General

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of ZTEST Electronics Inc. ("ZTEST" or the "Company") constitutes management's review of the factors that affected the Company's interim condensed consolidated financial and operating performance for the three months ended September 30, 2011. The MD&A was prepared as of December 20, 2011 and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the three months ended September 30, 2011, and the audited consolidated financial statements for the year ended June 30, 2011, including the notes thereto. Unless otherwise stated, all amounts discussed herein are denominated in Canadian dollars. The unaudited condensed interim consolidated financial statements of the Company as at September 30, 2011 have been prepared in accordance with International Financial Reporting Standards (IFRS) as described in Note 2 to those financial statements.
Additional information about the Company can be found at www.sedar.com.

The Company

The Company operates a single business segment involving the design, development, and assembly of printed circuit boards. The management of the Company, which has not changed since the preceding fiscal year end, is comprised of the following individuals:

Name	Position(s)
Wojciech Drzazga	Director and CEO
John Perreault [(1)]	Director and President
K. Michael Guerreiro [(1) (2)]	Director
Mike Hiscott [(1) (2)]	Director
Michael D. Kindy	VP Finance & CFO
William R. Johnstone	Secretary

(1) Denotes member of audit committee
(2) Denotes member of compensation committee

Corporate Performance

Just like in recent periods, the first quarter of the 2012 fiscal year provided mixed results for the Company. The Company reported net income from operations and net income for the period in the amount of $86,699. This income figure is virtually equal to the income realized in Q1 2011 even though product sales for the current period were $158,462 lower. The income realized also resulted in an equal improvement in net equity.

The Company also realized a reduction in total liabilities of $160,173 during the current period including a reduction of $88,791 in long-term debt. This reduction of long-term liabilities was achieved even though the Company acquired new equipment valued at $86,485 as this addition was financed through working capital. The financing of this equipment, combined with the choice to make a partial pre-payment on a long term debt, translated into a working capital reduction of $44,629 for the period.

The Company continues to manage risks in a manner designed to minimize the overall risk even if actions taken may appear to increase specific risks in the immediate term. For example, even with improvements in equity and capital under management the Company continues to report deficiencies in each of these figures along with a working capital deficiency. Both the working capital deficiency and the deficiency in capital under management could have each been decreased at September 30, 2011 had the Company not chosen to make a partial pre-payment on long-term debt. The working capital deficiency could also have been reduced, and the deficiency in capital under management eliminated, by electing to finance the equipment addition. Management was aware however, that existing cash resources were sufficient to fund each of these transactions without causing disruption to operations and chose its course of action with the belief that sustained improvement in financial results will be achieved sooner as a result.

Corporate Performance - continued

Management will continue to evaluate all available options and to choose the alternative, if any, which it believes will provide the greatest benefit to the Company and its stakeholders over the long-term. The following data may provide some additional insights relative to the Company's operating performance and financial position:

	For the fiscal years ended:		
	June 11	June 10	June 09
Total Revenues	4,010,068	3,837,630	3,435,283
Net (loss) income from operations	(178,066)	266,210	(165,302)
Per share [(1)]	(0.031)	0.051	(0.031)
Net (loss) income for the period	(180,359)	380,613	(196,656)
Per share	(0.031)	0.072	(0.037)
Total assets	2,106,570	2,255,703	2,119,699
Total long-term financial liabilities	1,051,125	1,352,187	1,390,403
Total liabilities	2,575,438	2,786,454	3,037,900

	For the three month periods ended:				
	Sept. 11	June 11	Mar. 11	Dec. 10	Sept. 10
Total Revenues	959,862	957,817	820,976	1,112,951	1,118,324
Net income (loss) from operations	86,699	(100,165)	(117,154)	(51,768)	91,021
Per share - basic	0.012	(0.014)	(0.022)	(0.010)	0.017
Net income (loss) for the period	86,699	(98,320)	(117,154)	(51,768)	86,883
Per share - basic	0.012	(0.014)	(0.022)	(0.010)	0.017
Total assets	2,033,096	2,106,570	2,299,219	2,212,766	2,250,671
Total long-term financial liabilities	962,334	1,051,125	1,173,917	1,227,289	1,115,540
Total liabilities	2,415,265	2,575,438	2,712,514	2,639,707	2,694,540

	For the three month periods ended:				
	June 10	Mar. 10	Dec. 09	Sept. 09	June 09
Total Revenues	1,408,769	888,849	777,838	762,174	785,581
Net (loss) income from operations	267,162	48,105	(19,073)	(29,984)	(180,183)
Per share - basic	0.051	0.009	(0.004)	(0.006)	0.035)
Net (loss) income for the period	381,565	48,105	(19,073)	(29,984)	(211,537)
Per share - basic	0.073	0.009	(0.004)	(0.006)	(0.041)
Total assets	2,255,703	1,895,045	1,918,100	1,959,494	2,119,699
Total long-term financial liabilities	1,352,187	1,348,797	1,350,369	1,416,359	1,390,403
Total liabilities	2,786,454	2,814,543	2,884,984	2,907,491	3,037,900

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

[(1)] Earnings per share figures for each period have been restated to give retroactive effect to the share consolidation transaction that occurred April 2010.

Results of Operations

For the three month period ended September 30, 2011 the Company has reported revenues of $959,862 representing a decline of approximately 14% in comparison to the $1,118,324 reported for the first quarter of the 2011 fiscal year. Although product sales declined by this factor it did not translate into similar declines in either gross margin or profitability. The gross margin dropped by approximately only 4.5% as it went from $429,558 at September 2010 to $410,206 at September 2011. Similarly, net income from operations diminished by only 4.7% to $86,699 in Q1 2012 after having amounted to $91,021 for the first quarter of the 2011 fiscal year. The relatively small drop in gross margin supports that the revenue decline was primarily attributable to a reduction in lower margin component sales and not to assembly work. Meanwhile the change in income from operations supports that expenses, on an overall basis, were relatively consistent from period to period. Management continually strives to maximize periodic revenues and to minimize periodic expenses. In spite of these efforts fluctuations will arise as the ensuing paragraphs will highlight.

Results of Operations - continued

The cost of product sales reported for the first quarter of the 2012 fiscal year amounted to $ 549,656 representing a decline of $139,110 in comparison to the total of $688,766 incurred during the first three months of 2011. The different elements of cost of product sales, and the changes realized, are as follows:

	Sept. 11	Sept. 10	Change
Raw materials and supplies consumed	$ 257,356	$ 337,308	$ (79,952)
Labour costs incurred	203,289	309,611	(106,332)
Depreciation	42,814	50,695	(7,881)
Other costs	39,672	38,951	721
Net change in finished goods and work in process	6,525	(47,799)	54,324
Total cost of product sales	$ 549,656	$ 688,766	$ (139,110)

The cost of raw materials and supplies consumed not only declined by $79,952 but also fell as a percentage of product sales for the period. The costs incurred in the September 2012 period equated to just over 26.8% of product sales as compared to almost 30.2% in the September 2010 period. This means that a larger proportion of product sales related to assemblies that contained components and supplies provided by customers as opposed to those for which the Company provided them. Since the mark-up applied to the assembly process is larger than that applied to the provision of components and supplies this result corresponds with the previous comment that the revenue decline was dominated by a decline in lower margin sales. Although the Company promotes the procurement of components and supplies as a cost-effective supplemental service it is a discretionary service and accordingly volumes will fluctuate from one period to the next.

Labour costs incurred during the first quarter of 2012 were significantly lower than the amount for the corresponding portion of the 2011 fiscal year. This decline has three identifiable elements, being work-share, automation, and reduced inefficiencies. A government sponsored work-share program was invoked at the start of the fiscal year and continues in place as at the date of this document. This program allows the Company to temporarily reduce its employee compliment without significant risk of the loss of trained personnel. It also enables the Company to better match the specific skills of its active employee base with the immediate demand arising from specific production orders. Certain assembly processes are very highly automated and require relatively little direct labour while others remain relatively labour intensive. During the first quarter of 2012 the demand for highly automated processes far exceeded the demand for labour intensive processes and the work-share program allowed the Company to adapt to this far more easily. In addition to the better matching of labour demand and supply the Company did not experience the same surge in business during the current period that it had in the first quarter of 2011. Revenues for the first quarter of 2012 were very similar to the revenues realized in the immediately preceding fiscal quarter. In contrast, revenues in Q1 2011 were more than 20% lower than they had been in final quarter of 2010 but were still almost 26% higher than they had been in Q3 2010. The inconsistency in product sales at that time was consistent with market conditions that made estimation of the timing and magnitude of customer orders much more difficult than usual. That unpredictability translated into the retention of excess labour capacity throughout the period that included Q1 2011. The marketplace has become modestly more predictable in the last year but the availability of the work share program significantly reduces the need to make accurate prediction of the immediate labour requirement

The net amount of labour included in costs of goods sold is determined by combining the labour costs incurred with the net change in inventory for the period. By doing so you determine that total labour expense for the current period was $209,814 or 21.9% of revenues while the Q1 2011 figures were $259,112 or 23.2% of product sales. The slightly lower percentage realized in the current period is a reflection of the efficiency gains described in the preceding paragraph.

Depreciation costs are a reflection of the carrying value and age of equipment. There was a new piece of equipment purchased in the current year but depreciation in the year of acquisition is 50% of what it otherwise would be in order to reflect the fact that additions may arise at any time during the fiscal year. The equipment has been generally aging and, while significant useful life remains, this accounts for the decline in depreciation costs.

Results of Operations - continued

Other costs of sales include repairs and maintenance, stencils and tooling, packaging and freight costs net of amounts recovered. The fact that the figures for Q1 2012 and Q1 2011 are very comparable is somewhat coincidental as each of these cost elements have changed in value. None of the individual changes however are significant in magnitude or outside the realm of expectation and accordingly will not be elaborated upon.

Selling, general and administrative expenses aggregated $281,223 during the three month period ended September 30, 2011 representing a decline of just over 6% in comparison to September 2010 totals. The components of this expense are as follows:

	Sept. 11	Sept. 10	Change
Employee and consultant compensation	$ 169,442	$ 190,599	$ (21,157)
Occupancy costs	74,518	81,346	(6,828)
Professional fees	12,984	12,000	984
Bad debts	8,047	-	8,047
Regulatory fees	2,740	2,916	(176)
Other costs	13,492	12,351	1,141
Total selling, general and administrative	$ 281,223	$ 299,212	$ (17,989)

Employee and consultant compensation is reflecting a decrease of over 11% in the current year when compared to the prior year. The work-share program described above for production personnel also applies to administrative personnel, with the exception of management. In addition to the effect of the work-share program the Company also has one fewer employee in 2011 than it did in 2010. The figure reported for the current year is expected to be representative of future costs so long as the work-share program continues.

Occupancy costs have declined by almost 8.4% in the current year. The lease on the Company's operating facility was scheduled to expire in February 2011 but a new lease was negotiated prior to this time. The new lease extends to March 2021 and provided for base monthly lease costs at inception that were lower than the base lease rates at the end of the expiring lease. The base rental cost incurred during the first quarter of 2012 was $20,372 or $6,790 lower than the base rental costs from Q1 2011 thereby accounting for almost the entire decline. In addition to base lease costs, occupancy costs also include charges for utilities, realty taxes, common area maintenance and other sundry charges. The amount recognized in any given period are dependent not only upon the usage but the rates being charged. As rates are generally rising it is apparent that these rate increases were offset by declines in usage during the current period.

Professional fees, which include a pro-rated portion of estimated annual audit fees as well as the cost of legal services, are virtually identical in Q1 2012 and Q1 2011. Management takes all reasonable steps to limit and control these expenses and there were no specific events that contributed to the minor difference between the periods.

For the first time in many periods the Company has incurred a bad debt charge equal to $8,047 for the three month period ended September 30, 2011. The Company is extremely diligent with respect to the investigation of the credit worthiness of its customers, the extension of credit, and the continuation of credit grants. The bad debt is attributable to a single customer that has been known to the Company for a protracted period and had never demonstrated any prior reason for concern. This cost is evidence of the credit risk that all businesses endure and the fact that even when acting diligently there can still be issues which cannot be remedied. There is no reason to expect that the Company's impeccable collection record will not continue as it was before this expense arose.

Neither regulatory fees nor other Selling, general and administrative expenses have reflected any significant change from Q1 2011 to the current period. While each has shown minor fluctuations they are well within management expectations and will not be specifically investigated or elaborated upon.

Results of Operations - continued

The company's cost of financing are comprised of interest on long-term debt, other interest expense and loan guarantee fees as follows:

	Sept. 11	Sept. 10	Change
Interest expense – long term	$ 33,149	$ 37,654	$ (4,505)
Interest expense – other	158	-	158
Loan guarantee fees	2,400	-	2,400
Total financing expenses	$ 35,707	$ 37,654	$ (1,947)

The Company has been in a relatively strong cash position now for a number of periods and it has used these cash resources to reduce its debt load which, in turn, reduces financing costs. Long-term debt has been declining as a result of the standard depreciation of debt that results from making monthly payments as required but the Company has also opted to make a number of optional pre-payments in recent periods further contributing to the debt reduction. The Company made one more optional pre-payment at September 30, 2011 thereby reducing the face value of long-term debt to $1,271,034. This figure is $249,460 less than the face value of $1,520,494 that was reported at September 30, 2010. The Company fully anticipates making all monthly payments as they become due and will make additional pre-payments in the event that cash resources and cash flows permit.

Previously, the Company had a number of short-term loans outstanding but these were each extinguished prior to the end of the 2010 fiscal year. Those short term loans were the primary source of the other interest expense reported in prior periods. The interest expense - other incurred in the current quarter relates to charges levied by the Company's insurer for the right to pay premiums on a monthly basis rather than in a single annual premium.

The short-term debt that the Company arranged in previous periods was primarily owed to related parties and negotiated to provide additional working capital once a shortage situation had been identified or was projected. Throughout this period the Company had repeatedly sought a commercial financing arrangement to provide it with the flexibility that may be necessary from time to time to manage operations. Prior to the end of the 2011 fiscal year the Company succeeded in negotiating a $250,000 operating facility with its financial institution. This operating facility is guaranteed by an individual who is entitled to a guarantee fee of $800 per month whether the loan is drawn upon or not. The Company is yet to draw upon this loan but has paid the $800 per month fee which is reflected as loan guarantee fees.

Liquidity

The Company has reported a working capital deficiency in the amount of $332,327 as at September 30, 2011, representing a decline in working capital of $44,629 for the three month period then ended. As at September 30, 2010 the working capital deficiency was $150,410. It was previously reported that there could be a tendency for working capital to decline due to the increase in the current portion of long-term debt which occurs as debts move closer to their maturity date. At September 30, 2010 the current portion of long-term debt was $177,111 and this has risen to $263,453 by September 2011. The value of the current portion of long-term debt is expected to continue to increase over the next few periods.

In addition to the typical increases and decreases in working capital which result from operating activities there were two other transactions that impacted negatively upon working capital in the current period. The Company opted to make a $30,000 partial pre-payment of a long-term debt and deposits valued at $68,777 were applied towards the acquisition of equipment. The loan pre-payment, which depleted current assets to settle a long-term liability, was completed immediately prior to the annual renewal of loan terms and served to eliminate $33,599 in future payments including $2,325 due over the next twelve months. The equipment deposits had accumulated throughout the 2011 fiscal year and were applied against an acquisition that had a total cost of $86,485.

Liquidity - continued

There continues to be a balance of $742,056 included in current liabilities on account of preferred shares and the associated dividends. These amounts are non-interest bearing, are not secured, and it is not currently known how or when these obligations may be settled. The preferred shares are not entitled to any further dividends and this balance has not changed since the end of the 2007 fiscal year.

The Company currently utilizes long term debt as a means of financing new equipment acquisitions and of settling other obligations whenever suitable terms can be negotiated. The Company's short-term financing requirements, if any, are now expected to be met through the bank operating line.

In addition to satisfying the cost of operations the Company must also address the settlement of the following amounts as at September 30, 2011:

	Due by Sept. 2012	Due by Sept. 2014	Due by Sept. 2016	Due after Sept. 2016	Total Due
Repurchase of preferred shares [1, 2]	$ 665,501	$ -	$ -	$ -	$ 665,501
Settlement of dividends payable [1]	268,201	-	-	-	268,201
Debenture [1]	39,600	-	-	-	39,600
Other long-term debt [3]	243,582	954,642	33,210	-	1,231,434
Operating leases	84,202	176,327	189,455	474,656	924,640
Total	$ 1,301,086	$ 1,130,969	$ 222,665	$ 474,656	$ 3,129,376

[1] Each of these amounts were past due as at September 30, 2011

[2] The repurchase price includes $473,855 reported as an element of current liabilities plus $191,646 in paid up capital that is reported as an element of share capital.

[3] Other long-term debt includes three obligations that each has a carrying amount that is lower than their respective face values. The unaudited condensed interim financial statements as at September 30, 2011 report these obligations based upon their carrying amounts while the figures reported above represent the non-discounted cash payments to be made in accordance with the face value amounts.

Capital Resources

The Company has access to a $250,000 revolving line of credit from its financial institution. The loan, which has not been drawn upon, bears interest at the prime lending rate plus 0.5%, is due upon demand, matures May 13, 2103, and is secured by a general security agreement covering the assets of Permatech Electronics Corporation and by the personal guarantee of an individual that is not related to the Company. The Company issued 500,000 share purchase warrants to the guarantor with each warrant entitling them to acquire one common share of the Company at a price of $0.135 until the earlier of May 18, 2013 and the date when the guarantee is removed. If the borrowing limit of the credit line is reduced prior to May 18, 2012 then the number of warrants will be reduced on a pro rata basis within thirty days of the reduction. The guarantor is also be paid a fee of $800 per month and will receive interest, based upon the amount drawn from time to time on this line of credit, equal to 10% less the interest at prime plus 0.5% that is payable to the Company's financial institution.

There were no financing transactions completed during the recently concluded fiscal quarter or up to the date of this document and there are no current plans to undertake any financing transactions.

Related Party Transactions

The Company has participated in a number of transactions with the Company's Officers, Directors, their spouses, and companies that are considered related as a consequence of the involvement of one or more of these individuals.

The following balances were due to the related parties defined above as at the following dates:

	2011		2010	
	Sept 30	June 30	Sept 30	June 30
Loan payable at prime + 8% [1]	126,929	131,540	197,574	199,042

[1] This is the face value of this obligation. It is reported in the financial statements at a discounted value.

Related Party Transactions - continued

The following income and expense items have arisen as a result of transactions involving the related parties defined above:

	2011		2010	
	Sept 30	June 30	Sept 30	June 30
Interest expense – long term	3,881	21,030	5,393	22,954
Interest expense – other	-	-	-	9,002

The following stock options have been issued to Directors and/or Officers of the Company and remain outstanding as at the date of this document:

Description	Expiry Date	Number of Common shares
Stock options @ $0.10 per share	Nov. 30, 2015	900,000

Convertible Instruments and Other Securities

As at September 30, 2011, and as at the date of this document, the Company had the following securities issued and outstanding:

Description	Quantity	Amount
Common shares	7,062,488	$ 21,773,391
Paid in capital of preferred shares		191,646
Class A special shares	1,193,442	100,000
		$ 22,065,037
Series A preferred shares	166,667	160,000
Series C preferred shares	288,858	505,501
		665,501
Less: amount accounted for as paid in capital		191,646
Liability element of preferred shares		473,855
Less: amount reported as a current liability		(473,855)
Equity element of preferred shares		$ -

In addition to the shares issued and outstanding the Company has issued stock options as incentives to various parties. The following list itemizes the common shares that have been reserved to satisfy the conversions and exercise of options along with the expiry date associated therewith.

Description	Expiry Date	Number of Common shares
Warrants @ $0.135 per share [1]	May 2013	500,000
Stock options @ $0.10 per share	Nov 2015	900,000
Warrants @ $0.10 per share	Mar 2016	900,000
Fully diluted as at September 30, 2011 and as at the date of this document		2,300,000

[1] These warrants will expire on the earlier of May 18, 2013 and the date that the Company eliminates the guarantee that the holder has provided as security for the Company's line of credit. If the borrowing limit of the Company's credit line is reduced from $250,000 prior to May 18, 2012 then the number of warrants will be reduced on a pro-rata basis within thirty days of the reduction. These warrants are also subject to claw-back provisions as may be imposed by the TSX Venture Exchange.

Shares issued	7,062,488
Shares reserved	2,300,000
Fully diluted as at September 30, 2011 and as at the date of this document	9,362,488

Convertible Instruments and Other Securities - continued

Additional disclosures relative to stock options are as follows:

	Common Shares Under Option	Weighted Average Price/Option	Weighted Average Expiry Date
Beginning and end of period	900,000	$0.100	Nov. 30, 2015
Changes	-		
As at date of this document	900,000	$0.100	Nov. 30, 2015

While all remaining stock options are held by related parties the Company has no ability to cause them to be exercised.

Additional disclosures relative to share purchase warrants are as follows:

	Number of Warrants	Weighted Average Price/Warrant	Weighted Average Expiry Date
Beginning and end of period	1,400,000	$0.113	Mar. 18, 2015
Changes	-		
As at date of this document	1,400,000	$0.113	Mar. 18, 2015

Changes in Accounting Policy

The accounting policies followed by the Company are established in accordance with Canadian generally accepted accounting principles (GAAP) and once policies are established they will not, as a matter of policy, be revised unless Canadian GAAP changes. Canadian GAAP now requires that financial reporting be completed in accordance with IFRS. Accordingly, the Company has its unaudited condensed interim consolidated financial statements as at September 30, 2011 in accordance with IAS 34, *Interim Financial Reporting*, using the accounting policies it expects to adopt in its June 30, 2012 financial statements, based on the IFRS standards and interpretations it expects to apply at that time. The Company has applied the policies of IFRS as set out in Note 2 to the unaudited condensed interim consolidated financial statements as at September 30, 2011 consistently to all the periods presented, unless otherwise noted, and in preparing the opening statement of financial position at July 1, 2010 for purposes of transition to IFRS.

Accounting standards effective in the current period but not yet adopted

IAS12 *Amendments Regarding Deferred Tax,* amended in December 2010, effective for annual periods beginning on or after January 1, 2012, with early adoption permitted, introduces new criteria for recognition of deferred tax assets under specific circumstances. Management anticipates that this amendment will be adopted in the Company's financial statements for the period beginning July 1, 2012 and has not yet considered the potential impact, if any, of its adoption.

IFRS 9, *Financial Instruments: Classification and Measurement*, issued in December 2009, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. The IASB has proposed to change the effective date of IFRS 9 to January 1, 2015. Assuming the proposal becomes adopted, management anticipates that this standard will be adopted in the Company's financial statements for the period beginning July 1, 2013 and has not yet considered the potential impact of its adoption.

IFRS 10, 11, 12 and 13 were all issued in May 2010 and are effective for annual periods beginning January 1, 2013, with early adoption allowed. The Company has not yet considered the potential impact, if any, of the adoption of these standards.

IFRS 10, *Consolidated Financial Statements,* replaces the consolidation guidance in IAS 27, *Consolidated and Separate Financial Statements,* and SIC-12, *Consolidation — Special Purpose Entities,* by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee.

IFRS 11, *Joint Arrangements,* introduces new accounting requirements for joint arrangements, replacing IAS 31, *Interests in Joint Ventures*. It eliminates the option of accounting for jointly controlled entities by proportionate consolidation.

IFRS 12, *Disclosure of Interests in Other Entities,* requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement.

Changes in Accounting Policy - continued

Accounting standards effective in the current period but not yet adopted - continued

IFRS 13, *Fair Value Measurement,* replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. It defines and provides guidance on determining fair value and requires disclosures about fair value measurements, but does not change the requirements regarding which items are measured or disclosed at fair value.

IAS 28, *Investments in Associates and Joint Ventures*, amended in 2011, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, prescribes the accounting for investments in associates and establishes the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Management anticipates that this amendment will be adopted in the Company's financial statements for the period beginning July 1, 2013 and has not yet considered the potential impact, if any, of its adoption.

Financial Assets

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

Financial assets:	*Classification*
Cash and cash equivalents	Held for trading
Accounts receivable	Loans and receivables
Lease deposit	Loans and receivables

Financial liabilities:	*Classification*
Customer deposits and deferred revenue	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Dividends payable	Other financial liabilities
Preferred shares	Other financial liabilities
Long-term debt	Other financial liabilities

Held for trading:
Financial assets are designated as held for trading if they were acquired principally for the purpose of selling in the short term. Held for trading assets are recognized and carried at their fair value.

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

Other financial liabilities:
Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial 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 payments through the expected life of the financial liability or (where appropriate) to the net carrying amount on initial recognition. Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired. Impairment of non-financial assets

Financial Assets - continued

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

Evidence of impairment could include:

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

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

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

Financial instruments recorded at fair value:
Financial instruments recorded at fair value on the condensed interim consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

As of September 30, 2011, June 30, 2011 and July 1, 2010, cash and cash equivalents are measured at fair value and as such are classified within Level 1 of the fair value hierarchy.

Forward-looking Information

This Management's Discussion & Analysis (MD&A) contains forward-looking statements that involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company, or the industry in which it operates, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this document, the words "may", "should", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect" the negative thereof, 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 such risks and uncertainties. Many factors could cause our actual results to differ materially from the statements made, including those factors summarized below under the heading "Risk Factors" and discussed in filings made by us with the Canadian securities regulatory authorities.

Forward-looking Information - continued

Should one or more of these risks and uncertainties, such as actual results of current exploration programs, the general risks associated with the mining industry, the price of gold and other metals, currency and interest rate fluctuations, increased competition and general economic and market factors, occur or should assumptions underlying the forward looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, or expected. 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. Stakeholders are cautioned not to put undue reliance on such forward-looking statements.

Risk Factors

Events seemingly unrelated to us, or to our industry, may adversely affect our finances or operations in ways that are hard to predict or defend against. For example, credit contraction in financial markets may hamper our ability to access credit when needed or rapid changes in foreign exchange rates may adversely affect our financial results. Finally, a reduction in credit, combined with reduced economic activity, may adversely affect businesses and industries that constitute a significant portion of our customer base. As a result, these customers may need to reduce purchases from us, or we 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 our business, operating results, and financial condition.

In addition to the foregoing, the Company is exposed in varying degrees to a variety of 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 risks to which the Company is exposed or to the corresponding risk management strategies during the current period.

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. Bad debt experience has not been significant and it has been determined that no allowance is required as all amounts outstanding are considered collectible.

Liquidity risk:

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company has reported a working capital deficiency of $332,327 (June 2011 - $287,698). This includes financial liabilities (a long-term debt, preferred shares and dividends payable) with an aggregate carrying amount of $781,656 (June 2011 - $781,656) which are past due and for which the timing of future cash flows are undetermined. The Company manages its liquidity risk through the management of its capital (note 11) 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 significant market risks to which the Company is exposed are interest rate risk and currency risk. The interest rate risk arises from two long-term debt instruments for which interest rates are fixed annually based upon prevailing market rates. Currency risk relates to accounts receivable and accounts payable denominated in US dollars and the potential for future cash flows to fluctuate because of changes in foreign exchange rates. Credit risk is minimized through the reduction of debt when cash flow permits. Currency risk is closely monitored but not actively managed. During the period the Company incurred a loss on foreign exchange in the amount of $5,443 (Sept 2010 – gain of $1,201).

Risk Factors - continued

Sensitivity to market risks:

Had interest rates been 1% higher at September 30, 2011, the monthly payments required on long-term debt over the next twelve months would have increased by $1,975 representing additional interest expense.

At September 30, 2011 the Company had US$59,345 included in accounts payable. A 5% decline in foreign exchange rates would result in additional cash outflow of $2,967 to settle these obligations.

Based upon observations of recent market trends management believes that each of these outcomes is possible but most likely exceed the Company's immediate risk exposure.