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 nine months ended March 31, 2012. The MD&A was prepared as of May 29, 2012 and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the nine months ended March 31, 2012, 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 March 31, 2012 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

In recent periods the Company has noted how an inconsistent marketplace, with orders delayed or reduced, has impacted upon revenues. This inconsistency has once again influenced periodic revenues but this time in a favourable manner. As a result of previously deferred orders being filled the Company has achieved total quarterly sales of $1,483,588, the highest quarterly revenue figure to be realized in many years. The increase of 80.7%, in comparison to revenues reported for the quarter ended March 31, 2011, snaps the recent year long trend whereby quarterly revenues had been lower than in the corresponding period one year earlier. The fact that current revenues were driven, in large part, by previously deferred orders is supported by the fact that, even with the current period surge, year-to-date revenue figures have risen by only 7.5%. The majority of the deferral has now been addressed and although the fourth quarter looks reasonably strong it will not keep pace with the third quarter.

In addition to the advantages derived from continuing cost cutting measures, the Company also benefitted from economies of scale and increased production efficiency and realized net income of $279,280 for the quarter and $348,763 for the nine month period. These income figures represent a significant improvement in comparison to March 2011 results when the Company reported a loss of $117,154 for the three month period then ended and a nine-month loss of $82,039. Enhanced profitability has always been, and will continue to be, a primary objective for the Company in connection with efforts to maximize stakeholder value.

The growth in revenues and profitability helped to provide the cash flow necessary for the Company to continue the efforts to reduce long-term financial liabilities. During the three month period ended March 31, 2012 the Company repaid $110,965 in long-term debt, including an optional pre-payment of $50,000. This concerted effort towards debt reduction has resulted in a decline of more than 25% in long-term liabilities over the past nine months and more than 33% in the past year. It is anticipated that accelerated debt repayment will continue, to the extent that cash flows permit.

Corporate Performance - continued

As alluded to previously, the strong operating results helped to generate positive cash flow from operations for the third fiscal quarter. While the Company utilized this cash flow to invest in some equipment enhancements and to reduce its long-term financial liabilities it was still able to improve its capital and working capital positions. Total capital under management at March 31, 2012 amounts to $174,915 which represents an improvement of $246,889 through the first nine months of this fiscal year. In the same period of time the working capital deficiency has been reduced by $108,737 to $178,961. The investment in equipment and repayment of debt each serve to reduce capital and working capital in the immediate term but are expected to contribute to longer term growth and sustainability.

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:				
	Mar. 12	Dec. 11	Sept. 11	June 11	Mar. 11
Total Revenues	1,483,588	839,112	959,862	957,817	820,976
Net (loss) income from operations	279,280	(17,116)	86,699	(100,165)	(117,154)
Per share - basic	0.040	(0.002)	0.012	(0.014)	(0.022)
Net(loss) income for the period	279,280	(17,216)	86,699	(98,320)	(117,154)
Per share - basic	0.040	(0.002)	0.012	(0.014)	(0.022)
Total assets	2,652,994	2,122,488	2,033,096	2,106,570	2,299,219
Total long-term financial liabilities	785,338	902,553	962,334	1,051,125	1,173,917
Total liabilities	2,773,099	2,521,873	2,415,265	2,575,438	2,712,514

	For the three month periods ended:				
	Dec. 10	Sept. 10	June 10	Mar. 10	Dec. 09
Total Revenues	1,112,951	1,118,324	1,408,769	888,849	777,838
Net (loss) income from operations	(51,768)	91,021	267,162	48,105	(19,073)
Per share - basic	(0.010)	0.017	0.051	0.009	(0.004
Net (loss) income for the period	(51,768)	86,883	381,565	48,105	(19,073)
Per share - basic	(0.010)	0.017	0.073	0.009	(0.004)
Total assets	2,212,766	2,250,671	2,255,703	1,895,045	1,918,100
Total long-term financial liabilities	1,227,289	1,115,540	1,352,187	1,348,797	1,350,369
Total liabilities	2,639,707	2,694,540	2,786,454	2,814,543	2,884,984

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 generated revenues of $1,483,588 for the three months ended March 31, 2012 thereby raising the year-to-date total to $3,282,562. The corresponding March 2011 figures were $820,976 and $3,052,251. While the revenue increases of 80.7% and 7.5% respectively are encouraging they pale in comparison to the growth in gross margin. The gross margin for the three month period was $588,869, representing an improvement of 156.2%, while the nine month gross margin was $1,287,250 and equates to an improvement of 24.6%. The fact that the rate by which gross margins increased exceeded the growth rate for revenues provides evidence that costs of product sales declined as a percentage of total revenues.

Results of Operations - continued

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

Nine months ended	Mar. 12	Mar. 11	Change
Raw materials and supplies consumed	$ 1,175,531	$ 903,717	$ 271,814
Labour costs incurred	588,976	833,059	(244,083)
Depreciation	129,441	151,943	(22,502)
Other costs	90,972	119,248	(28,276)
Net change in finished goods and work in process	10,392	11,180	(788)
Total cost of product sales	$ 1,995,312	$ 2,019,147	$ (23,835)

Three months ended	Mar. 12	Mar. 11	Change
Raw materials and supplies consumed	$ 623,214	$ 269,861	$ 353,353
Labour costs incurred	205,421	250,116	(44,695)
Depreciation	43,814	50,728	(6,914)
Other costs	25,512	36,734	(11,222)
Net change in finished goods and work in process	(3,242)	(16,335)	13,093
Total cost of product sales	$ 894,719	$ 591,104	$ 303,615

The cost of raw materials and supplies consumed were not only greater in value for both of the periods ended March 31, 2012 but they also rose as a percentage of periodic revenues. The Company continues to promote its provision of components as a cost effective solution for its customers. Furthermore, management asserts that controlling the procurement of components allows it to better control component supply which thereby allows it to expedite the delivery of completed products. In spite of these favourable assertions some customers continue to supply their own components for assembly and this contributes to the lack of consistency in component costs form one period to the next, even when computed as a percentage of revenues.

Labour costs continue to be the segment of cost of product sales where the Company has realized its greatest savings. Year-to-date costs have declined by 29.3% in comparison to the same period ended March 2011. Even with the significant increase in revenues realized during the third quarter the cost of direct labour still declined 17.9% year over year. Throughout the nine month period ended March 31, 2012 the Company was able to take advantage of a government sponsored work-share program. This program, which commenced at the start of this fiscal year, allowed the Company to optimize the matching of labour supply to labour demand. Prior to the third quarter, management asserted that labour demand had not only been reduced as a consequence of reduced production requirements but also by efficiency gains achieved through training and automation. During the third quarter the production requirements increased but the efficiency gains remained. This provided the verification that the Company had sought and facilitated a permanent reduction in labour complement which coincided with the expiry of the work share program in April 2012.

Depreciation costs are determined as a percentage of the carrying value of equipment. These costs decline over time unless new acquisitions are made. There have been equipment additions and enhancements during the current period but nothing that compares to the 2009 acquisition of an entire new production line. The Company continually monitors its equipment requirements and makes acquisitions if and when they will provide future benefit. Based upon the assessed capacity, capability, and reliability of the existing equipment there are no immediate plans for major acquisitions and accordingly depreciation charges should continue to decline.

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

Not only has the Company generated higher revenues and higher gross margins but it has also managed to retain more of this in the form of net income as expenses for the three and nine month periods ended March 31, 2012 were each lower than the March 2011 figures as follows:

Nine months ended	Mar. 12	Mar. 11	Change
Employee and consultant compensation	$ 527,250	$ 646,442	$ (119,192)
Occupancy costs	193,798	232,767	(38,969)
Professional fees	35,941	43,288	(7,347)
Bad debts	8,047	-	8,047
Regulatory fees	16,043	12,886	3,157
Other costs	46,218	52,908	(6,690)
Total selling, general and administrative	$ 827,297	$ 988,291	$ (160,994)

Three months ended	Mar. 12	Mar. 11	Change
Employee and consultant compensation	$ 184,423	$ 200,280	$ (15,857)
Occupancy costs	63,073	71,510	(8,437)
Professional fees	6,330	12,000	(5,670)
Bad debts	-	-	-
Regulatory fees	6,916	3,885	3,031
Other costs	13,700	17,562	(3,862)
Total selling, general and administrative	$ 274,442	$ 305,237	$ (30,795)

Employee and consultant compensation continues to reflect substantial decreases in comparison to 2010 levels. This reflects the impact of the government sponsored work-share program that commenced near the start of the fiscal year and continued until April 2012. In addition to the effect of the work-share program the Company also has one fewer employee in the current year than it did in 2011.

Occupancy costs for the periods ended March 2012 are lower than they were for the periods ended March 2011 reflecting lower rental rates and reduced utility costs. The 10 year lease renewal for the Company's operating facility commenced January 2011 with base rental rates that were lower than had been required under the previous lease. Base rental costs were $12,676 lower during the nine month period ended March 2012 than they had been for the corresponding period ended March 2011 even though the amount for the three month period was $904 greater in the current year. The remainder of the costs savings for the nine month period, and the cost savings realized in the three month period, are primarily attributable to reduced utility costs. 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.

Professional fees, which include the cost of legal services and the annual financial statement audit, are lower for both the three and nine month periods ended March 31, 2012 than they were for the corresponding periods ended March 31, 2011. Audit costs are pro-rated over the course of the fiscal year and have remained comparable. Legal services are incurred on a transactional basis and there has been a reduced requirement for these services thus far in the 2012 fiscal year.

The bad debt charge incurred during the first quarter of 2012 was the first charge of this nature that the Company has incurred in quite some time and has, as expected, not recurred. The Company is extremely diligent in managing its credit risk and maintains the expectation that all amounts charged to customers will be collected.

Other Selling, general and administrative expenses have shown minor fluctuations between the periods presented but they remain 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:

Nine months ended		Mar. 12		Mar. 11		Change
Interest expense – long term	$	93,997	$	111,802	$	(17,805)
Interest expense – other		462		149		313
Loan guarantee fees		7,200		-		7,200
Total financing expenses	$	101,659	$	111,951	$	(10,292)

Three months ended		Mar. 12		Mar. 11		Change
Interest expense – long term	$	29,556	$	36,723	$	(7,167)
Interest expense – other		155		149		6
Loan guarantee fees		2,400		-		2,400
Total financing expenses	$	32,111	$	36,872	$	(4,761)

The reduction in interest expense – long term for the nine and three month periods ended March 31, 2012, in comparison to the corresponding periods one year earlier, is reflective of the reduction in long-term debt that has been achieved. At March 2011 the Company had long-term debts with a carrying value of $1,404,077 and a face value of $1,459,188. By March 2012 these same obligations had been reduced to a carrying value of $1,067,674 and a face value of $1,102,291. The Company will continue to be diligent in monitoring its cash flows, projecting future cash requirements, and utilizing available cash to accelerate the reduction in long-term debt. Accordingly, it is anticipated that interest expense – long term will continue to decline.

During the fourth quarter of the 2011 fiscal year the Company negotiated a $250,000 operating facility with its financial institution. This operating facility is secured by the Company's assets but is also guaranteed by an individual. In exchange for this guarantee the individual receives a monthly fee of $800 and is also entitled to receive interest in the event that the Company draws upon the loan. The Company has paid guarantee fees of $2,400 in the quarter, and $7,200 thus far in the fiscal year, but has not drawn upon the loan at any time and has not incurred any associated interest charges. The incidental amounts classified as interest – other do not warrant elaboration.

Liquidity

The Company has reported a working capital deficiency in the amount of $178,961 as at March 31, 2012. This represents a working capital increase of $187,616 for the three month period and $108,737for the nine months then ended. As at March 31, 2011 the working capital deficiency was $126,470. The working capital improvement realized during the most recent fiscal quarter was achieved even though the Company repaid $110,965 in long-term debt and purchased equipment valued at $19,468. Both of those activities reduced working capital by using cash to reduce non-current liabilities and to acquire non-current assets. Long-term debt does have a current element however that current element actually rose by $11,947 during the quarter thereby adding further to the reduction of working capital.

Eliminating the working capital deficiency is certainly one of the Company's goals however it is not a primary goal. Management remains convinced that reducing the Company's debt burden, and the corresponding interest expense, will provide broader financial benefit than simply eliminating the deficiency. Since March 31, 2011 the Company has repaid $356,898 of long-term debt including, $140,000 in optional pre-payments. Furthermore, the weighted average interest rate on long-term debt has declined from 8.12% to 7.95% during this same time period. Presenting a positive working capital position is desirable but has no measurable benefit. In contrast it should be evident that the 2% lower interest charge applied to a 24% lower debt total will have a favourable impact upon future profitability and future cash flows. In spite of the immediate negative impact upon working capital management will continue to utilize cash not required to fund current operations to reduce the debt burden.

Liquidity - continued

There continues to be a balance of $742,056 included in current liabilities, and thereby adding to the working capital deficiency, on account of preferred shares and the associated dividends payable. This balance has not changed since the end of the 2007 fiscal year when the preferred shares were scheduled for redemption. These amounts are non-interest bearing, are not secured, and it is not currently known how or when these obligations may be settled.

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 March 31, 2012:

	Due by Mar. 2013	Due by Mar. 2015	Due by Mar. 2017	Due after Mar. 2017	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]	262,314	795,502	4,875	-	1,062,691
Operating leases	85,787	178,591	194,435	424,180	882,993
Total	$ 1,321,403	$ 974,093	$ 199,310	$ 424,180	$ 2,918,986

(1) Each of these amounts were past due as at March 31, 2012
(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 March 31, 2012 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 to 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 nine month period ended March 31, 2012 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:

	Mar. 31 2012	June 30 2011	Mar. 31 2011	June 30 2010
Loan payable at prime + 8% [1]	117,318	131,540	194,524	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.

Related Party Transactions - continued

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

	Mar. 31 2012	June 30 2011	Mar. 31 2011	June 30 2010
Interest expense – long term	11,254	21,030	16,065	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 March 31, 2012, 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 share purchase warrants and stock options as incentives to various parties. The following list itemizes the common shares that have been reserved to satisfy the conversions and exercise of warrants and options along with the expiry date associated therewith.

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 March 31, 2012 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 March 31, 2012 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.

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

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.

Changes in Accounting Policy - continued

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

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.

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 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.

Financial Assets - continued

Impairment of financial assets - continued:
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.

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 $178,961 (June 2011 - $287,698). This includes financial liabilities (a specific long-term debt instrument plus 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 nine and three month periods ended March 31, 2012 the Company reported foreign exchange losses of $5,890 and $1,832 respectively (Mar. 31, 2011 - losses of $1,734 and $1,640)

Sensitivity to market risks:
Had interest rates been 1% higher at March 31, 2012 then the interest payments required over the remaining term of these two debt instruments would be $2,650 higher, including $1,228 payable over the next twelve months.

At March 31, 2012 the Company had US$ 215,620 included in accounts receivable and US$113,167 included in accounts payable. A 5% rise in the value of the Canadian dollar in comparison to the US dollar would result in a reduction of net cash flow of $5,179 through the settlement of 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.