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 six months ended December 31, 2011. The MD&A was prepared as of February 21, 2012 and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the six months ended December 31, 2011, the Company's annual consolidated financial statements for the year ended June 30, 2011 and the Company's unaudited condensed interim consolidated financial statements for the three months ended September 30, 2011, which were the Company's first financial statements prepared in accordance with IFRS.. The unaudited condensed interim consolidated financial statements of the Company as at December 31, 2011 have been prepared in accordance with International Financial Reporting Standards (IFRS) as described in Note 2 to those financial statements. 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

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

During the three and six month periods ended December 31, 2011 the Company continued to feel the effects of an inconsistent marketplace for its products. The second quarter of the 2012 fiscal year represents the fourth consecutive quarter for which periodic revenues were lower than those realized in the same period one year earlier. While the Company continues to issue a relatively high volume of quotations for products, and to secure orders as a result, the orders received continue to generally be for lower quantities delivered over longer periods than what was prevalent in prior periods. There are indications that the marketplace is beginning to improve and the Company remains poised to capitalize upon such improvements, if and when they materialize.

The Company continues to benefit from cost reduction measures that it has taken and as a result has seen profitability improve in spite of the reduction in revenues. The income from operations for the six month period ended December 31, 2011 was more than 77% greater than December 31, 2010 levels. The Company reported a loss from operations for the three month period ended December 31, 2011 but this too represents an improvement of almost 70% in comparison to the loss realized at December 2010. The Company will continue to strive for increased revenues and to maximize its profitability there from.

The Company also continued its efforts to reduce long-term financial liabilities. The three month period ended December 31, 2011 represents the fourth consecutive quarter for which long-term financial liabilities have declined. The repayment of $57,778 in long-term debt during the quarter, and $138,209 for the six months then ended have contributed to a reduction of almost 36% in long-term financial liabilities over the most recent twelve month period. The reduction of long-term financial liabilities provides enhanced profitability through the avoidance of interest charges and improved future cash flow through reduction of future debt payments. This will continue to be an objective of management including taking advantage of available cash resources to make optional pre-payments just as was done on January 15, 2012 when $50,000 of the highest interest bearing debt was repaid.

Corporate Performance - continued

While management continuously seeks to improve the Company's financial position it is frequently infeasible to orchestrate improvements in all measurement areas simultaneously. This is true of the most recent fiscal quarter when the Company realized positive cash flow from operations in addition to the aforementioned debt reduction and profitability improvements but also realized reductions in working capital, equity and capital under management. 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 longer 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:				
	Dec. 11	Sept. 11	June 11	Mar. 11	Dec. 10
Total Revenues	839,112	959,862	957,817	820,976	1,112,951
Net (loss) income from operations	(17,116)	86,699	(100,165)	(117,154)	(51,768)
Per share - basic	(0.002)	0.012	(0.014)	(0.022)	(0.010)
Net(loss) income for the period	(17,216)	86,699	(98,320)	(117,154)	(51,768)
Per share - basic	(0.002)	0.012	(0.014)	(0.022)	(0.010)
Total assets	2,122,488	2,033,096	2,106,570	2,299,219	2,212,766
Total long-term financial liabilities	902,553	962,334	1,051,125	1,173,917	1,227,289
Total liabilities	2,521,873	2,415,265	2,575,438	2,712,514	2,639,707

	For the three month periods ended:				
	Sept. 10	June 10	Mar. 10	Dec. 09	Sept. 09
Total Revenues	1,118,324	1,408,769	888,849	777,838	762,174
Net (loss) income from operations	91,021	267,162	48,105	(19,073)	(29,984)
Per share - basic	0.017	0.051	0.009	(0.004)	(0.006)
Net (loss) income for the period	86,883	381,565	48,105	(19,073)	(29,984)
Per share - basic	0.017	0.073	0.009	(0.004)	(0.006)
Total assets	2,250,671	2,255,703	1,895,045	1,918,100	1,959,494
Total long-term financial liabilities	1,115,540	1,352,187	1,348,797	1,350,369	1,416,359
Total liabilities	2,694,540	2,786,454	2,814,543	2,884,984	2,907,491

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

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

Results of Operations

The Company has reported revenues in the amount of $1,798,974 for the six month period ended December 31, 2011 which includes $839,112 realized during the three months then ended. The six month total represents a 19.4% decrease in comparison to December 2010 levels while the three month total has declined by 24.6%. The impact of these revenue declines has been mitigated to some degree however by an even greater reduction in cost of goods sold and also by a reduction in expenses. These cost reductions were sufficient to enable the Company to report better profitability results as at December 2011 than was realized as at December 2010. While the market for the Company's products has not yet stabilized there are signs that revenues could be on the upswing and the Company is optimistic that it can capitalize on this and reflect growth in both revenues and profitability in the near future.

Results of Operations - continued

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

Six months ended	Dec. 11	Dec. 10	Change
Raw materials and supplies consumed	$ 552,317	$ 633,856	$ (81,539)
Labour costs incurred	383,555	582,943	(199,388)
Depreciation	85,627	101,215	(15,588)
Other costs	65,460	82,513	(17,053)
Net change in finished goods and work in process	13,634	27,515	(13,881)
Total cost of product sales	$ 1,100,593	$ 1,428,042	$ (327,449)

Three months ended	Dec. 11	Dec. 10	Change
Raw materials and supplies consumed	$ 294,961	$ 296,548	$ (1,587)
Labour costs incurred	180,266	273,332	(93,066)
Depreciation	42,813	50,520	(7,707)
Other costs	25,788	43,562	(17,774)
Net change in finished goods and work in process	7,109	75,314	(68,205)
Total cost of product sales	$ 550,937	$ 739,276	$ (188,339)

The cost of raw materials and supplies consumed may have been less at December 31, 2011 than they had been for the corresponding periods ended December 31, 2010 but they were higher when taken as a percentage of periodic revenues. Revenues from product sales are derived from both the supply of raw materials and supplies consumed in the assembly process and from providing assembly services. There is a reasonable correlation between the cost of raw materials and supplies consumed and the revenues realized as a result of having supplied them. Since these costs declined by less, on a percentage basis, than total revenues for the period it becomes evident that a greater proportion of the revenue declines were a result of a reduction in assembly services.

One would anticipate that a decline in assembly services would result in declines in labour costs and the figures noted above certainly support this expectation. Labour costs for the periods ended December 31, 2011 are not only lower in value than they were for the corresponding periods ended December 31, 2010 but they have also declined at a rate that exceeds the decline in periodic revenues. These costs are 34.0% lower for the three month period and 34.2% lower for the six month period. While the decline in assembly services accounts for much of the cost reduction it does not explain all of it. In addition to reduced assembly volume the cost decline has been magnified by taking advantage of a government sponsored work-share program. The work-share program commenced at the start of the fiscal year and continued throughout the six month period and still remains in effect as of the date of this document. This program allows the Company to enhance its matching of labour supply to labour demand by temporarily reducing employee compliment without significant risk of the loss of trained personnel.

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 so the majority of the resulting increase will not be felt until next fiscal year. The Company's equipment has been generally aging and, while significant useful life remains, this accounts for the decline in depreciation costs.

Other costs of sales include repairs and maintenance, stencils and tooling, packaging and freight costs net of amounts recovered. None of the individual changes are significant in magnitude or outside the realm of expectation and accordingly will not be elaborated upon.

Results of Operations - continued

Selling, general and administrative expenses for the six and three month periods ended December 31 were as follows:

Six months ended	Dec. 11	Dec. 10	Change
Employee and consultant compensation	$ 342,827	$ 446,162	$ (103,335)
Occupancy costs	130,725	161,257	(30,532)
Professional fees	27,484	31,288	(3,804)
Bad debts	8,047	-	8,047
Regulatory fees	8,184	9,001	(817)
Other costs	35,588	35,346	242
Total selling, general and administrative	$ 552,855	$ 683,054	$ (130,199)

Three months ended	Dec. 11	Dec. 10	Change
Employee and consultant compensation	$ 173,386	$ 255,563	$ (82,177)
Occupancy costs	56,207	79,911	(23,704)
Professional fees	14,500	19,288	(4,788)
Bad debts	-	-	-
Regulatory fees	5,444	6,085	(641)
Other costs	22,096	22,995	(899)
Total selling, general and administrative	$ 271,633	$ 383,842	$ (112,209)

Employee and consultant compensation continues to reflect substantial decreases in comparison to 2010 levels. This reflects the impact of the work-share program that commenced near the start of the fiscal year and continues to be in place as of the date of this document. 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 three month period ended December 31, 2011 is expected to be representative of future costs so long as the work-share program continues.

Occupancy costs for the periods ended December 2011 are lower than they were for the periods ended December 2010 reflecting lower base rent on the Company's operating facility and reduced utility costs. A new long-term lease commenced January 2011 and this resulted in a decline in base rental amounts of $6,790 per fiscal quarter, or $13,580 for the six month period. The Company has also realized a reduction in utility costs due to lower rates and lower usage. The Company had been subject to a fixed rate contract that, for the latter part of the term, resulted in hydro rates that exceeded current market rates. This contract expired in May 2011 the Company is now paying market rates resulting in a savings that approximates 30% in comparison to the prior year. The Company also reduced usage by approximately 9% due to milder weather and reduced operating volumes. It should also be noted that a utility billing error led to $7,265 in costs that should have been reflected in the second fiscal quarter of 2012 actually being reflected in the first fiscal quarter. This has had no impact on the six month figures but did cause the cost reduction in the first quarter to be understated and the cost reduction in the second quarter to be overstated.

Professional fees for the six months ended December 31, 2011 have declined by approximately 12.2% in comparison to the prior year. At December 2010 it was noted that an accrual made in the preceding quarter had proven to be insufficient and that the excess amount had been reflected as a cost of the three month period then ended. The current impact of having underestimated the charges is to make it appear that there has been more of a reduction in the current three month period than there otherwise would have been. Management takes all reasonable steps to limit and control these expenses, which include a pro-rated portion of estimated annual audit fees as well as the cost of legal services, and there were no specific events that contributed to the difference between the periods.

For the first time in many periods the Company incurred a bad debt charge during the first fiscal quarter of 2012. The Company remains extremely diligent in managing its credit risk and the lack of any bad debt expense in any of the other periods presented is a reflection of this. It is anticipated that the Company's usually impeccable collection record will result in negligible bad debts, if any, arising in future periods.

Results of Operations - continued

Neither regulatory fees nor other Selling, general and administrative expenses have reflected any significant change during any of the periods presented. While each has shown minor fluctuations they are well within management expectations and will not be specifically investigated or elaborated upon.

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

Six months ended		Dec. 11		Dec. 10		Change
Interest expense – long term	$	64,441	$	75,079	$	(10,638)
Interest expense – other		307		-		307
Loan guarantee fees		4,800		-		4,800
Total financing expenses	$	69,548	$	75,079	$	(5,531)

Three months ended		Dec. 11		Dec. 10		Change
Interest expense – long term	$	31,292	$	37,245	$	(5,953)
Interest expense – other		149		-		149
Loan guarantee fees		2,400		-		2,400
Total financing expenses	$	33,841	$	37,245	$	(3,404)

The Company is diligent in monitoring its cash flows and projecting its future cash requirements. As a result of this cash management process the Company has been successful in utilizing available cash to accelerate the reduction in long-term debt. The face value of long-term debt at December 31, 2010 was $1,504,419. By December 31, 2011 this had been reduced by $291,163 to $1,213,256. This reduction exceeds the twelve-month repayment commitment that existed at December 2010 by $54,347 representing the impact of optional pre-payments the Company has made. The optional pre-payments have been made against the debts that bear higher than average interest rates and as a result the Company's weighted average interest rate has declined from 8.58% at December 2010 to 8.36% at December 2011. The combination of reduced amounts subject to interest and reduced interest rates is reflected in a decline in interest expense – long term as depicted above. On January 15, 2012 the Company made another optional pre-payment, this time paying $50,000 against the debt with the highest interest rate. The Company fully anticipates making all monthly payments as they become due and will continue to make optional pre-payments when cash requirements and cash availability make it feasible to do so.

Prior to the end of the 2010 fiscal year the Company had a number of short-term working capital loans outstanding. Those short-term loans were the primary source of the interest expense - other reported in prior periods. The expense for the current periods 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 working capital loans previously outstanding were negotiated to provide additional working capital once a shortage situation had been identified or was projected. These loans have not been necessary fro a period of time but have also been replaced by the availability of commercial financing. Prior to the end of the 2011 fiscal year the Company succeeded in negotiating, with the assistance of a guarantee from an individual, a $250,000 operating facility with its financial institution. In exchange for providing the guarantee this individual is entitled to a guarantee fee of $800 per month plus interest on any amounts drawn. 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 $366,577 as at December 31, 2011, representing a decline in working capital of $34,250 for the three month period and $78,879 for the six months then ended. As at December 31, 2010 the working capital deficiency was $131,199. The majority of the pressure on working capital comes from long-term debt. Since December 31, 2010 the Company has utilized existing cash reserves and cash generated from operations to repay $291,163 in long-term debt. During this same one period the current portion of long-term debt has risen by $53,302. Combining these two figures provides an aggregate impact of $344,465 on working capital during a period when working capital declined by $235,378. During the most recent fiscal quarter the Company repaid $57,778 in long-term debt and the current portion rose by $6,936 which again exceeds the decline in working capital. While recognizing the potential impact upon working capital the Company intends to continue to reduce its long-term debt as swiftly as cash flow permits. A pre-payment of $30,000 was made during the first quarter of this fiscal year and another $50,000 prepayment was made January 15, 2012.

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 December 31, 2011:

	Due by Dec. 2012	Due by Dec. 2014	Due by Dec. 2016	Due after Dec. 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 [3,4]	305,547	848,872	19,236	-	1,173,655
Operating leases	85,108	177,459	191,945	449,758	904,270
Total	$ 1,363,957	$ 1,026,331	$ 211,181	$ 449,758	$ 3,051,227

(1) Each of these amounts were past due as at December 31, 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 December 31, 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.

(4) The payment amounts presented reflect the impact of a $50,000 pre-payment made on one debt instrument as at January 15, 2012.

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.

Capital Resources - continued

There were no financing transactions completed during the six month period ended December 31, 2011 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	
	Dec. 31	June 30	Dec. 31	June 30
Loan payable at prime + 8% [1]	122,189	131,540	196,068	199,042

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

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

	2011		2010	
	Dec. 31	June 30	Dec. 31	June 30
Interest expense – long term	7,633	21,030	10,749	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 December 31, 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.

Convertible Instruments and Other Securities - continued

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
Shares reserved as at December 31, 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 December 31, 2011 and as at the date of this document	9,362,488

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.

Changes in Accounting Policy - continued

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

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.

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.

Financial Assets - continued

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

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 $366,577 (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 to the unaudited condensed interim consolidated financial statements) 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 six month period ended December 31, 2011 the Company incurred a loss on foreign exchange in the amount of $4,058 (Dec. 2010 – loss of $94) and during the three month period ended December 31, 2011 the Company realized a gain on foreign exchange in the amount of $1,305 (Dec. 2010 – loss of $1,295).

Risk Factors - continued

Sensitivity to market risks:

Had interest rates been 1% higher at December 31, 2011, the monthly payments required on long-term debt over the next twelve months would have increased by $1,134 representing additional interest expense.

At December 31, 2011 the Company had US 7,885 included in accounts receivable and US$161,8105 included in accounts payable. A 5% decline in the value of the Canadian dollar in comparison to the US dollar would result in net additional cash outflows of $6,783 to settle these amounts.

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.