116,750)	(110,719)
Net Comprehensive Income (Loss)	(129,130)	(117,322)
Basic and Diluted income(loss) per share	0.00	0.00
Weighted average number of common shares		
Basic and Diluted	49,238,349	49,238,349

Management's Discussion and Analysis of the Financial Position and Results of Operations

May 27, 2020

The following discussion and analysis regarding the financial position and results of operations provides information of the operations and financial results of Tinkerine Studios Ltd. ("the Company") that the management believes is relevant for the review, assessment and understanding the Company's unaudited condensed consolidated interim financial statements for the three months ended March 31, 2020. The Management's Discussion and Analysis (MD&A) should be read in conjunction with the unaudited consolidated interim financial statements. Readers may want to refer to the December 31, 2019 audited financial statements and the accompanying notes which are available at www.sedar.com.

Background and Description of the Business

Tinkerine Studios Ltd is one of Canada's largest designer, producer and distributor of 3D printers, with its innovative software and through TinkerineU supports the growing related online educational content market.

Tinkerine designs, manufactures and distributes 3D printers in Canada, USA and to the Asia Pacific region. The Company's product offering is the Ditto Pro which are well priced in the segment of the market and is gaining a reputation for quality 3D printers and innovative, high quality educational support.

The financial information in this MD&A is based on the Company's unaudited consolidated interim condensed financial statements which have been prepared in Canadian dollars, in accordance with International Financial Reporting Standard ("IFRS").

Non-IFRS Measures

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standard 34 – *Interim Financial Reporting* in Canadian dollars. Certain supplementary information and measures not recognized under IFRS are also provided in this MD&A where management believes they assist the reader in understanding Tinkerine's results. These measures are calculated by Tinkerine on a consistent basis unless otherwise specifically explained. These measures are further explained as follows:

EBITDA – EBITDA and EBITDA margin means net earnings or losses before interest, taxes, depreciation and amortization. EBITDA and EBITDA margins are not recognized as measures under IFRS and do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures reported by other reporting corporations. Management believes that this metric assists in determining the ability of the Corporation to generate cash from operations and is calculated on a consistent basis.

Cash flow from operations – means cash flow from operations before changes in non-cash operating working capital. This measure is not intended to be an alternative to cash provided by operating activities as provided in the consolidated statements of cash flows, comprehensive income or other measures of financial performance calculated in accordance with IFRS. Cash flow from operations assists management and investors in analyzing operating performance and leverage.

Q1 2020 Overview and Highlights

The Company's principal business is the design, manufacture and distribution of 3D printers, software and related online educational content. It is also the exclusive supplier of the filament that is used in the printer

- Q1 2020 revenue was \$40,845 versus Q1 2019 revenue of \$51,862 down 21% year over year.
- The Company expanded the sales efforts to schools in Eastern Canada thus reducing the reliance on the British Columbia market. A sales representative was appointed to service the Eastern Canadian schools
- In Q1 2020 revenue derived by geographic segment was Canada – \$40,648 and United States – \$197, versus geographic segmented sales in Q1 2019 of Canada – \$48,617, and United States – \$3,245

Earnings/Loss before interest, taxes, depreciation, and amortization (EBITDA) increased to a loss of \$116,750 in Q1 2020 from a loss \$110,719 in Q1 2019.

The Company's net loss for Q1 2020 increased to \$129,130 compared to the net loss of \$117,322 in Q1 2019. In Q1 2020, the weaker sales combined with the increase in expenses to \$137,468 from \$128,191 in Q1 2019, resulted in the net loss of \$129,130. The increase in expenses is related to the increase in sales and marketing consulting expenses that is off set by the reduction in remuneration and benefits. As a result, our controllable expenses and our total cash expenses increased to approximately \$125,502 in Q1 2020 from \$124,642 in Q1 2019, an increase in cash expenses of \$860

Q1 2020 Financial Highlights

- **21% decrease in sales revenue.**
- **Decrease in gross margin to 20% from 21%.**
- **7% increase in expenses to \$137,468 in Q1 2020 from \$128,191 in Q1 2019.**
- **Change in EBITDA in Q1 2020 to a deficit of \$116,750 versus a deficit of \$110,719 in Q1 2019.**
- **Working capital deficit increased in Q1 2020 to deficit of \$748,942 compared to deficit of \$631,779 in December 31 2019**
- **Change in the quarterly cash provided by operating activities is a deficit of \$61,644 in Q1 2020 versus \$2,257 in Q1 2019.**

Detailed Discussion and Analysis of Operating Results for the Period Ended March 31st 2020

SUMMARY OF QUARTERLY INFORMATION

	Quarter ended:			
	"Q1 2020"	"Q4 2019"	"Q3 2019"	"Q2 2019"
	March 31 2020	December 31 2019	September 30 2019	June 30 2019
Revenue	\$40,845	\$39,446	\$127,854	\$215,200
Net Income (Loss)	(\$129,130)	(\$157,126)	(\$88,024)	(\$21,188)
Net Comprehensive Income (Loss)	(\$129,130)	(\$157,126)	(\$88,024)	(\$21,188)
Basic and Diluted Loss per share	(\$0)	(\$0)	(\$0)	(\$0)
Number of shares outstanding (w. avg.)	49,238,349	49,238,349	49,238,349	49,238,349
	Quarter ended:			
	"Q1 2019"	"Q4 2018"	"Q3 2018"	"Q2 2018"
	March 31 2019	December 31 2018	September 30 2018	June 30 2018
Revenue	\$51,862	\$151,170	\$88,991	\$158,320
Net Income (Loss)	(\$117,322)	(\$96,869)	(\$104,421)	(\$77,874)
Net Comprehensive Income (Loss)	(\$117,322)	(\$96,869)	(\$104,421)	(\$77,874)
Basic and Diluted Loss per share	(\$0)	(\$0)	(\$0)	(\$0)
Number of shares outstanding (w. avg.)	49,238,349	49,238,349	49,238,349	49,238,349

1. Revenue

Revenue was \$40,845 for the three months ended March 31, 2020 versus \$51,862 for the comparative period Q1 2019.

For Q1 2020, revenue was represented by 30% hardware sales, 19% filament and 51% services/miscellaneous. Comparatively revenue for Q1 2019 was represented by 70% hardware sales, 20% filament and 10% services/miscellaneous. The change in the product mix reflects the manufacture of the face shields that Tinkerine sold in March in response to the Covid 19 pandemic and the demand for personal protective equipment (PPE).

The number of 3D printers sold in Q1 2020 was 4 compared to 18 3D printers sold in the first quarter of 2019.

Filament revenue for Q1 2020 was \$7,688 compared to \$10,236 in Q1 2019. The lower sales can be directly attributed to the timing of schools restocking their filament inventory.

2. Gross Profit Margins

Gross profit for the three months ended March 31, 2020 was \$8,338 or 20% versus \$10,869 or 21% for the three months ended March 31, 2019. Q1 2020 gross profit margin of 20% is lower due to the change in product mix for 2020 versus the product mix in 2019 where we sold more hardware.

3. Expenses

In Q1 2020 the Company incurred \$137,468 of total expenses compared to \$128,191 in Q1 2019, a year over year increase of \$9,277. This increase was primarily the result of the increase of \$20,501 in professional and consulting fees paid for sales and marketing services and which was offset by \$7,184 that represents the reduction of the remuneration and benefits. The Company continues to manage its expenses including our controllable expenses and the total cash expenses is approximately \$125,502 in Q1 2020 versus \$124,642 in Q1 2019, a slight increase in cash expenses of \$860. The Company continues to manage and review departmental budgets and corporate spending in all areas and these are discussed below.

Highlighted quarterly expenses include the following:

- Remuneration and benefits decreased to \$64,891 for Q1 2020 versus \$72,075 for Q1 2019, a decrease of \$7,184. The reduction in this expense is the result of lower sales commissions due to lower sales in this quarter versus Q1 2019 and to the adjustment of vacation expenses that were reversed at the end of the quarter.
- There was no stock based compensation was in Q1 2020 and Q1 2019. This is a non-cash expense and represents the fair value of stock options granted and outstanding using a Black Scholes calculation. Under IFRS, the expense is recognized as the options vest each quarter with a larger proportion of the expense recognized in earlier quarters. There were no share options issued in the first quarter of 2020 and 2019.
- Professional and consulting fees were \$37,041 for Q1 2020 versus \$16,540 in Q1 2019, an increase of \$20,501. The increase in this expense was primarily related to sales and marketing consulting services paid to a director of the Company in Q1 2020. The Company regularly engages independent professional firms for corporate finance, audit and accounting services that includes services for audit, business consulting, bookkeeping, and business development and operations, research & development for services related to design and sourcing of new and existing raw materials, sales and marketing for services related to the development of programs and development of sales and marketing assets and investor relations for services related to the de-semination of the Company's information and the communication with shareholders. We also regularly engaged legal counsel for intellectual property matters, employment law and general commercial matters
- Rent and utilities expense was \$2,251 in 2020 versus \$14,671 in 2019. This presentation of the lease expense reflects the implementation and guidance of applying the modified retrospective method in terms of IFRS 16 to the office lease expense. IFRS 16 establishes the recognition, measurement, presentation and disclosure of all leases (Note 13). As a result, the right-of-use asset has been capitalized for the office lease

and will be amortized over the term of the rental agreement. Lease liabilities were discounted at the discount rate of 5% as at January 1st, 2019. Amortization of \$11,966 and interest expense of \$1,468 are included in expenses. The Delta office is leased from a director and is situated in an area designed for better logistics and the layout of the premises is designed for greater work flow and productivity for both production of the 3D printers and the open design improves collaboration.

LIQUIDITY

As at March 31, 2020, the Company had working capital deficit of \$748,942 compared to a deficit of \$631,779 at December 31, 2019. Our cash position was \$25,748 at the end of Q1 2020 compared to \$9,070 at December 31, 2019.

The Company's investment in inventory was \$124,024 with inventory finished goods total of \$12,812 and raw materials total of \$111,212 at March 31, 2020, versus inventory investment as at December 31, 2019 of \$128,519 with finished goods of \$15,330 and raw materials of \$113,189. Prepaid and Deposits were \$36,883 at March 31, 2020 versus \$12,015 in December 31, 2019. These payments are related to prepayment of overseas parts purchases and rental deposit.

At the time of release of this MD&A, the Company's cash position is \$34,930 and management believes the Company will require an injection of capital to ensure adequate operating working capital. On February 28th 2020 the Company arranged an interim short term loan of \$90,000 at an interest rate of 12% pa through friends and family, to continue a steady expansion of its business over the coming months. While the cash position is somewhat tight we believe we can manage our existing operations with the existing working capital. However, any unforeseen downturn in sales or, alternatively, pursuit of a more aggressive growth strategy would necessitate further equity investment.

CAPITAL RESOURCES

As at March 31, 2020, the Company's share capital was \$4,329,369 representing 49,238,349 issued and outstanding common shares without par value. There were no shares issued in Q1 of 2020 and Q1 of 2019. Warrants of 6,600,000 warrants were issued as part of a private placement in 2016. The warrants expired on March 24, 2018 and were not exercised. Reserves, representing the fair value of stock options outstanding and vested, is recorded at March 31, 2020 of \$97,401 versus \$98,288 as at December 31, 2019. During Q1 2020 share options expired and the Company reallocated \$887 from reserves to deficit upon the cancellation of the share options.

As at March 31, 2020 the Company has 2,358,000 stock options outstanding with a weighted average exercise price of \$0.075 and an average remaining term of 1.89 years. In April 2020, 355,000 share options with an exercise price of \$0.075 were exercised by employees.

The Company has borrowed \$90,000 at 12% from employees of the Company and as at March 31st 2020 and to the date of this MD&A, this loan is still outstanding.

The Company has no off-balance sheet arrangements as at March 31, 2020 and to the date of this MD&A.

The Company does not have any financial instruments and other instruments as at March 31, 2020 and to the date of this MD&A.

OUTSTANDING SHARE INFORMATION

The Company's authorized capital is unlimited common shares without par value. As at May 27th, 2020 the following common shares, share warrants and share options were outstanding:

As as May 27th 2020	Number of issued and outstanding
Common Shares	49,593,349
Stock Options	2,003,000
Total Shares - Fully diluted	51,596,349

TRANSACTIONS WITH RELATED PARTIES

Balances due to related parties are unsecured, non-interest bearing and have no fixed terms of repayment. Included in trade payables at March 31, 2020 is \$27,177 (Eugene Suyu - \$11,177 for expenses paid on behalf of the Company; Bob Longo - \$16000 for services; December 31, 2019 - \$18,653) due to officers in the normal course of business.

Key management personnel compensation

During the three months ended March 31, 2020, for the officers of the Company, compensation of key management personnel as remuneration, fees and short term benefits was \$47,036 (Eugene Suyu - \$15,000 ; Justin Sy - \$11,250 ; Bob Longo - \$20,786 ; December 31, 2019 – \$200,621). There are no stock-based compensation attributable to options held by directors and officers in the three months ended March 31, 2020 and December 31st 2019.

Officers and directors

The following individuals were elected directors at the June 28, 2018 AGM and continue to the date of this MD&A. There are no board changes in the current year.

- Eugene Suyu -- Chief Executive Officer, President and Director
- Justin Sy – Director and CFO
- Todd Blatt-- Director
- Bob Longo – Director
- Daniel Cugnet – Director

CHANGES IN ACCOUNTING POLICIES

The preparation of the condensed interim financial statements and related MD&A have been prepared in conformity with IFRS requires estimates and assumptions that affect the amounts reported in these financial statements. Accounting policies for these condensed financial statements have been prepared consistent with those applied and disclosed in the Company's annual audited financial statements.

APPROVAL

The Board of Directors of the Company has approved the disclosure contained in this MD&A on May 27th 2020

ADDITIONAL INFORMATION

Additional information relating to the Company is on SEDAR at www.sedar.com.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

The MD&A contains forward-looking statements and forward-looking information (collectively, "forward-looking statements") within the meaning of applicable Canadian and US securities legislation. These statements relate to

future events or the future activities or performance of the Company. All statements, other than statements of historical fact are forward-looking statements. Forward-looking statements are typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate and similar expressions, or which by their nature refer to future events. These forward looking statements include, but are not limited to, statements concerning:

- the Company's strategies and objectives, both generally and in respect of its existing business and planned business operations;
- the Company plans to grow sales and expand its distribution network;
- the Company's future cash requirements;
- general business, industry and economic conditions;
- the Company's ability to meet its financial obligations as they come due, and to be able to raise the necessary funds to continue operations; and,
- the timing, pricing, completion, regulatory approval of proposed financings if applicable.

Although the Company believes that such statements are reasonable, it can give no assurance that such expectations will prove to be correct. Inherent in forward looking statements are risks and uncertainties beyond the Company's ability to predict or control, including, but not limited to, risks related to the Company's ability to raise the necessary capital or to be fully able to implement its business strategies, and other risks identified herein under "Risk Factors".

The Company cautions investors that any forward-looking statements by the Company are not guarantees of future performance, and that actual results are likely to differ, and may differ materially, from those expressed or implied by forward looking statements contained in this report. Such statements are based on a number of assumptions, which may prove incorrect, including, but not limited to, assumptions about:

- general business and economic conditions;
- conditions in the financial markets generally, and with respect to the prospects for small capitalization commercial/technology companies specifically;
- the Company's ability to roll out its business plan that includes new product launches and associated planning in production, sales, distribution and marketing;
- the Company's ability to secure and retain employees and contractors to carry out its business plans;

These forward-looking statements are made as of the date hereof and the Company does not intend and does not assume any obligation, to update these forward-looking statements, except as required by applicable law. For the reasons set forth above, investors should not attribute undue certainty to or place undue reliance on forward-looking statements.

Historical results of operations and trends that may be inferred from the following discussion and analysis may not necessarily indicate future results from operations.

BUSINESS RISK FACTORS

Each of the following factors could have a material adverse effect on the Company's financial condition and results of operations.

3D Printing Industry: The Company operates in the desktop market (alternatively described as the consumer segment) of the 3D printing industry. The desktop market has existed since 2008. Although projected to grow at a high rate, this segment can be viewed as being an early adopter stage market. The ability for the Company to successfully negotiate this market represents a substantial risk.

New Product Launch: The Company has launched three generations of products since its inception in May 2012. In Q4 of 2019 the Company launched its latest printer the Ditto Pro R. Additionally, the Company is investing in software development and the development of online courses and curriculum for the education sector. The ability to manage such product launches in a timely and cost effective manner, and achieve the desired results in terms of market penetration, comprises a substantial risk. In March 2020, the Company re-deployed its in-house 3D printers and began to manufacture face shields, designed in-house, for use by health care workers and other frontline staff during this pandemic. In April 2020 the Company received Health Canada manufacturing facility certificate for the manufacture of Class 1 medical devices.

Dependence upon key personnel: The success of the Company's operations will also depend upon its ability to attract and retain talented and qualified personnel. The Company currently has a small management team, several of which can be considered key to expanding the Company's business operation, the loss of which would likely be detrimental to the Company.

Competition: The desktop market of the 3D printing industry is competitive with several direct competitors having much greater financial resources than the Company and, also more operating experience. Furthermore, the desktop market is undergoing a period of rapid innovation with many of the participants striving to improve the technology and the flexibility of the products. These factors combine to make the competitive environment a substantial risk.

Financing risks: The Company existing financial resources have come from the issue of new equity and, in an international setting, can be viewed as limited. Further the Company has negative operating cash flow and a cash balance of \$34,930. Therefore, without growth in operating cash flow the Company will require further equity capital injection(s) to sustain itself. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable.

Dilution to the Company's existing shareholders: Any future equity issues may be dilutive to present and prospective holders of common shares.

Regulatory requirements: The activities of the Company are subject to regulations governing various matters, including but not limited to standards and certifications for electronic devices, employment standards for employees engaged in manufacturing and assembly, export and import regulations and duties, and sales and goods and service tax compliance. While the Company endeavours to remain compliant in all such aspect, the inability to do so could have an adverse effect on its permissions to continue to operate.

Foreign currency risk: The Company's functional and reporting currency is the Canadian dollar. The Company incurs foreign currency risk on purchases that are denominated in a currency other than the functional currency of the Company, which will have an impact on the profitability of the Company and may also affect the value of the Company's assets, liabilities and the amount of equity. The Company's main risks are associated with fluctuations in the US dollar as a substantial portion of its parts and materials purchases are denominated in US dollars and a portion of its sales are denominated in US dollars. The Company does not enter into any foreign exchange hedging contracts.

The COVID-19 outbreak and its effect on the Company's business

In December 2019, a strain of novel coronavirus (now commonly known as COVID-19) ("COVID-19") was reported to have surfaced in Wuhan, China. COVID-19 has since spread rapidly throughout many countries, and, on March 11, 2020, the World Health Organization declared COVID-19 to be a pandemic. In an effort to contain and mitigate the spread of COVID-19, many countries including, Canada, have imposed unprecedented restrictions on travel, and there have been business closures and a substantial reduction in economic activity in countries that have had significant outbreaks of COVID-19. The Company's business may be impacted by the recent COVID-19 outbreak, specifically, disruptions in the Company's supply chain, including disruptions from the Company's suppliers, as a result of industry closures relating to containment of COVID-19 may result in the declaration by the Company's suppliers of force majeure, which may result in the Company's inability to complete orders in accordance with the agreed order schedule. In addition, the Company's customers may determine to delay their decisions in connection with new orders as they assess the impact of COVID-19 on their businesses. It is currently not possible to predict how long the pandemic will last or the time that it will take for economic activity to return to prior levels. The COVID-19 pandemic has resulted in significant financial market volatility and uncertainty in recent weeks. A continuation or worsening of the levels of market disruption and volatility seen in the recent past could have an adverse effect on the Company's ability to access capital, business, results of operations and financial condition, and on the market price of the Common Shares. The extent of this potential disruption on the Company's business cannot be assessed as the full extent of the outbreak and its impact on the global economy cannot be predicted.

The Company's markets are exposed to recessionary risk

A Canadian or global recession may result in lost or delayed sales orders, as many of the Company's existing and targeted customers may cut back their proposed capital spending in the face of economic uncertainty. This would impact the ability of the Company to grow its business and, as a result, sales orders may be lower than expected. Any decrease in sales would negatively impact the Company's cash flows and other financial results.

REGISTERED OFFICE

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Director and CEO

Justin Sy

Director and CFO

Todd Blatt

Director

Bob Longo

Director

Dan Cugnet

Director

LISTINGS

TSX Venture Exchange:
OTC Pink:
FSE:

TTD.V
TKSTF
WB6B

CAPITALIZATION

(as at May 27th, 2020)
Shares Issued: 49,593,349

TRANSFER AGENT

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