

**ZTEST ELECTRONICS INC.
523 McNICOLL AVENUE
NORTH YORK, ONTARIO
M2H 2C9**

**JOINT INFORMATION CIRCULAR
MANAGEMENT SOLICITATION**

SOLICITATION OF PROXIES

This Joint Information Circular (the “Circular”) is furnished in connection with the solicitation of proxies by and on behalf of the management (“Management”) of ZTEST Electronics Inc. (the “Corporation”) for use at the Annual General and Special Meeting of holders of common shares (“Common Shares”) of the Corporation (the “ZTEST Meeting”) and at the Special Meeting of holders of Class A Special Shares (“Class A Shares”) of the Corporation (the “Class A Meeting”) (the ZTEST Meeting and the Class A Meeting are collectively referred to as the “Meeting”), to be held at the offices of the Corporation located at 523 McNicoll Avenue, North York, Ontario, M5H 2C9, at the hour of 1:00 o’clock in the afternoon (Toronto time), on Wednesday, the 12th day of September, 2012, for the purposes set out in the accompanying Notice of Meeting. The cost of solicitation will be borne by the Corporation.

Although it is expected that the solicitation of proxies will be primarily by mail, proxies may also be solicited personally by the directors and/or officers of the Corporation at nominal cost. Arrangements have been made with brokerage houses and other intermediaries, clearing agencies, custodians, nominees and fiduciaries to forward solicitation materials to the beneficial owners (“Shareholders”) of the Common Shares and Class A Shares held of record by such persons and the Corporation may reimburse such persons for reasonable fees and disbursements incurred by them in doing so. The costs thereof will be borne by the Corporation.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed forms of proxy are officers or directors of the Corporation (the “**Management Designees**”). **A SHAREHOLDER DESIRING TO APPOINT SOME OTHER PERSON, WHO NEED NOT BE A SHAREHOLDER OF THE CORPORATION, TO REPRESENT HIM OR HER AT THE MEETING MAY DO SO** by inserting such other person’s name in the blank space provided in the forms of proxy and depositing the completed proxy with the Transfer Agent of the Corporation, **Equity Financial Trust Company, 200 University Avenue, Suite 400, Toronto, Ontario, M5H 4H1 (the “Transfer Agent”)**. A proxy can be executed by the Shareholder or his attorney duly authorized in writing, or, if the Shareholder is a corporation, under its corporate seal by an officer or attorney thereof duly authorized. **HOLDERS OF COMMON SHARES WILL RECEIVE A WHITE PROXY TO VOTE FOR THE MATTERS AT THE ZTEST MEETING. HOLDERS OF CLASS A SHARES WILL RECEIVE A GREEN PROXY TO VOTE FOR THE ONE MATTER AT THE CLASS A MEETING.**

In addition to any other manner permitted by law, the proxy may be revoked before it is exercised by instrument in writing executed and delivered in the same manner as the proxy at any time up to and including the second last business day preceding the day of the Meeting or any adjournment thereof at which the proxy is to be used or delivered to the Chairman of the Meeting on the day of the Meeting or any adjournment thereof prior to the time of voting and upon either such occurrence, the proxy is revoked.

Please note that Shareholders who receive their Meeting Materials (as defined in the “Advice to Beneficial Shareholders” section below) from Broadridge Investor Communication Solutions, Canada (“**Broadridge**”) must return the proxy forms, once voted, to Broadridge for the proxy to be dealt with.

DEPOSIT OF PROXY

By resolution of the Directors duly passed, **ALL PROXIES TO BE USED AT THE MEETING MUST BE DEPOSITED NOT LATER THAN 4:00 P.M. ON THE SECOND LAST BUSINESS DAY PRECEDING THE DAY OF THE MEETING, BEING MONDAY, SEPTEMBER 10, 2012, OR ANY ADJOURNMENT THEREOF, WITH ITS AGENT, EQUITY FINANCIAL TRUST COMPANY,** provided that a proxy may be delivered to the

Chairman of the meeting on the day of the meeting or any adjournment thereof prior to the time for voting. A return envelope has been included with this material.

ADVICE TO BENEFICIAL SHAREHOLDERS

Only registered Shareholders or the persons they appoint as their proxies are permitted to vote at the Meeting. However, in many cases, Common Shares or Class A Shares owned by a person are registered either (a) in the name of an intermediary (an “**Intermediary**”) that the non-registered holder deals with in respect of the Common Shares or Class A Shares (Intermediaries include, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered registered savings plans, registered retirement income funds, registered education savings plans and similar plans); or (b) in the name of a clearing agency (such as The Canadian Depository for Securities Limited (“**CDS**”)) of which the Intermediary is a participant (a “**non-registered holder**”). In accordance with the requirements of National Instrument 54-101 of the Canadian Securities Administrators, the Corporation has distributed copies of the Circular and the accompanying Notice of Meeting together with the form of proxy (collectively, the “**Meeting Materials**”) to the clearing agencies and Intermediaries for onward distribution to non-registered holders of Common Shares and Class A Shares. Intermediaries are required to forward the Meeting Materials to non-registered holders unless a non-registered holder has waived the right to receive them. Very often, Intermediaries will use service companies to forward the Meeting Materials to non-registered holders. Generally, non-registered holders who have not waived the right to receive Meeting Materials will either:

- a) be given a form of proxy which has already been signed by the Intermediary (typically by a facsimile stamped signature), which is restricted as to the number and class of securities beneficially owned by the non-registered holder but which is not otherwise completed. Because the Intermediary has already signed the form of proxy, this form of proxy is not required to be signed by the non-registered holder when submitting the proxy. In this case, the non-registered holder who wishes to vote by proxy should otherwise properly complete the form of proxy and deliver it as specified; or
- b) be given a form of proxy which is not signed by the Intermediary and which, when properly completed and signed by the non-registered holder and returned to the Intermediary or its service company, will constitute voting instructions (often called a “**Voting Instruction Form**”) which the Intermediary must follow. Typically the non-registered holder will also be given a page of instructions which contains a removable label containing a bar code and other information. In order for the form of proxy to validly constitute a Voting Instruction Form, the non-registered holder must remove the label from the instructions and affix it to the Voting Instruction Form, properly complete and sign the Voting Instruction Form and submit it to the Intermediary or its service company in accordance with the instructions of the Intermediary or its service company.

In either case, the purpose of this procedure is to permit non-registered holders to direct the voting of the Common Shares or Class A Shares they beneficially own. Should a non-registered holder who receives either form of proxy wish to vote at the Meeting in person, the non-registered holder should strike out the persons named in the form of proxy and insert the non-registered holder’s name in the blank space provided. Non-registered holders should carefully follow the instructions of their Intermediary including those regarding when and where the form of proxy or Voting Instruction Form is to be delivered.

All references to Shareholders in this Circular and the accompanying instrument of proxy and Notice of Meeting are to Shareholders of record unless specifically stated otherwise.

EXERCISE OF DISCRETION BY PROXIES

The persons named in the enclosed form of White proxy for use at the ZTEST Meeting will vote the shares in respect of which they are appointed in accordance with the directions of the Shareholders appointing them. **IN THE ABSENCE OF SUCH DIRECTIONS, SUCH SHARES SHALL BE VOTED AT THE ZTEST MEETING “FOR”:**

- (a) the election of the directors as nominated by Management;

- (b) the appointment of MSCM LLP, Chartered Accountants, as auditors of the Corporation for the ensuing year and authorizing the directors to fix their remuneration;
- (c) the increase in the number of shares reserved under the Corporation's Stock Option Plan by 361,467 shares;
- (d) the conversion of 1,193,442 Class A Shares into approximately 99,454 Common Shares on the basis of one (1) Common Share for each twelve (12) currently issued and outstanding Class A Shares; and
- (e) to transact such further or other business as may properly come before the said meeting or any adjournment or adjournments thereof.

The persons named in the enclosed form of Green proxy for use at the Class A Meeting will vote the shares in respect of which they are appointed in accordance with the directions of the Shareholders appointing them. **IN THE ABSENCE OF SUCH DIRECTIONS, SUCH SHARES SHALL BE VOTED AT THE CLASS A MEETING "FOR":**

- (a) the conversion of 1,193,442 Class A Shares into approximately 99,454 Common Shares on the basis of one (1) Common Share for each twelve (12) currently issued and outstanding Class A Shares; and
- (b) to transact such further or other business as may properly come before the said meeting or any adjournment or adjournments thereof.

ALL AS MORE PARTICULARLY DESCRIBED IN THIS CIRCULAR.

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to any amendment, variation or other matters to come before the Meeting other than the matters referred to in the Notice of Meeting. **HOWEVER, IF ANY SUCH AMENDMENTS, VARIATIONS OR OTHER MATTERS WHICH ARE NOT NOW KNOWN TO THE MANAGEMENT DESIGNEES SHOULD PROPERLY COME BEFORE THE MEETING, THE SHARES REPRESENTED BY THE PROXIES HEREBY SOLICITED WILL BE VOTED THEREON IN ACCORDANCE WITH THE BEST JUDGMENT OF THE PERSON OR PERSONS VOTING SUCH PROXIES.**

EFFECTIVE DATE

The effective date of the Circular is August 8, 2012.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

Each Shareholder of record will be entitled to one (1) vote for each Common Share held at the ZTEST Meeting. Each Shareholder of record will be entitled to one (1) vote for each Class A Share held at the Class A Meeting.

Holders of record of the Common Shares and Class A Shares of the Corporation on August 8, 2012 (the "**Record Date**") will be entitled either to attend and vote at the Meeting in person shares held by them or, provided a completed and executed proxy shall have been delivered to the Corporation as described herein, to attend and vote thereat by proxy the shares held by them. However, if a holder of Common Shares of the Corporation has transferred any shares after the Record Date and the transferee of such shares establishes ownership thereof and makes a written demand, not later than ten (10) days before the Meeting, to be included in the list of Shareholders entitle to vote at the Meeting, the transferee will be entitled to vote such shares.

The authorized capital of the Corporation presently consists of an unlimited number of Common Shares, of which 7,062,488 Common Shares are issued and outstanding as fully paid and non-assessable, each of which carries one (1) vote, 1,193,442 Class A Shares, 166,667 Series A First Preferred Shares and 288,858 Series C Preferred Shares. The Class A Shares are not generally entitled to vote at meetings of the Corporation unless the Corporation fails to redeem the Class A Shares at the request of any holder thereof in accordance with the provisions for redemption. However, it is proposed that all the Class A Shares be converted to Common Shares and, as a result, the Class A shareholders are

entitled to vote on that matter. A total of 1,193,442 Class A Shares will be entitled to vote at the Class A Meeting. The Series A First Preferred Shares and the Series C First Preferred Shares are entitled to vote at the ZTEST Meeting as the Corporation is in arrears of dividends for a period in excess of twelve (12) months on each of these classes of shares. As a result, a total of 7,518,013 shares are eligible to vote at the ZTEST Meeting as of the Record Date.

The Common Shares of the Corporation are listed on the TSX Venture Exchange (the “TSXV”), as a Tier 2 company, under the symbol “ZTE”.

To the knowledge of the directors and senior officers of the Corporation, there are no parties who beneficially own, directly or indirectly, or exercise control or direction over 10% or more of any class of outstanding voting securities of the Corporation other than as follows:

| Name of Shareholder | Number of Shares | Percentage of Class | Percentage of Voting Shares |
|----------------------------|---------------------------------------|----------------------------|------------------------------------|
| J.T. Risty Limited | 1,745,790 Common Shares | 24.72 | 23.22 ⁽¹⁾ |
| Ken McLay | 157,558 Class A Shares ⁽²⁾ | 13.2 | 13.2 ⁽³⁾ |

Notes:

(1) In respect of the ZTEST Meeting.

(2) 657873 Ontario Limited, in which Mr. McLay has a 47% beneficial interest, holds 68,348 of these Class A Shares.

(3) In respect of the Class A Meeting.

INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

None of the directors or senior officers of the Corporation, no proposed nominee for election as a director of the Corporation, none of the persons who have been directors or senior officers of the Corporation since the commencement of the Corporation’s last completed financial year, and no associate or affiliate of any of the foregoing has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon at the Meeting other than the election of directors and the appointment of officers except as disclosed herein.

EXECUTIVE COMPENSATION

The information contained below is provided as required under Form 51-102F6 for Venture Issuers (the “Form”) as such term is defined in National Instrument 51-102.

Compensation Discussion and Analysis

This Compensation Discussion and Analysis provides information about the Corporation’s executive compensation objectives and processes and discusses compensation decisions relating to its named executive officers (“**Named Executive Officers**”) listed in the Summary Compensation Table that follows. During its fiscal year ended June 30, 2011, the following individuals were Named Executive Officers (as determined by applicable securities legislation) of the Corporation:

- Wojciech Drzazga, Chairman and Chief Executive Officer; and
- Mike Kindy, CA, Chief Financial Officer and V.P. Finance

The Corporation does not employ or retain any other individuals who would qualify as a “Named Executive Officer” because no executive officer or employee of the Corporation receives total compensation (including without limitation salary and bonus) in excess of \$150,000.

The Corporation’s Compensation Committee, which is comprised of two independent directors of the Corporation, being K. Michael Guerreiro and Mike Hiscott, is responsible for the compensation program for the Corporation’s Named Executive Officers.

Compensation Objectives and Principles

The Corporation is a manufacturing company with operations located in Ontario. The Corporation has limited revenue and financial resources. As a result, to ensure that funds are available for operations, the Compensation Committee has to consider not only the financial situation of the Corporation at the time of the determination of executive compensation, but also the estimated financial condition of the Corporation in the future.

Since the preservation of cash is an important goal of the Corporation, an important element of the compensation awarded to the Named Executive Officers is the granting of stock options, which do not require cash disbursement by the Corporation. The granting of stock options also helps to align the interests of the Named Executive Officers with the interests of the Corporation. The other two elements of the compensation the Corporation awards to its Named Executive Officers are: (i) base cash salary and/or consulting fees; and (ii) cash bonus payments for achievement of stated milestones or benchmarks. The Corporation does not provide its Named Executive Officers with perquisites or personal benefits that are not otherwise available to all of its employees.

Compensation Processes and Goals

The deliberations of the Compensation Committee are conducted in a special session from which management is absent. These deliberations are intended to advance the key objectives of the compensation program for the Corporation's Named Executive Officers. At the request of the Compensation Committee, the Named Executive Officers may, from time to time, provide advice to the Compensation Committee with respect to the compensation program for the Corporation's Named Executive Officers. The Committee makes recommendations regarding the compensation to be awarded to the Named Executive Officers to the full Board of Directors (either on its own volition or based upon the advice it receives from the Named Executive Officers).

The Corporation relies on its Compensation Committee and its Board of Directors, through discussion without any formal objectives, targets, criteria or analysis, in determining the compensation of its Named Executive Officers. The Board of Directors is responsible for determining all forms of compensation, including the provision of long-term incentives through the granting of stock options to the Named Executive Officers of the Corporation, and to others, including, without limitation, to the Corporation's directors, and for reviewing the Compensation Committee's recommendations regarding the compensation to be awarded to any other officers of the Corporation from time to time, to ensure such arrangements reflect the responsibilities and risks associated with each such officer's position. The Board of Directors incorporates the following goals when it makes its compensation decisions with respect to the Corporation's Named Executive Officers: (i) the recruiting and retaining of executives who are critical both to the success of the Corporation and to the enhancement of shareholder value; (ii) the provision of fair and competitive compensation; (iii) the balancing of the interests of Management with the interests of the Corporation's Shareholders; (iv) the rewarding of performance, both on an individual basis and with respect to the operations of the Corporation as a whole; and (v) the preservation of available financial resources.

The Implementation of the Corporation's Compensation Policies

Base Employment/Consulting Fee

During the year ended June 30, 2011, the Corporation was contractually obligated to pay the Chief Executive Officer a base salary of \$104,631 per annum. This amount was agreed upon between the Chief Executive Officer and the Corporation taking into account the following considerations:

- the Chief Executive Officer's public company and regulatory experience gained through his involvement with the Corporation;
- the total number of years of the Chief Executive Officer's relevant experience; and
- the financing raised by the Corporation while the Chief Executive Officer has been in office.

The payment of this salary was not dependent on the Chief Executive Officer's fulfillment of any specific performance goals or similar criteria.

During the year ended June 30, 2011, the Corporation paid the Chief Financial Officer a consulting fee at a per hour rate based upon the number of hours of service provided by the Chief Financial Officer. This amount was agreed upon between the Chief Financial Officer and the Corporation taking into account the following considerations:

- the Chief Financial Officer's prior public company and specialized financial reporting experience gained through his senior financial management roles at a number of public mineral exploration and mining companies;
- the Chief Financial Officer's experience as a Certified Accountant, both at an accounting firm and providing services to various companies; and
- the Chief Financial Officer's previous record of success with junior public companies in creating value for shareholders.

The payment of this consulting fee was not dependent on the Chief Financial Officer's fulfillment of any specific performance goals or similar criteria.

Stock Options

The granting of options to the Named Executive Officers under the Corporation's Stock Option Plan provides an appropriate long-term incentive to management to create shareholder value. The number of options the Corporation grants to each Named Executive Officer reasonably reflects the Named Executive Officer's specific contribution to the Corporation in the execution of such person's responsibilities. However, the number of options granted does not depend upon nor does it reflect the fulfillment of any specific performance goals or similar conditions. Previous grants of options to Named Executive Officers are taken into consideration by the Compensation Committee in developing its recommendations with respect to the granting of new options. 275,000 options were granted to the Named Executive Officers in the year ended June 30, 2011.

The granting of options to the non-management directors of the Corporation under the Corporation's Stock Option Plan provides an appropriate long-term incentive to these directors to provide proper independent oversight to the Corporation with a view to maximizing shareholder value. The number of options the Corporation grants to each of these directors reasonably reflects each director's contributions to the Corporation in his capacity as a director and as a member of one or more committees of the Board of Directors (if applicable), including without limitation the Compensation Committee and the Audit Committee. Previous grants of options awarded to the independent directors of the Corporation are taken into consideration when the Corporation considers the granting of new options to the independent directors. 350,000 options were granted to the Corporation's independent directors during the year ended June 30, 2011.

The compensation of directors, which includes a director's fee of \$500 for independent directors and \$250 for non-independent directors for meeting of the Board of Directors, a committee of the Board of Directors or of shareholders attended, and the granting of options under the Corporation's Stock Option Plan, is determined by the full Board of Directors. The payment of the directors' fees to the independent directors recognizes their contributions to the Corporation in their capacities as independent directors and members of one or more committees of the Board of Directors (if applicable), including without limitation the Compensation Committee and the Audit Committee.

Summary Compensation Table

The following table contains information about the compensation paid to, earned by and payable to, the Corporation's Chief Executive Officer, Wojciech Drzazga, and Chief Financial Officer, Mike Kindy, for the fiscal year ending June 30, 2011. In accordance with the Form, the Corporation does not have any other "Named Executive Officers" given that no executive officer receives total salary and bonus in excess of \$150,000. Specific aspects of compensation payable to the Named Executive Officers of the Corporation are dealt with in further detail in subsequent tables.

**Summary Compensation Table
Non-Equity Incentive
Plan Compensation
(\$)**

| Name and Principal Position | Year | Salary (\$) | Share-Based Awards (\$) | Option-Based Awards (\$) | Annual Incentive Plans | Long-Term Incentive Plans | Pension Value (\$) | All Other Compensation (\$) | Total Compensation (\$) |
|---------------------------------------|-------------|--------------------|--------------------------------|---------------------------------|-------------------------------|----------------------------------|---------------------------|------------------------------------|--------------------------------|
| Wojciech Drzazga, Chairman and C.E.O. | 2011 | 104,631 | Nil | 13,358 | Nil | Nil | Nil | 6,867 ⁽¹⁾ | 124,856 |
| | 2010 | 94,702 | Nil | Nil | Nil | Nil | Nil | 1,950 ⁽²⁾ | 96,652 |
| | 2009 | 89,450 | Nil | Nil | Nil | Nil | Nil | 2,300 ⁽²⁾ | 91,750 |
| Mike Kindy, C.F.O. and V.P. Finance | 2011 | Nil | Nil | 7,633 | Nil | Nil | Nil | 24,225 ⁽³⁾ | 31,858 |
| | 2010 | Nil | Nil | Nil | Nil | Nil | Nil | 39,690 ⁽³⁾ | 39,690 |
| | 2009 | Nil | Nil | Nil | Nil | Nil | Nil | 39,600 ⁽³⁾ | 39,600 |

Notes:

- (1) Director fees, bonus of \$5,000 and benefits of \$317.
- (2) Director fees.
- (3) Mr. Kindy is retained as consultant and therefore does not receive a salary.

Outstanding Share-Based and Option-Based Awards Granted to Named Executive Officers as of June 30, 2011

The following table summarizes all share-based and option-based awards granted by the Corporation to its Named Executive Officers which are outstanding as of June 30, 2011.

| Name | Option-Based Awards | | | Share-Based Awards | | |
|---------------------------------------|----------------------------------------------------------------|-----------------------------------|-------------------------------|---------------------------------------------------------------------|-----------------------------------------------------------------|-------------------------------------------------------------------------------|
| | Number of Securities Underlying Unexercised Options (#) | Option Exercise Price (\$) | Option Expiration Date | Value of Unexercised In-The-Money Options (\$)⁽¹⁾ | Number of Shares or Units of Shares that have not Vested | Market or Payout Value of Share-Based Awards that have not Vested (\$) |
| Wojciech Drzazga, Chairman and C.E.O. | 175,000 | 0.10 | November 30, 2015 | 52,500 | Nil | Nil |
| Mike Kindy, C.F.O. and V.P. Finance | 100,000 | 0.10 | November 30, 2015 | 30,000 | Nil | Nil |

Note:

- (1) Based on the closing price of the Common Shares on the Exchange on June 30, 2011 (being the last day of the fiscal year on which the shares were traded) of \$0.40 per Common Share.

Value Vested or Earned by Named Executive Officers During the Year Ended June 30, 2011 Under Option-Based Awards, Share-Based Awards and Non-Equity Incentive Plan Compensation

The following table summarizes the value vested or earned during the year by Named Executive Officers in respect of option-based awards, share-based awards and non-equity incentive plan compensation during the year ended June 30, 2011.

| Name | Option-Based Awards- Value Vested During the Year (\$) ⁽¹⁾ | Share-Based Awards- Value Vested During the Year (\$) | Non-Equity Incentive Plan Compensation- Value Earned During the Year (\$) |
|-------------------|--------------------------------------------------------------------------------|----------------------------------------------------------------|---------------------------------------------------------------------------------------|
| Wojciech Drzazga | Nil | Nil | Nil |
| <u>Mike Kindy</u> | Nil | Nil | Nil |

Note:

⁽¹⁾ Determined based on the difference between the market price of the underlying Common Shares on the vesting date and the exercise price of the options.

Employment/Consulting Contracts

The Corporation has a written employment agreement with Wojciech Drzazga to employ Mr. Drzazga as the Corporation's Chairman and Chief Executive Officer at an annual salary, currently set at \$91,450 per year plus a performance bonus effective from January 1, 2002. The agreement provides for severance pay of fifteen (15) months salary in lieu of notice plus one (1) additional month for each full year of employment after January 1, 2002 to a total maximum severance of twenty (20) months salary. There is no written agreement between the Corporation and Mike Kindy. Mr. Kindy bills his time for being the C.F.O. at a fixed hourly rate on an as needed basis.

Termination and Change of Control Benefits

Other than as noted above, the Corporation has no compensatory plan or arrangement with respect to the Named Executive Officers that results or will result from the resignation, retirement or any other termination of employment of any such officer's employment with the Corporation, from a change of control of the Corporation or a change in the responsibilities of a Named Executive Officer following a change in control.

Compensation of Directors

The following table contains information about the compensation awarded to, earned by, paid to or payable to, the Corporation's directors, other than its Named Executive Officers, the compensation of whom is detailed above under "Summary Compensation Table", for the fiscal year ended June 30, 2011.

| Name | Director Compensation Table | | | | | | Pension Value (\$) | All Other Compensation (\$) | Total (\$) |
|---------------------------------------------------------|-----------------------------|-----------------------------------|------------------------------------|---------------------------------------------------|-------------------------------------|-----|--------------------------|-----------------------------------|---------------|
| | Fees Earned (\$) | Share- Based Awards (\$) | Option- Based Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | | | | | |
| | | | | Annual Incentive Plans | Long- Term Incentive Plans | | | | |
| John Perreault ⁽¹⁾ , President and COO | 1,750 | Nil | 13,358 | Nil | Nil | Nil | 97,448 ⁽²⁾ | 112,506 | |

| Director Compensation Table | | | | | | | | |
|------------------------------------|------------------------|-----------------------------------|------------------------------------|---------------------------------------------------|-----|--------------------------|-----------------------------------|---------------|
| Name | Fees Earned (\$) | Share- Based Awards (\$) | Option- Based Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | | Pension Value (\$) | All Other Compensation (\$) | Total (\$) |
| K Michael Guerreiro | 3,750 | Nil | 13,358 | Nil | Nil | Nil | Nil | 17,108 |
| Mike Hiscott | 3,750 | Nil | 13,358 | Nil | Nil | Nil | Nil | 17,108 |

Notes:

- (1) Mr. Perreault is not an independent director. He is the President and Chief Operating Officer of the Corporation but is not a Named Executive Officer as his total compensation does not exceed \$150,000 per annum.
- (2) Compensation earned in his capacity as President and Chief Operating Officer.

The independent directors of the Corporation are entitled to receive directors' fees in the amount of \$500 for each meeting of the Board of Directors, a committee of the Board of Directors or of shareholders attended. Non-independent directors are entitled to a fee in the amount of \$250 for each meeting of the Board of Directors, a committee of the Board of Directors or of shareholders attended or \$150 if attendance is by teleconference. All directors are reimbursed by the Corporation for travel and other out-of-pocket expenses incurred in attending directors and shareholders meetings and meetings of Board committees. Directors are also entitled to receive compensation to the extent that they provide services to the Corporation at rates that would be charged by such directors for such services to arm's length parties.

Outstanding Share-Based and Option-Based Awards Granted to Directors (Other Than Directors Who Are Named Executive Officers) as of June 30, 2011

The following table summarizes all share-based and option-based awards granted by the Corporation to its directors (other than directors who are Named Executive Officers whose share-based and option-based awards outstanding as of June 30, 2011 are detailed above) which are outstanding as of June 30, 2011.

| Name | Option-Based Awards | | | Share-Based Awards | | |
|------------------------|------------------------------------------------------------------------|-------------------------------------|------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| | Number of Securities Underlying Unexercised Options (#) | Option Exercise Price (\$) | Option Expiration Date | Value of Unexercised In- The-Money Options (\$) ⁽¹⁾ | Number of Shares or Units of Shares that have not Vested | Market or Payout Value of Share- Based Awards that have not Vested (\$) |
| John Perreault | 175,000 | 0.10 | November 30, 2015 | 52,500 | Nil | Nil |
| K Michael Guerriero | 175,000 | 0.10 | November 30, 2015 | 52,500 | Nil | Nil |
| Mike Hiscott | 175,000 | 0.10 | November 30, 2015 | 52,500 | Nil | Nil |

Note:

- (1) Based on the closing price of the Common Shares on the Exchange on June 30, 2011 (being the last day of the fiscal year on which the shares were traded) of \$0.40 per Common Share.

Value Vested or Earned During the Year Ended June 30, 2011 by Directors (Other Than Directors Who Are Named Executive Officers) Under Option-Based Awards, Share-Based Awards and Non-Equity Incentive Plan Compensation

The following table summarizes the value vested or earned during the year ended June 30, 2011 by directors of the Corporation (other than directors who are Named Executed Officers whose value vested or earned during the year ended June 30, 2011 under option-based awards, share-based awards and non-equity incentive plan compensation is detailed above) in respect of option-based awards, share-based awards and non-equity incentive plan compensation.

| Name | Option-Based Awards- Value Vested During the Year (\$) ⁽¹⁾ | Share-Based Awards- Value Vested During the Year (\$) | Non-Equity Incentive Plan Compensation- Value Earned During the Year (\$) |
|---------------------|--------------------------------------------------------------------------------|----------------------------------------------------------------|---------------------------------------------------------------------------------------|
| John Perreault | Nil | Nil | Nil |
| K Michael Guerreiro | Nil | Nil | Nil |
| <u>Mike Hiscott</u> | Nil | Nil | Nil |

Note:

- ⁽¹⁾ Determined based on the difference between the market price of the underlying Common Shares on the vesting date and the exercise price of the options.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets out information as of June 30, 2011 with respect to compensation plans under which equity securities of the Corporation are authorized for issuance.

| <u>Plan Category</u> | <u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u> ⁽¹⁾ | <u>Weighted-average exercise price of outstanding options, warrants and rights</u> | <u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column)</u> |
|------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| Equity compensation plans approved by security holders | 900,000 | \$0.10 | 151,030 |
| Equity compensation plans not approved by security holders | Nil | Nil | Nil |
| <u>Total</u> | 900,000 | \$0.10 | 151,030 |

Note:

- ⁽¹⁾ Currently, the only applicable plan is the Plan (as defined in heading “Stock Option Plan”)

STOCK OPTION PLAN

The directors of the Corporation adopted a New Stock Option Plan (the “Plan”) to encourage Common Share ownership in the Corporation by directors, officers, employees (full or part-time) and consultants of the Corporation or its subsidiaries from time to time which was approved by the majority of disinterested shareholders at the annual and special meeting of shareholders held on June 28, 1996. The Plan was amended at the Shareholder’s Meeting held on December 5, 2000. The Plan was further amended on December 17, 2002 and June 14, 2005 to comply with the requirements of the TSXV. The Plan was further amended at the Shareholder’s Meeting held on March 11, 2010. The Plan permits the number of shares reserved for issuance pursuant to stock options granted to insiders to exceed 10% of the outstanding

issue and the issuance to insiders within a one (1) year period of a number of shares to exceed 10% of the outstanding issue. The maximum number of options that can be granted to any person in any twelve (12) month period cannot exceed 5% of outstanding capital. Options granted to any one consultant in any twelve (12) month period or employee providing investor relations services cannot exceed more than 2% of the Corporation's outstanding capital. Options granted to persons providing investor relation activities must vest over a twelve (12) month period with no more than 25% of the options vesting in any quarter.

The Plan provides that eligible persons thereunder include any director, employee, (full-time or part-time), officer or consultant of the Corporation or any subsidiary thereof. A consultant means an individual (including an individual whose services are contracted through a personal holding corporation) with whom the Corporation or a subsidiary has a contract for substantial services. The Plan allows the Corporation to attract new officers and directors by allowing it to offer stock options as inducements to join the Corporation.

The Plan is administered by the Board of Directors of the Corporation. The Board of Directors has the authority to determine, among other things, subject to the terms and conditions of the Plan, the terms, limitations, restrictions and conditions respecting the grant of stock options under the Plan.

Pursuant to shareholder approval on June 28, 1996, shareholders of the Corporation authorized the reservation of up to 20% of outstanding capital for stock options based upon a fixed number of shares reserved under the Plan. The Plan originally provided for 2,200,000 Common Shares as a maximum number of Common Shares in the capital of the Corporation that was reserved for issuance under the Plan. The Corporation increased the maximum number of Common Shares reserved under the Plan to 2,790,000 Common Shares pursuant to shareholder approval on December 16, 1997, to 2,980,000 Common Shares pursuant to shareholder approval on December 21, 1998, to 3,301,513 Common Shares pursuant to shareholder approval on February 15, 2000, to 4,245,916 Common Shares pursuant to shareholder approval on December 5, 2000, to 6,271,020 Common Shares pursuant to shareholder approval on February 19, 2002, to 9,209,709 Common Shares pursuant to shareholder approval on June 14, 2005 and 12,612,360 Common Shares pursuant to shareholder approval on March 11, 2010. Shareholders also approved the consolidation of Common Shares on March 11, 2010, whereby the number of Common Shares reserved for issuance under the Plan was adjusted to 1,051,030 post-Consolidation Common Shares. The Corporation is seeking shareholder approval to increase the Plan to 1,412,497 Common Shares by adding an additional 361,467 Common Shares to the Plan. Any options granted subject to the Plan that are cancelled or terminated without having been exercised shall again be available to be granted under the Plan. Reference is made to the heading "PARTICULARS OF MATTERS TO BE ACTED UPON - Approval of Increase to Number of Shares Reserved Under Stock Option Plan" for particulars.

The Board of Directors has the authority under the Plan to establish the option price at the time each stock option is granted which shall in all cases be not less than the closing price of the Common Shares on the trading day immediately preceding the date of the grant. Common shares of the Corporation currently trade on the TSXV. Any repricing of stock options granted to insiders must be approved by a majority of the disinterested shareholders of the Corporation.

Options granted under the Plan must be exercised no later than ten (10) years after the date of grant and options are not transferable other than by will or the laws of descent and distribution. If an optionee ceases to be an eligible person for any reason whatsoever other than death, each option held by such optionee will cease to be exercisable in a period not exceeding one hundred and eighty (180) days following the termination of the optionee's position with the Corporation. If an optionee dies, the legal representative of the optionee may exercise the optionee's options for a period of one (1) year after the date of the optionee's death but only up to and including the original option expiry date.

The Corporation will not provide any optionee with financial assistance in order to enable such optionee to exercise stock options granted under the Plan.

There are currently 900,000 stock options outstanding under the Plan, and 151,030 options are available to be granted under the Plan. The details of the stock options granted under the Plan that remain outstanding are as follows:

| Name and Position | Common Shares Under Option | Exercise Price Range (per Common Share) | Expiry Date |
|--------------------------|-----------------------------------|------------------------------------------------|--------------------|
| Directors | 700,000 | \$0.10 | November 30, 2015 |
| Senior Officers | 200,000 | \$0.10 | November 30, 2015 |
| TOTAL | 900,000 | | |

INDEBTEDNESS OF OFFICERS AND DIRECTORS

No officer or director of the Corporation is indebted to the Corporation for any sum.

MANAGEMENT CONTRACTS

No management functions of the Corporation are performed to any substantial degree by a person other than the directors or executive officers of the Corporation.

INTEREST OF INSIDERS IN MATERIAL TRANSACTIONS

No insider of the Corporation, no proposed nominee for election as a director of the Corporation, and no associate or affiliate of any of the foregoing, has any material interest, direct or indirect, in any transaction since the commencement of the Corporation's last financial year or in any proposed transaction, which, in either case, has materially affected or will materially affect the Corporation or any of its subsidiaries, other than disclosed under the headings "Executive Compensation", "Stock Option Plan" and "Other Material Facts" and as disclosed below.

AUDIT COMMITTEE AND RELATIONSHIP WITH AUDITORS

National Instrument 52-110 of the Canadian Securities Administrators ("NI 52-110") requires the Corporation, as a Venture Issuer, to disclose annually in its information circular certain information relating to the Corporation's audit committee and its relationship with the Corporation's independent auditors.

The Audit Committee's Charter

The Corporation's Audit Committee is governed by its Audit Committee Charter, a copy of which is annexed hereto as **Schedule "A"**.

Composition of the Audit Committee

The Corporation's Audit Committee is comprised of three (3) directors, Mike Hiscott, John Perreault and K. Michael Guerreiro. As defined in NI 52-110, Mike Hiscott and K. Michael Guerreiro are independent. Also as defined in NI 52-110, all members of the Audit Committee are financially literate.

Audit Committee Oversight

Since the commencement of the Corporation's most recently completed fiscal year, the Corporation's Board of Directors has not failed to adopt a recommendation of the Audit Committee to nominate or compensate an external auditor.

Relevant Education and Experience

The following is a summary of the relevant education and experience of each of the members of the Corporation's Audit Committee:

John Perreault

Mr. Perreault has worked in the electronic manufacturing industry for many years. Mr. Perreault has been the President of Permotech Electronics Corporation (a wholly-owned subsidiary of the Corporation), since 2002. During this time he has reviewed financial statements and management discussion and analysis of the financial statements and discussed financial issues with management, accountants and auditors. As a result, he has gained an understanding of accounting principles and the ability to analyze and evaluate the financial statements of the Corporation.

K. Michael Guerreiro

Mr. Guerreiro is a sales representative in the real estate industry and has been a director of the Corporation for over 10 years. Mr. Guerreiro's principal occupation demands the ability to review and analyze financial statements and discuss financial issues with accountants. This educational and practical experience has resulted in Mr. Guerreiro being able to understand accounting principles and review and evaluate financial statements of the Corporation.

Mike Hiscott

Mr. Hiscott is a Chartered Accountant and member of the ICAO. He was the Vice President – Finance of M&M Meat Shops Ltd until his retirement in 2004. Mr. Hiscott has vast experience with all areas of accounting and therefore has understanding of accounting principles and the ability to analyze and evaluate the financial statements of the Corporation.

Reliance on Certain Exemptions

Since the effective date of NI 52-110, the Corporation has not relied on the exemptions contained in sections 2.4 or 8 of NI 52-110. Section 2.4 provides an exemption from the requirement that the audit committee must pre-approve all non-audit services to be provided by the auditors, where the total amount of fees related to the non-audit services are not expected to exceed 5% of the total fees payable to the auditors in the fiscal year in which the non-audit services were provided. Section 8 permits a company to apply to a securities regulatory authority for an exemption from the requirements of NI 52-110, in whole or in part.

Pre-Approval Policies and Procedures

The Committee has not adopted specific policies and procedures for the engagement of non-audit services. The Committee will review the engagement of non-audit services as required.

External Auditors Service Fees (By Category)

The fees paid to the Corporation's external auditors in each of the last two (2) fiscal years for audit fees are as follows:

| Financial Year | <u>Ending</u> | <u>Audit Fees</u> | <u>Audit Related Fees</u>⁽¹⁾ | <u>Tax Fees</u>⁽²⁾ | <u>All Other Fees</u>⁽³⁾ |
|-----------------------|----------------------|--------------------------|------------------------------------------------|--------------------------------------|--------------------------------------------|
| | 2011 | \$33,000 | Nil | Nil | Nil |
| | 2010 | \$30,750 | Nil | Nil | Nil |

Notes:

- (1) Fees charged for assurance and related services reasonably related to the performance of an audit, and not included under Audit Fees.
- (2) Fees charged for tax compliance, tax advice and tax planning services.
- (3) Fees for services other than disclosed in any other column.

Exemption

The Corporation is relying upon the exemption in section 6.1 of NI 52-110 for venture issuers which allows for an exemption from Parts 3 (Composition of the Audit Committee) and 5 (Reporting Obligations) of NI 52-110 and allows for the short form of disclosure of audit committee procedures set out in Form 52-110F2.

CORPORATE GOVERNANCE DISCLOSURE

Effective June 30, 2006, the securities regulatory authorities in Canada adopted National Instrument 58-101-*Disclosure of Corporate Governance Practices* (“**NI-58-101**”) and *National Policy 58-201 Corporate Governance Guidelines* (“**NP-58-201**”). NP-58-201 contains a series of guidelines for effective corporate governance. The guidelines deal with such matters as the constitution and independence of corporate boards, their functions, the experience and education of board members and other items dealing with sound corporate governance.

Pursuant to NI-58-101, the Corporation is required to provide disclosure in this information circular of its corporate governance practices in accordance with Form 58-101F2 which follows:

1. **Board of Directors** - Currently Mike Hiscott and K. Michael Guerreiro are independent directors of the Corporation. Wojciech Drzazga is the C.E.O. and John Perreault is the President and C.O.O. of the Corporation.
2. **Directorships** - No director of the Corporation is presently a director of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction.
3. **Orientation and Continuing Education** - To date, the Board of Directors has not developed a Corporate Governance Policy due to the small size of the Corporation. The Board of Directors continues to monitor the needs of the Corporation and will implement such a policy when appropriate. Currently, the Board of Directors is responsible for vetting potential new directors and ensuring they are provided with proper orientation. The Board of Directors has not currently established criteria for continuing education for directors.
4. **Ethical Business Conduct** - The directors understand their fiduciary obligations as directors of a public company. The Corporation has only a few employees and the Corporation instructs them in appropriate business practices.
5. **Nomination of Directors** - The Board of Directors is currently responsible for identifying new candidates for the Board of Directors including members to fill any vacancies on the Board of Directors. It will consider candidates submitted by directors, officers, employees, shareholders and others and may retain search firms for the purpose of identifying suitable candidates who meet the level of personal and professional integrity and ability the Board of Directors deems appropriate for directors of the Corporation.
6. **Compensation** - The Corporation has a Compensation Committee which reviews the compensation of directors and officers including the granting of stock options, and makes recommendations to the full Board of Directors. The committee is to be comprised of two (2) independent directors being Mike Hiscott and K. Michael Guerreiro. Compensation will be determined with reference, in part, to compensation of officers and directors in similar industries performing similar functions.
7. **Other Board Committees** - The Board of Directors assessed the Corporation’s needs and at this point in time is not applicable for the Corporation to have any other standing committees of the Board.
8. **Assessments** - The full Board of Directors will establish procedures for satisfying itself that the Board, its committees, and its individual directors are performing effectively.

PARTICULARS OF MATTERS TO BE ACTED UPON AT THE ZTEST MEETING

PRESENTATION OF FINANCIAL STATEMENTS

The Audited Financial Statements for the fiscal years ended June 30, 2011 and 2010 and the report of the auditors thereon will be submitted to the Meeting. Receipt at the Meeting of the auditors' report and the Corporation's Financial Statements for its last completed fiscal period will not constitute approval or disapproval of any matters referred to therein. The Audited Financial Statements and the Management's Discussion and Analysis for the year ended June 30, 2011 have been mailed to shareholders of record and non-objecting beneficial shareholders. A copy of these financial statements can be obtained at www.sedar.com. In the alternative, upon receiving a written request to the address on the first page of this Circular, the Corporation will mail a copy of the financial statements to you.

ELECTION OF THE BOARD OF DIRECTORS

The board of directors of the Corporation currently consists of four (4) directors. The persons named in the enclosed form of proxy intend to vote for the election as directors of each of the four (4) nominees of management whose names are set forth in the table below. Each Shareholder is entitled to cast their votes for, or withhold their votes from, the election of each director. If the number of shares "withheld" for any nominee exceeds the number of shares voted "for" the nominee, then, notwithstanding that such director was duly elected as a matter of corporate law, he shall tender his written resignation to the Corporation. The Board will consider such offer of resignation and the director's suitability to continue to serve as a Board member after considering, among other things, the stated reasons, if any, why certain shareholders "withheld" votes for the director, the qualifications of the director and whether the director's resignation from the Board would be in the best interests of the Corporation.

These nominees have consented to being named in this Circular and to serve if elected. The Corporation's management does not contemplate that any of the nominees will be unable or unwilling to serve as a director, but if that should occur for any reason prior to the Meeting, the Common Shares represented by properly submitted proxies given in favour of such nominee(s) may be voted by the persons whose names are printed in the form of proxy, in their discretion, in favour of another nominee.

The following table and notes thereto state the names of all the persons proposed to be nominated for election as directors, all of the positions and offices with the Corporation now held by them, their present principal occupations or employments for the last five (5) years and the number of shares of the Corporation beneficially owned, directly or indirectly, or over which control or direction is exercised, by each of them as of August 8, 2012. The information as to shares beneficially owned has been furnished to the board of directors by the respective nominees.

| Name Municipality of Residence | Position with Corporation | Principal Occupation or Employment for the Last Five Years | Director From | Number of Shares Beneficially Owned or Controlled |
|-----------------------------------------------------------------|--------------------------------------|------------------------------------------------------------------------------------------|----------------------|----------------------------------------------------------|
| Wojciech Drzazga Brampton, Ontario | Chairman, C.E.O. and Director | C.E.O. of the Corporation. President of the Corporation until January of 2002 | June 28, 1996 | 411,377 Common Shares and 32,813 Class A Shares |
| John Perreault ⁽¹⁾ Richmond Hill, Ontario | President, C.O.O. and Director | President of the Corporation and its subsidiary, Permotech Electronics Corporation | February 19, 2002 | 98,439 Common Shares |
| K. Michael Guerreiro ⁽¹⁾⁽²⁾ Cambridge, Ontario | Director | Employed as a Sales Representative, Royal LePage Real Estate Services Ltd. | June 28, 1996 | 18,061 Common Shares 9,375 Class A Shares |

| Name Municipality of Residence | Position with Corporation | Principal Occupation or Employment for the Last Five Years | Director From | Number of Shares Beneficially Owned or Controlled |
|------------------------------------------------------|----------------------------------|-------------------------------------------------------------------|----------------------|----------------------------------------------------------|
| Mike Hiscott ⁽¹⁾⁽²⁾ Kitchener, Ontario | Director | Vice-President of M&M Meat Shops until retirement in 2004 | April 24, 2008 | Nil |

Notes:

- (1) Member of the Audit Committee.
 (2) Member of the Compensation Committee.

The shareholders are urged to elect Management's nominees as directors of the Corporation.

Cease Trade Orders, Penalties or Sanctions, and Bankruptcies

Cease Trade Orders

None of the directors or officers of the Corporation is, or within the past ten (10) years prior to the date hereof has been, a director, officer or promoter of any other issuer that, while that person was acting in that capacity:

- (1) was subject to a cease trade or similar order or an order that denied the issuer access to any statutory exemptions for a period of more than 30 consecutive days; or
- (2) was declared bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that person,

except for William R. Johnstone who was corporate secretary of PacRim Resources Inc., until December 7, 2009 which has been cease traded by the Ontario Securities Commission, the Alberta Securities Commission and the British Columbia Securities Commission for failure to file financial statements and a director and Corporate Secretary, Acting Chief Financial Officer of Razore Rock Resources Inc., which was cease traded by the Ontario Securities Commission for failure to file financial statements until January, 2008.

Penalties or Sanctions

None of the directors or officers of the Corporation has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or have entered into a settlement agreement with a Canadian securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision other than William R. Johnstone. Mr. Johnstone was reprimanded by the TSXV for breaching three (3) requirements of an undertaking given to the TSXV in his capacity as an officer and director of Outlook Resources Inc. (“**Outlook**”) in respect of the holding of an annual general meeting for Outlook in compliance with TSXV policies. Mr. Johnstone was required to resign as an officer and director of Outlook; was restricted to his current involvement as an officer and/or director of six TSXV listed companies; and is required to obtain prior written approval from TSXV before having any involvement as an officer and/or director of another TSXV listed company. Subsequent to the reprimand, in 2011 TSXV consented to Mr. Johnstone becoming an officer of another TSXV listed company.

Individual Bankruptcies

None of the directors or officers of the Corporation has, within the ten years prior to the date hereof, been declared bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement, or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that individual.

Conflict of Interest

To the best of the Corporation's knowledge and other than as disclosed herein, there are no existing or potential conflicts of interest among the Corporation, its promoters, directors, officers or other members of management of the Corporation except that certain of the directors, officers, promoters and other members of management serve as directors, officers, promoters and members of management of other public companies and therefore it is possible that a conflict may arise between their duties as a director, officer, promoter or member of management of such other companies and their duties as a director, officer, promoter or management of the Corporation.

The directors and officers of the Corporation are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosure by directors of conflicts of interest and the Corporation will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors and officers.

APPOINTMENT OF AUDITORS

The persons named in the enclosed form of proxy intend to vote for the appointment of MSCM LLP, Chartered Accountants, of Toronto, Ontario, as auditors of the Corporation to hold office until the next annual meeting of shareholders and to authorize the directors of the Corporation to fix the auditors' remuneration.

On the representations of the said auditors, neither that firm nor any of its partners has any direct financial interest nor any material indirect financial interest in the Corporation or any of its subsidiaries nor has had any connection during the past three (3) years with the Corporation or any of its subsidiaries in the capacity of promoter, underwriter, voting trustee, director, officer or employee.

The shareholders are urged by Management to appoint MSCM LLP, Chartered Accountants, as the Corporation's auditors and to authorize the Board of Directors to fix their remuneration.

APPROVAL OF INCREASE TO NUMBER OF SHARES RESERVED UNDER STOCK OPTION PLAN

On August 8, 2012, the directors passed a resolution, subject to shareholder approval, increasing the number of shares under the Plan by 361,467 Common Shares to an aggregate of 1,412,497 Common Shares reserved under the Plan, thereby increasing the number of Common Shares reserved under the plan to 19.9999% of the Corporation's current outstanding capital less all Common Shares issued for the exercise of stock options within the last twelve (12) months.

It is proposed that shareholders approve the following resolution:

“BE IT RESOLVED THAT:

1. the Plan is hereby amended by reserving an additional 361,467 Common Shares under the Plan to increase the total number of shares reserved under the Plan to 1,412,497 Common Shares; and
2. any one director or officer of the Corporation be and he is hereby authorized and directed to do all such acts and things and to execute and deliver under the corporate seal or otherwise all such deeds, documents, instruments and assurances as in his opinion may be necessary or desirable to give effect to this resolution.”

The persons named in the Proxy intend to vote FOR the resolution increasing the number of shares reserved under the Plan in the absence of directions to the contrary from the shareholders appointing them.

This resolution can be approved by a majority of shareholders voting at the Meeting. No shareholders are excluded from voting on this resolution.

PARTICULARS OF MATTERS TO BE ACTED UPON AT THE ZTEST MEETING AND THE CLASS A MEETING

CONVERSION OF CLASS A SHARES TO COMMON SHARES

The board of directors of the Corporation has proposed the submission to Common shareholders (the “**ZTEST Special Resolution**”) at the ZTEST Meeting and to Class A Shareholders (the “**Class A Conversion Special Resolution**”) at the Class A Meeting for consideration of special resolutions approving the conversion of the Corporation’s issued and outstanding Class A Shares to Common Shares (the “**Special Resolutions**”). If the Special Resolutions are approved, the Board will have the authority to convert 1,193,442 Class A Shares into approximately 99,454 Common Shares (the “**Class A Conversion**”). As at the date hereof, assuming the shareholders approve the Class A Conversion, the Board intends to implement the Class A Conversion as soon as reasonably practical. Notwithstanding approval of the Class A Conversion by the shareholders, the Board, in its sole discretion, may revoke the Special Resolutions and abandon the Class A Conversion without further approval, action by, or prior notice to Shareholders.

Background and Reasons for the Class A Conversion

The Class A Shares were created in 1996 when ZTEST Electronics Inc. (a private electronics manufacturer) amalgamated with Panthco Resources Inc. (“**Panthco**”) (a public resource company) to form the Corporation. The Class A Shares were issued to the shareholders of Panthco pro rata with a view to ultimately rolling out the existing resource assets of Panthco at the date of amalgamation to the former Panthco shareholders. The resource assets were rolled into a wholly-owned subsidiary of the Corporation called Northern Cross Minerals Inc. (“**Northern Cross**”) and money was provided to Northern Cross by the Corporation by way of a secured debenture secured against the resource assets. Northern Cross was unable to effect a going-public transaction that would have resulted in the issuance of public shares of Northern Cross to the former Panthco shareholders through the mechanism of the conversion of the Class A Shares. Northern Cross defaulted on its debt obligations to the Corporation and the Corporation seized the resource assets. In 2010, the Corporation sold these resource assets to Queenston Mining Inc. for \$150,000 and the retention by the Corporation of a 0.5% net smelter returns royalty in respect of any production of precious metals from the properties. With the proceeds from the sale, the Corporation repaid the debt owed to the Corporation and realized a small profit from the sale of the assets. Since Northern Cross no longer has any assets and the Class A Shares cannot be converted into shares of Northern Cross, the Corporation wishes to convert them into shares of the Corporation. In April, 2010, the Corporation effected a 12:1 consolidation of its outstanding Common Shares. It is proposed that the 1,193,442 Class A Shares be converted to Corporation Common Shares on the basis of one (1) Common Share for each twelve (12) issued and outstanding Class A Shares resulting in the issuance of approximately 99,454 Common Shares of the Corporation in exchange for all of the issued and outstanding Class A Shares.

The conversion of the Class A Shares to Common Shares is subject to the approval of two-thirds (2/3) of the Corporation’s Common shareholders voting at the ZTEST Meeting as well as two-thirds (2/3) of the Class A shareholders voting at the Class A Meeting.

Principal Effects of the Class A Conversion on holders of the Corporation’s Common Shares

If approved and implemented, the Class A Conversion will result in the issuance of approximately 99,454 Common Shares of the Corporation and eliminate the Class A Shares. It will therefore only have a minimal effect on the Common Shares of the Corporation through a nominal dilution of 1.4%. There may be a minimal effect on a Shareholder’s percentage ownership interest in the Corporation resulting from the proposed treatment of fractional Common Shares (see “*Effect on Fractional Shares*”). No fractional Common Share will be issued in connection with the Class A Conversion. Any fraction of a Common Share resulting from the conversion of a Class A Shareholder’s Class A Shares to Common Shares will be rounded up to the next full Common Share. Each Common Share outstanding post-Class A Conversion will be entitled to one vote and will be fully paid and non-assessable.

Principal Effects of the Class A Conversion on holders of Class A Shares

The principal effects of the Class A Conversion on holders of Class A Shares will be that:

- a. the Class A Shares will be converted to Common Shares and cease to exist as a class of securities of the Corporation; and
- b. holders of Class A Shares will exchange illiquid securities of no marketable value for liquid securities of the Corporation that trade on TSXV.

Effect on Fractional Shares

No fractional Common Shares will be issued if, as a result of the Class A Conversion, a Class A shareholder would otherwise be entitled to a fractional Common Share. Instead, if, as a result of the Class A Conversion, a Shareholder is entitled to a fractional Common Share, such fractional Common Share will be rounded up to one whole post-Class A Conversion Common Share.

Effect on Non-Registered Holders

Non-Registered Holders holding their Class A Shares through an Intermediary should note that such Intermediary may have different procedures for processing the Class A Conversion than those that will be put in place by the Corporation for registered shareholders. If you are a Non-Registered Holder and you have questions or concerns in this regard, you are encouraged to contact your Intermediary.

Effect on Class A Shares Held in Book-Entry Form

Certain Non-Registered Holders may own Class A Shares in book-entry form. Non-Registered Holders will not have share certificates evidencing their ownership of such Class A Shares and therefore do not need to take any additional actions to exchange their pre-Class A Conversion book-entry Class A Shares, if any, for post-Class A Conversion Class A Shares. Upon the effective date of the Class A Conversion, each then existing book-entry account will be adjusted to reflect the number of post-Class A Conversion Class A Shares to which the Non-Registered Holder is entitled.

Letter of Transmittal for Class A Shareholders

The Letter of Transmittal included with this Circular sets out the details for the surrender of the certificates representing Class A Shares and the address of the Transfer Agent for the Corporation. Provided that a Class A Shareholder delivers and surrenders to the Transfer Agent certificates representing such securityholder's Class A Shares, together with a Letter of Transmittal, duly completed and executed in accordance with the instructions thereon or in an otherwise acceptable form and such other documents as may be required by the Transfer Agent, the Transfer Agent will forward the certificates representing the Common Shares that the Class A Shareholder is entitled to receive to such address or addresses as the Class A Shareholder may direct in the Letters of Transmittal or, in the absence of any direction, to the address of the Class A Shareholder as shown on the securities register maintained by the Transfer Agent.

Dissent Rights

Registered Class A shareholders (a "**Dissenting Shareholder**") are entitled to dissent (the "**Dissent Rights**") from the Class A Conversion Special Resolution in the manner provided in section 185 of the *Business Corporations Act* (Ontario) (the "**OBCA**"). Section 185 of the OBCA is reprinted in its entirety and attached to this Circular at **Schedule "B"**. The following summary is qualified by the provisions of section 185 of the OBCA.

In the event the Class A Conversion Special Resolution becomes effective, a Dissenting Shareholder who complies with section 185 of the OBCA will be entitled to be paid by the Corporation the fair value of the Class A Shares held by such Dissenting Shareholder determined as at the time (the "**Effective Time**") on the date (the "**Effective Date**") Articles of Amendment are filed to convert the Class A Shares to Common Shares.

A registered Class A shareholder who wishes to exercise Dissent Rights must send a notice of dissent (a “Dissent Notice”) to the Corporation, such that it is received by the Corporation not later than 4:00 p.m. (Toronto time) on the Business Day immediately preceding the date of the Class A Meeting (or any postponement or adjournment thereof), at 523 McNicoll Avenue, North York, Ontario M2H 2C9.

Persons who are beneficial owners of the Class A Shares registered in the name of a broker, custodian nominee or other intermediary who wish to dissent should be aware that only a registered Class A shareholder is entitled to dissent. A Class A shareholder who beneficially owns the Class A Shares but is not the registered holder thereof, should contact the registered holder for assistance.

The filing of the Dissent Notice does not deprive a Class A shareholder of the right to vote; however, the OBCA provides, in effect, that a Class A shareholder who has submitted a Dissent Notice and who votes in favour of the Class A Conversion Special Resolution will no longer be considered a Dissenting Shareholder with respect to the Class A Shares voted in favour of the Class A Conversion Special Resolution. The OBCA does not provide, and will not assume, that a vote against the Class A Conversion Special Resolution constitutes a Dissent Notice. In addition, the execution or exercise of a proxy does not constitute a Dissent Notice. Under the OBCA, there is no right of partial dissent and, accordingly, a Dissenting Shareholder may only dissent with respect to all Class A Shares held on behalf of any one beneficial owner that are registered in the name of the Dissenting Shareholder.

The Corporation is required, within ten (10) days after the Corporation’s shareholders and the Class A shareholders adopt the Class A Conversion Special Resolution, to send to each registered Class A shareholder who has filed a Dissent Notice, notice that the Class A Conversion Special Resolution has been adopted, but such notice is not required to be sent to any registered Class A shareholder who voted for the Class A Conversion Special Resolution or who has withdrawn such Dissent Notice.

A Dissenting Shareholder must then, within twenty (20) days after the Dissenting Shareholder receives notice that the Class A Conversion Special Resolution has been adopted or, if the Dissenting Shareholder does not receive such notice, within twenty (20) days after the Dissenting Shareholder learns that the Class A Conversion Special Resolution has been adopted, send to the Corporation a written notice (a “**Payment Demand**”) containing the name and address of the Dissenting Shareholder, the number of Class A Shares in respect of which the Dissenting Shareholder dissents and a demand for payment of the fair value of such Class A Shares. Within thirty (30) days after a Payment Demand, the Dissenting Shareholder must send to the Corporation or the Corporation’s transfer agent, the certificates representing the Class A Shares in respect of which such Payment Demand was made. A Dissenting Shareholder who fails to send the certificates representing the Class A Shares in respect of which the Dissent Right has been exercised has no right to make a claim under section 185 of the OBCA. The Corporation or the Corporation’s transfer agent will endorse on share certificates received from a Dissenting Shareholder a notice that the holder is a Dissenting Shareholder and will forthwith return the share certificates to the Dissenting Shareholder.

On sending a Payment Demand to the Corporation, a Dissenting Shareholder ceases to have any rights as a Class A shareholder, other than the right to be paid the fair value of the Class A Shares in respect of which such Payment Demand was made, except pursuant to the provisions of section 185 of the OBCA.

The Corporation is required, not later than seven (7) days after the later of the Effective Date or the date on which the Corporation received the Payment Demand of a Dissenting Shareholder, to send to each Dissenting Shareholder who has sent a Payment Demand a written offer to pay (an “**Offer to Pay**”) for the Class A Shares in respect of which such Payment Demand was made in an amount considered by the board of directors of the Corporation to be the fair value thereof, accompanied by a statement showing the manner in which the fair value was determined. Every Offer to Pay must be on the same terms. The Corporation is required to pay for the Class A Shares of a Dissenting Shareholder within ten (10) days after an Offer to Pay has been accepted by the Dissenting Shareholder, but any such Offer to Pay lapses if the Corporation does not receive an acceptance thereof within thirty (30) days after the Offer to Pay has been made.

If the Corporation fails to make an Offer to Pay for the Class A Shares of a Dissenting Shareholder, or if a Dissenting Shareholder fails to accept an offer that has been made, the Corporation may, within fifty (50) days after the Effective Date or within such further period as the Ontario Court may allow, apply to the Ontario Court to fix a fair value for the

Class A Shares of Dissenting Shareholders. If the Corporation fails to apply to the Ontario Court, a Dissenting Shareholder may apply to the Ontario Court for the same purpose within a further period of twenty (20) days or within such further period as the Ontario Court may allow. A Dissenting Shareholder is not required to give security for costs in such an application.

Upon an application to the Ontario Court, all Dissenting Shareholders whose Class A Shares have not been purchased by the Corporation will be joined as parties and bound by the decision of the Ontario Court and the Corporation will be required to notify each affected Dissenting Shareholder of the date, place and consequences of the application and of the right of such Dissenting Shareholder to appear and be heard in person or by counsel. Upon any such application to the Ontario Court, the Ontario Court may determine fair value for the Class A Shares of all Dissenting Shareholders. The final order of the Ontario Court will be rendered against the Corporation in favour of each Dissenting Shareholder and for the amount of the fair value of each Dissenting Shareholder's Class A Shares as fixed by the Ontario Court. The Ontario Court may, in its discretion, allow a reasonable rate of interest on the amount paid to each Dissenting Shareholder from the Effective Date until the date of payment.

The foregoing is only a summary of the provisions of section 185 of the OBCA, which provisions are technical and complex. It is suggested that any Class A shareholder wishing to exercise Dissent Rights seek legal advice as failure to comply strictly with the provisions of the OBCA may prejudice such shareholder's Dissent Rights.

Resolutions for Approving the Class A Conversion

Upon approval of the Special Resolutions, following the obtaining of all necessary regulatory approvals, including the acceptance of the TSXV, the Corporation will promptly file Articles of Amendment with the Minister under the OBCA in the form prescribed by the OBCA to amend the Corporation's Articles of Amalgamation. The Class A Conversion will become effective on the date shown in the Certificate of Amendment in connection therewith, or such other date as indicated in the Articles of Amendment.

Upon completion and return of the Letter of Transmittal (see subheading "Letter of Transmittal" above), the Transfer Agent will send to each registered shareholder who has sent the required documents a new share certificate representing the number of post-Class A Conversion Common Shares to which the shareholder is entitled. Until surrendered, each share certificate representing pre-Class A Conversion Class A Shares will be deemed for all purposes to represent the number of whole post-Class A Conversion Common Shares to which the holder is entitled as a result of the Class A Conversion. If a registered shareholder would otherwise be entitled to receive a fractional share, such fractional share shall be treated in the manner described above.

ZTEST Meeting- ZTEST Special Resolution

The text of the ZTEST Special Resolution to be approved by the holders of the Common Shares at the ZTEST Meeting is as follows:

"BE IT RESOLVED THAT:

1. the issued and outstanding Class A Shares be converted into Common Shares on the basis of one (1) Common Share for each twelve (12) Class A Shares;
2. no fractional Common Shares shall be issued upon the Class A Conversion, each fractional Common Share will be rounded up to one whole post-Class A Conversion Common Share;
3. notwithstanding the approval of holders of the Common Shares of the Corporation to the above resolutions, the directors of the Corporation may revoke the foregoing resolutions before they are acted on without any further approval by the persons eligible to vote on this Special Resolution at the Meeting;
4. the effective date of such Class A Conversion shall be the date shown in the Certificate of Amendment; and

5. any of the officers or directors of the Corporation be and are hereby authorized for and on behalf of the Corporation (whether under its corporate seal or otherwise) to execute and deliver Articles of Amendment to effect the foregoing resolutions with the Ministry of Consumer and Business Services (Ontario) and all other documents and instruments and to take all such other actions as such officer or director may deem necessary or desirable to implement the foregoing resolutions and the matters authorized hereby, such determinations to be conclusively evidenced by the execution and delivery of such documents and other instruments or the taking of any such action.”

The ZTEST Special Resolution must be passed by not less than two-thirds (2/3) of the votes cast by holders of Common Shares at the ZTEST Meeting in person or by proxy. Ted Drzazga, CEO and a director of the Corporation, has control over 32,813 Class A Shares or 2.75% of the issued and outstanding Class A Shares and K. Michael Guerreiro, a director of the Corporation, holds 9,375 Class A Shares or 0.79% of the issued and outstanding Class A Shares. Mr. Drzazga will be entitled to receive 2,735 Common Shares and Mr. Guerreiro will be entitled to receive 782 Common Shares if the proposed transaction is approved by both the Corporation’s Common shareholders and the Class A shareholders. Each of K. Michael Guerreiro and Ted Drzazga will be entitled to vote as shareholders of Class A Shares but will abstain from voting as holders of Common Shares of the Corporation due to their interests in the transaction as directors of the Corporation entitled to receive shares of the Corporation pursuant to the Class A Conversion. A total of 429,438 Common Shares held by Mr. Drzazga and Mr. Guerreiro will be excluded from voting at the ZTEST Meeting on the ZTEST Special Resolution.

The persons named in the White Proxy intend to vote FOR the ZTEST Special Resolution approving the Class A Conversion in the absence of directions to the contrary from the shareholders appointing them.

Class A Meeting - Class A Conversion Special Resolution

The text of the Class A Conversion Special Resolution to be approved by the holders of the Class A Shares at the Class A Meeting is as follows:

“BE IT RESOLVED THAT:

1. the issued and outstanding Class A Shares be converted into Common Shares on the basis of one (1) Common Share for each twelve (12) Class A Shares;
2. no fractional Common Shares shall be issued upon the Class A Conversion, each fractional Common Share will be rounded up to one whole post-Class A Conversion Common Share;
3. notwithstanding the approval of holders of the Class A Shares of the Corporation to the above resolutions, the directors of the Corporation may revoke the foregoing resolutions before they are acted on without any further approval by the persons eligible to vote on this Special Resolution at the Meeting;
4. the effective date of such Class A Conversion shall be the date shown in the Certificate of Amendment; and
5. any of the officers or directors of the Corporation be and are hereby authorized for and on behalf of the Corporation (whether under its corporate seal or otherwise) to execute and deliver Articles of Amendment to effect the foregoing resolutions with the Ministry of Consumer and Business Services (Ontario) and all other documents and instruments and to take all such other actions as such officer or director may deem necessary or desirable to implement the foregoing resolutions and the matters authorized hereby, such determinations to be conclusively evidenced by the execution and delivery of such documents and other instruments or the taking of any such action.”

The Class A Resolution must be passed by not less than two thirds (2/3) of the votes cast by holders of Class A Shares at the Class A Meeting in person or by proxy.

The persons named in the Green Proxy intend to vote FOR the Class A Conversion Special Resolution approving the Class A Conversion in the absence of directions to the contrary from the shareholders appointing them.

ADDITIONAL INFORMATION

Additional information concerning the Corporation can be obtained from www.sedar.com.

Financial information concerning the Corporation is provided in the Corporation's financial statements and Management Discussion and Analysis for its fiscal year ended June 30, 2011. Copies of these documents may be obtained from the Corporation by making a request in writing to the Corporation at 523 McNicoll Avenue, North York, Ontario, M2H 2C9, fax (416) 297-5156 Attention: Chief Executive Officer.

APPROVAL OF DIRECTORS

The Circular and the mailing of same to shareholders have been approved by the Board of Directors of the Corporation.

DATED the 8th day of August, 2012.

**BY ORDER OF THE
BOARD OF DIRECTORS**

"Wojciech Drzazga"

WOJCIECH DRZAZGA
Chief Executive Officer

SCHEDULE “A”

ZTEST ELECTRONICS INC. (the “Corporation”)

AUDIT COMMITTEE CHARTER

Purpose of the Audit Committee

The purpose of the Audit Committee (the “**Committee**”) of the Board of Directors (the “**Board**”) of the Corporation is to assist the Board in fulfilling its responsibility for the oversight of the financial reporting process. The purpose of this Charter is to ensure that the Corporation maintains a strong, effective and independent audit committee, to enhance the quality of financial disclosure made by the Corporation and to foster increased investor confidence in both the Corporation and Canada’s capital markets. It is the intention of the Board that through the involvement of the Committee, the external audit will be conducted independently of the Corporation’s Management to ensure that the independent auditors serve the interests of shareholders rather than the interests of Management of the Corporation. The Committee will act as a liaison to provide better communication between the Board and the external auditors. The Committee will review financial reports or other financial information provided by the Corporation to regulatory authorities and shareholders and review the integrity, adequacy and timeliness of the financial reporting and disclosure practices of the Corporation. The Committee will monitor the independence and performance of the Corporation’s independent auditors.

Composition and Procedures of the Audit Committee

The Committee shall consist of at least three (3) directors. Members of the Committee shall be appointed by the Board and may be removed by the Board in its discretion. While the Board may recommend a Chairman for the Committee, the Committee shall have the discretion to appoint the Chairman from amongst its members. The Committee shall establish procedures for quorum, notice and timing of meetings subject to the proviso that a quorum shall be no less than two (2) Committee members. Meetings shall be held no less regularly than once per quarter to review the audited financial statements and interim financial statements of the Corporation. At least one (1) member of the Committee shall be independent and the Board and the Committee shall endeavor to appoint a majority of independent directors to the Committee, who in the opinion of the Board, would be free from a relationship which would interfere with the exercise of the Committee members’ independent judgment. At least one (1) member of the Committee shall have accounting or related financial management expertise. All members of the Committee that are not financially literate will work towards becoming financially literate to obtain a working familiarity with basic finance and accounting practices applicable to the Corporation. For the purposes of this Charter, an individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation’s financial statements.

Specific duties and responsibilities of the Audit Committee

- (1) The Committee shall recommend to the Board:
 - (a) the external auditors to be nominated for the purpose of preparing or issuing an auditors' report or performing other audit, review or attest services for the Corporation; and
 - (b) the compensation of the external auditors.
- (2) The Committee shall be directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditors' report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between Management and the external auditors regarding financial reporting.
- (3) The Committee shall pre-approve all non-audit services to be provided to the Corporation or its subsidiary entities by the Corporation's external auditors.
- (4) The Committee satisfies the pre-approval requirement in subsection (3) if:
 - (a) the aggregate amount of all the non-audit services that were not pre-approved is reasonably expected to constitute no more than five per cent of the total amount of fees paid by the Corporation and its subsidiary entities to the Corporation's external auditors during the fiscal year in which the services are provided;
 - (b) the Corporation or the subsidiary entity of the Corporation, as the case may be, did not recognize the services as non-audit services at the time of the engagement; and
 - (c) the services are promptly brought to the attention of the Committee and approved, prior to the completion of the audit, by the Committee or by one or more of its members to whom authority to grant such approvals has been delegated by the Committee.
- (5)
 - (a) The Committee may delegate to one or more independent members the authority to pre-approve non-audit services in satisfaction of the requirement in subsection (3).
 - (b) The pre-approval of non-audit services by any member to whom authority has been delegated pursuant to subsection (5)(a) must be presented to the Committee at its first scheduled meeting following such pre-approval.
- (6) The Committee satisfies the pre-approval requirement in subsection (3) if it adopts specific policies and procedures for the engagement of the non-audit services, if:
 - (a) the pre-approval policies and procedures are detailed as to the particular service;
 - (b) the Committee is informed of each non-audit service; and
 - (c) the procedures do not include delegation of the Committee's responsibilities to

Management.

- (7) The Committee shall review the Corporation's financial statements, MD&A and annual and interim earnings press releases before the Corporation publicly discloses this information.
- (8) The Committee must be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the public disclosure referred to in subsection (7), and must periodically assess the adequacy of those procedures.
- (9) The Committee must establish procedures for:
 - (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and
 - (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
- (10) The Committee must review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation.
- (11) The Committee shall have the authority:
 - (a) to engage independent counsel and other advisors as it determines necessary to carry out its duties,
 - (b) to set and pay the compensation for any advisors employed by the Committee; and
 - (c) to communicate directly with the internal and external auditors.
- (12) The Committee shall review with Management and independent auditors the quality and the appropriateness of the Corporation's financial reporting and accounting policies, standards and principles and significant changes in such standards or principles or in their application, including key accounting decisions affecting the financial statements, alternatives thereto and the rationale for decisions made.
- (13) The Committee shall review the clarity of the financial statement presentation with a view to ensuring that the financial statements provide meaningful and readily understandable information to shareholders and the investing public.
- (14) The Committee shall monitor the independence of the independent auditors and establish procedures for confirming annually the independence of the independent auditors and any relationships that may impact upon the objectivity and the independence of the external auditors.
- (15) The Committee shall review with Management and the external auditors the audit plan for the year-end financial statements prior to the commencement of the year end audit.

- (16) The Committee shall review the appointments of the Corporation's Chief Financial Officer and any other key financial executives involved in the financial reporting process.
- (17) The Committee shall review with Management and the external auditors significant related party transactions and potential conflicts of interest.
- (18) The Committee shall review in consultation with the external auditors and Management the integrity of the Corporation's financial reporting process and internal controls.
- (19) The Committee shall meet with the external auditors in the absence of Management to discuss the audit process, any difficulties encountered, any restrictions on the scope of work or access to required information, any significant judgments made by Management and any disagreement among Management and the external auditors in the preparation of the financial statements and such other matters that may arise as a result of the audit or review by the external auditors.
- (20) The Committee shall conduct or authorize any review or investigation and consider any matters of the Corporation the Committee believes is within the scope of its responsibilities and shall establish procedures for such review or investigation as may be required.
- (21) The Committee shall make recommendations to the Board with respect to changes or improvements to financial or accounting practices, policies and principles and changes to this Charter.

SCHEDULE "B"

SECTION 185 OF THE OBCA

R.S.O. 1990, c.B.16 (except otherwise indicated)

185. (1) Rights of dissenting shareholders - Subject to subsection (3) and to sections 186 and 248, if a corporation resolves to,

- (a) amend its articles under section 168 to add, remove or change restrictions on the issue, transfer or ownership of shares of a class or series of the shares of the corporation;
- (b) amend its articles under section 168 to add, remove or change any restriction upon the business or businesses that the corporation may carry on or upon the powers that the corporation may exercise;
- (c) amalgamate with another corporation under sections 175 and 176;
- (d) be continued under the laws of another jurisdiction under section 181; or
- (e) sell, lease or exchange all or substantially all its property under subsection 184 (3), a holder of shares of any class or series entitled to vote on the resolution may dissent.

(2) **Idem** - If a corporation resolves to amend its articles in a manner referred to in subsection 170 (1), a holder of shares of any class or series entitled to vote on the amendment under section 168 or 170 may dissent, except in respect of an amendment referred to in,

- (a) clause 170 (1) (a), (b) or (e) where the articles provide that the holders of shares of such class or series are not entitled to dissent; or
- (b) subsection 170 (5) or (6).

(2.1) **One class of shares** - The right to dissent described in subsection (2) applies even if there is only one class of shares.

(3) **Exception** - A shareholder of a corporation incorporated before the 29th day of July, 1983 is not entitled to dissent under this section in respect of an amendment of the articles of the corporation to the extent that the amendment,

- (a) amends the express terms of any provision of the articles of the corporation to conform to the terms of the provision as deemed to be amended by section 277; or
- (b) deletes from the articles of the corporation all of the objects of the corporation set out in its articles, provided that the deletion is made by the 29th day of July, 1986.

(4) **Shareholder's right to be paid fair value** - In addition to any other right the shareholder may have, but subject to subsection (30), a shareholder who complies with this section is entitled, when the action approved by the resolution from which the shareholder dissents becomes effective, to be paid by the corporation the fair value of the shares held by the shareholder in respect of which the shareholder dissents, determined as of the close of business on the day before the resolution was adopted.

(5) **No partial dissent** - A dissenting shareholder may only claim under this section with respect to all the shares of a class held by the dissenting shareholder on behalf of any one beneficial owner and registered in the name of the dissenting shareholder.

(6) **Objection** - A dissenting shareholder shall send to the corporation, at or before any meeting of shareholders at which a resolution referred to in subsection (1) or (2) is to be voted on, a written objection to the resolution, unless the corporation did not give notice to the shareholder of the purpose of the meeting or of the shareholder's right to dissent.

(7) **Idem** - The execution or exercise of a proxy does not constitute a written objection for purposes of subsection (6).

(8) **Notice of adoption of resolution** - The corporation shall, within ten days after the shareholders adopt the resolution, send to each shareholder who has filed the objection referred to in subsection (6) notice that the resolution has been adopted, but such notice is not required to be sent to any shareholder who voted for the resolution or who has withdrawn the objection.

(9) **Idem** - A notice sent under subsection (8) shall set out the rights of the dissenting shareholder and the procedures to be followed to exercise those rights.

(10) **Demand for payment of fair value** - A dissenting shareholder entitled to receive notice under subsection (8) shall, within twenty days after receiving such notice, or, if the shareholder does not receive such notice, within twenty days after learning that the resolution has been adopted, send to the corporation a written notice containing,

- (a) the shareholder's name and address;
- (b) the number and class of shares in respect of which the shareholder dissents; and
- (c) a demand for payment of the fair value of such shares.

(11) **Certificates to be sent in** - Not later than the thirtieth day after the sending of a notice under subsection (10), a dissenting shareholder shall send the certificates representing the shares in respect of which the shareholder dissents to the corporation or its transfer agent.

Note: On a day to be named by proclamation of the Lieutenant Governor, subsection (11) is amended by striking out "the certificates representing" and substituting "the certificates, if any, representing". See: 2011, c. 1, Sched. 2, ss. 1 (9), 9 (2).

(12) **Idem** - A dissenting shareholder who fails to comply with subsections (6), (10) and (11) has no right to make a claim under this section.

(13) **Endorsement on certificate** - A corporation or its transfer agent shall endorse on any share certificate received under subsection (11) a notice that the holder is a dissenting shareholder under this section and shall return forthwith the share certificates to the dissenting shareholder.

(14) **Rights of dissenting shareholder** - On sending a notice under subsection (10), a dissenting shareholder ceases to have any rights as a shareholder other than the right to be paid the fair value of the shares as determined under this section except where,

- (a) the dissenting shareholder withdraws notice before the corporation makes an offer under subsection (15);
- (b) the corporation fails to make an offer in accordance with subsection (15) and the dissenting shareholder withdraws notice; or
- (c) the directors revoke a resolution to amend the articles under subsection 168 (3), terminate an amalgamation agreement under subsection 176 (5) or an application for continuance under subsection 181 (5), or abandon a sale, lease or exchange under subsection 184 (8),

in which case the dissenting shareholder's rights are reinstated as of the date the dissenting shareholder sent the

notice referred to in subsection (10), and the dissenting shareholder is entitled, upon presentation and surrender to the corporation or its transfer agent of any certificate representing the shares that has been endorsed in accordance with subsection (13), to be issued a new certificate representing the same number of shares as the certificate so presented, without payment of any fee.

Note: On a day to be named by proclamation of the Lieutenant Governor, subsection (14) is amended by striking out “and the dissenting shareholder is entitled, upon presentation and surrender to the corporation or its transfer agent of any certificate representing the shares that has been endorsed in accordance with subsection (13), to be issued a new certificate representing the same number of shares as the certificate so presented, without payment of any fee” at the end. See: 2011, c. 1, Sched. 2, ss. 1 (10), 9 (2).

Note: On a day to be named by proclamation of the Lieutenant Governor, section 185 is amended by adding the following subsections:

(14.1) **Same** - A dissenting shareholder whose rights are reinstated under subsection (14) is entitled, upon presentation and surrender to the corporation or its transfer agent of any share certificate that has been endorsed in accordance with subsection (13),

- (a) to be issued, without payment of any fee, a new certificate representing the same number, class and series of shares as the certificate so surrendered; or
- (b) if a resolution is passed by the directors under subsection 54 (2) with respect to that class and series of shares,
 - (i) to be issued the same number, class and series of uncertificated shares as represented by the certificate so surrendered, and
 - (ii) to be sent the notice referred to in subsection 54 (3). 2011, c. 1, Sched. 2, s. 1 (11).

(14.2) **Same** - A dissenting shareholder whose rights are reinstated under subsection (14) and who held uncertificated shares at the time of sending a notice to the corporation under subsection (10) is entitled,

- (a) to be issued the same number, class and series of uncertificated shares as those held by the dissenting shareholder at the time of sending the notice under subsection (10); and
- (b) to be sent the notice referred to in subsection 54 (3). 2011, c. 1, Sched. 2, s. 1 (11).

(15) **Offer to pay** - A corporation shall, not later than seven days after the later of the day on which the action approved by the resolution is effective or the day the corporation received the notice referred to in subsection (10), send to each dissenting shareholder who has sent such notice,

- (a) a written offer to pay for the dissenting shareholder’s shares in an amount considered by the directors of the corporation to be the fair value thereof, accompanied by a statement showing how the fair value was determined; or
- (b) if subsection (30) applies, a notification that it is unable lawfully to pay dissenting shareholders for their shares.

(16) **Idem** - Every offer made under subsection (15) for shares of the same class or series shall be on the same terms.

(17) **Idem** - Subject to subsection (30), a corporation shall pay for the shares of a dissenting shareholder within ten days after an offer made under subsection (15) has been accepted, but any such offer lapses if the corporation does not receive an acceptance thereof within thirty days after the offer has been made.

(18) **Application to court to fix fair value** - Where a corporation fails to make an offer under subsection (15) or if a

dissenting shareholder fails to accept an offer, the corporation may, within fifty days after the action approved by the resolution is effective or within such further period as the court may allow, apply to the court to fix a fair value for the shares of any dissenting shareholder.

(19) **Idem** - If a corporation fails to apply to the court under subsection (18), a dissenting shareholder may apply to the court for the same purpose within a further period of twenty days or within such further period as the court may allow.

(20) **Idem** - A dissenting shareholder is not required to give security for costs in an application made under subsection (18) or (19).

(21) **Costs** - If a corporation fails to comply with subsection (15), then the costs of a shareholder application under subsection (19) are to be borne by the corporation unless the court otherwise orders.

(22) **Notice to shareholders** - Before making application to the court under subsection (18) or not later than seven days after receiving notice of an application to the court under subsection (19), as the case may be, a corporation shall give notice to each dissenting shareholder who, at the date upon which the notice is given,

(a) has sent to the corporation the notice referred to in subsection (10); and

(b) has not accepted an offer made by the corporation under subsection (15), if such an offer was made,

of the date, place and consequences of the application and of the dissenting shareholder's right to appear and be heard in person or by counsel, and a similar notice shall be given to each dissenting shareholder who, after the date of such first mentioned notice and before termination of the proceedings commenced by the application, satisfies the conditions set out in clauses (a) and (b) within three days after the dissenting shareholder satisfies such conditions.

(23) **Parties joined** - All dissenting shareholders who satisfy the conditions set out in clauses (22)(a) and (b) shall be deemed to be joined as parties to an application under subsection (18) or (19) on the later of the date upon which the application is brought and the date upon which they satisfy the conditions, and shall be bound by the decision rendered by the court in the proceedings commenced by the application.

(24) **Idem** - Upon an application to the court under subsection (18) or (19), the court may determine whether any other person is a dissenting shareholder who should be joined as a party, and the court shall fix a fair value for the shares of all dissenting shareholders.

(25) **Appraisers** - The court may in its discretion appoint one or more appraisers to assist the court to fix a fair value for the shares of the dissenting shareholders.

(26) **Final order** - The final order of the court in the proceedings commenced by an application under subsection (18) or (19) shall be rendered against the corporation and in favour of each dissenting shareholder who, whether before or after the date of the order, complies with the conditions set out in clauses (22) (a) and (b).

(27) **Interest** - The court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder from the date the action approved by the resolution is effective until the date of payment.

(28) **Where corporation unable to pay** - Where subsection (30) applies, the corporation shall, within ten days after the pronouncement of an order under subsection (26), notify each dissenting shareholder that it is unable lawfully to pay dissenting shareholders for their shares.

(29) **Idem** - Where subsection (30) applies, a dissenting shareholder, by written notice sent to the corporation within thirty days after receiving a notice under subsection (28), may,

(a) withdraw a notice of dissent, in which case the corporation is deemed to consent to the withdrawal and the shareholder's full rights are reinstated; or

- (b) retain a status as a claimant against the corporation, to be paid as soon as the corporation is lawfully able to do so or, in a liquidation, to be ranked subordinate to the rights of creditors of the corporation but in priority to its shareholders.

(30) **Idem** - A corporation shall not make a payment to a dissenting shareholder under this section if there are reasonable grounds for believing that,

- (a) the corporation is or, after the payment, would be unable to pay its liabilities as they become due; or
- (b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities.

(31) **Court order** - Upon application by a corporation that proposes to take any of the actions referred to in subsection (1) or (2), the court may, if satisfied that the proposed action is not in all the circumstances one that should give rise to the rights arising under subsection (4), by order declare that those rights will not arise upon the taking of the proposed action, and the order may be subject to compliance upon such terms and conditions as the court thinks fit and, if the corporation is an offering corporation, notice of any such application and a copy of any order made by the court upon such application shall be served upon the Commission. 1994, c. 27, s. 71 (24).

(32) **Commission may appear** - The Commission may appoint counsel to assist the court upon the hearing of an application under subsection (31), if the corporation is an offering corporation. 1994, c. 27, s. 71 (24).

ZTEST Electronics Inc.
Consolidated Financial Statements
June 30, 2011 and 2010

INDEPENDENT AUDITORS' REPORT

To the Shareholders of ZTEST Electronics Inc.

We have audited the accompanying consolidated financial statements of ZTEST Electronics Inc. which comprise the consolidated balance sheets as at June 30, 2011 and 2010 and the consolidated statements of income, comprehensive income and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present, in all material respects, the financial position of ZTEST Electronics Inc. as of June 30, 2011 and 2010, and its results of operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed: "**MSCM LLP**"

**CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS**

Toronto, Ontario
October 20, 2011

ZTEST Electronics Inc.**Consolidated Balance Sheets***June 30, 2011 and 2010*

| | 2011 | 2010 |
|--------------------------------------------|--------------|--------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 406,860 | \$ 395,767 |
| Accounts receivable | 448,164 | 510,198 |
| Inventories (note 4) | 309,512 | 273,512 |
| Prepaid expenses and other assets | 72,079 | 34,564 |
| | 1,236,615 | 1,214,041 |
| Lease deposit (note 7) | 35,000 | - |
| Equipment (note 5) | 834,955 | 1,041,662 |
| | \$ 2,106,570 | \$ 2,255,703 |
| Liabilities | | |
| Current liabilities | | |
| Customer deposits and deferred revenue | \$ 56,119 | \$ 7,896 |
| Accounts payable and accrued liabilities | 475,977 | 546,752 |
| Dividends payable | 268,201 | 268,201 |
| Current portion of long-term debt (note 6) | 250,161 | 137,563 |
| Preferred shares (note 8) | 473,855 | 473,855 |
| | 1,524,313 | 1,434,267 |
| Long-term debt (note 6) | 1,051,125 | 1,352,187 |
| | 2,575,438 | 2,786,454 |
| Deficiency in assets | | |
| Share capital (note 8) | 22,065,037 | 21,973,055 |
| Warrants (note 8) | 81,564 | - |
| Contributed surplus (note 8) | 485,451 | 416,755 |
| Deficit | (23,100,920) | (22,920,561) |
| | (468,868) | (530,751) |
| | \$ 2,106,570 | \$ 2,255,703 |

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

Approved by the Board:

Signed: "John Perreault"

Director

Signed: "Wojciech Drzazga"

Director

ZTEST Electronics Inc.**Consolidated Statements of Income, Comprehensive Income and Deficit***For the years ended June 30, 2011 and 2010*

| | 2011 | 2010 |
|-----------------------------------------------------------------------|------------------------|-----------------|
| Product sales | \$ 4,010,068 | \$ 3,837,630 |
| Cost of product sales (note 4) | 2,643,484 | 2,272,935 |
| | 1,366,584 | 1,564,695 |
| Expenses | | |
| Selling, general and administrative | 1,340,392 | 1,112,964 |
| Interest expense - long-term debt (note 9) | 147,119 | 160,123 |
| Interest expense - other (note 9) | 299 | 11,147 |
| Financing fees (note 7) | 44,346 | - |
| Amortization of equipment | 10,445 | 12,119 |
| Foreign exchange loss | 2,049 | 2,132 |
| | 1,544,650 | 1,298,485 |
| (Loss) income from operations | (178,066) | 266,210 |
| Miscellaneous income | 1,845 | - |
| Gain on disposal of mineral resource properties | - | 114,403 |
| Loss on disposal of equipment | (4,138) | - |
| (Loss) income before provision for income taxes | (180,359) | 380,613 |
| Provision for income taxes (note 10) | - | - |
| Net (loss) income and comprehensive (loss) income for the year | (180,359) | 380,613 |
| Deficit, beginning of year | (22,920,561) | (23,301,174) |
| Deficit, end of year | \$ (23,100,920) | \$ (22,920,561) |
| Net (loss) income per share - basic | \$ (0.031) | \$ 0.072 |
| - fully diluted | \$ (0.031) | \$ 0.072 |
| Weighted average shares outstanding – basic and fully diluted | 5,745,776 | 5,262,488 |

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

ZTEST Electronics Inc.

Consolidated Statements of Cash Flows

For the years ended June 30, 2011 and 2010

| | 2011 | 2010 |
|-----------------------------------------------------|-------------------|-------------------|
| Cash flow from operating activities | | |
| Net (loss) income for the years | \$ (180,359) | \$ 380,613 |
| Items not involving cash | | |
| Amortization of equipment | 213,110 | 264,091 |
| Loss on disposal of equipment | 4,138 | - |
| Stock based compensation | 68,696 | 732 |
| Interest accretion | 19,730 | 18,711 |
| Warrants accounted for as financing fees | 42,746 | - |
| Gain on disposal of mineral resource properties | - | (114,403) |
| Changes in non-cash working capital items | | |
| Accounts receivable | 62,034 | (73,458) |
| Inventories | (36,000) | 6,397 |
| Prepaid expenses and other assets | (72,515) | 831 |
| Customer deposits and deferred revenue | 48,223 | (30,554) |
| Accounts payable and accrued liabilities | (70,775) | 81,360 |
| | 99,028 | 534,320 |
| Cash flow from investing activities | | |
| Purchase of equipment | (11,691) | (19,903) |
| Proceeds on disposal of equipment | 1,150 | - |
| Proceeds on disposal of mineral resource properties | - | 114,403 |
| | (10,541) | 94,500 |
| Cash flow from financing activities | | |
| Proceeds of notes payable | - | 206,500 |
| Proceeds of long-term debt | - | 7,132 |
| Proceeds of share issuance | 135,000 | - |
| Costs of share issuance | (4,200) | - |
| Repayment of notes payable | - | (300,680) |
| Repayment of long-term debt | (208,194) | (227,810) |
| | (77,394) | (314,858) |
| Increase in cash | 11,093 | 313,962 |
| Cash, beginning of year | 395,767 | 81,805 |
| Cash, end of year | \$ 406,860 | \$ 395,767 |

Supplemental Disclosure of Cash Flow Information

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

| | | |
|--------------|------------|------------|
| Interest | \$ 126,399 | \$ 133,754 |
| Income taxes | \$ - | \$ - |

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

1. Business of the Company

ZTEST Electronics Inc. ("the Company") was amalgamated under the laws of Ontario and carries on business designing, developing, and assembling printed circuit boards and other electronic equipment. The Company's shares trade on the Canadian Venture Exchange under the symbol "ZTE".

2. Significant Accounting Policies

Going concern basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a "going concern". This assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. As at June 30, 2011 the Company has a deficit, to date, of \$23,100,920 and working capital deficiency of \$287,698. The Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and its ability to generate positive cash flow from operations. If the going concern assumption were not appropriate for these consolidated financial statements then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

Basis of presentation

These consolidated financial statements have been prepared using the consolidation method and accordingly include the following subsidiaries' assets and liabilities as well as the revenues and expenses arising, subsequent to the date of acquisition:

| | | | |
|-----------------------------------|---|-----------------------|------------------|
| Permatech Electronics Corporation | - | 100.0% ⁽¹⁾ | owned |
| Northern Cross Minerals Inc. | - | 66.7% | owned (inactive) |

⁽¹⁾ The Company has granted options to two creditors whereby each option-holder has the right to acquire a 24% interest in Permatech Electronics Corp. (*note 6*).

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

The Black Scholes option valuation model used by the Company to determine fair values, was developed for use in estimating the fair value of freely traded options and warrants. This model requires the input of highly subjective assumptions including future stock price volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing model does not necessarily provide a reliable single measure of the fair value of the Company's stock options and warrants.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with maturity at the date of purchase of three months or less. At June 30, 2011 and June 30, 2010 there were no cash equivalents on hand.

Inventories

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

Notes to Consolidated Financial Statements*June 30, 2011 and 2010*

2. Significant Accounting Policies - continued

Equipment

Equipment is stated at cost. Amortization is provided over the related assets' estimated useful lives using the following methods and annual rates with one-half of the rates noted below used in the year of acquisition:

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

Equipment is reviewed for possible impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

Investments

The Company currently has investments in four inactive corporations and holds preference shares of another. The carrying value of each of these investments has been written down to their estimated net realizable value of \$Nil (2010 - \$Nil) and any further recoveries, should any arise, will be accounted for on a cash basis.

Future income taxes

The Company accounts for income taxes using the asset and liability method of accounting. Under this method, future income tax assets and future income tax liabilities are recorded based on temporary differences between the financial reporting basis of the Company's assets and liabilities and their corresponding tax basis. The future benefit of each income tax asset, including unused tax losses, is recognized subject to a valuation allowance that is predicated upon the extent to which it is more likely than not that such assets will be realized and losses will be utilized. These future income tax assets and liabilities are measured using substantively enacted tax rates and laws that are expected to apply when the tax assets or liabilities are to be settled or realized.

Revenue recognition

Revenue is recorded when the product is delivered and/or the service is completed which corresponds with the transfer of title, and when collection is reasonably assured.

Earnings per share

Basic earnings (loss) per share are calculated using the weighted average number of common shares outstanding throughout the year. Diluted earnings (loss) per share are computed using the treasury stock method. Stock options and warrants outstanding are not included in the computation of diluted earnings (loss) per share if their inclusion would be anti-dilutive.

Foreign exchange

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

Stock based compensation

The Company has in effect a Stock Option Plan. Stock options awarded to directors, officers, consultants and employees are accounted for using the fair value-based method. Fair value is calculated using the Black Scholes model and is added to contributed surplus over the vesting period for the options. Consideration paid on the exercise of stock options is credited to share capital together with any associated contributed surplus.

Future accounting pronouncements***International reporting standards:***

The Accounting Standards Board ("AcSB") requires that all public entities transition to International Financial Reporting Standards (IFRS) from Canadian GAAP for fiscal years commencing on or after January 1, 2011. Accordingly, the Company will begin reporting in accordance with IFRS for its fiscal year ended June 30, 2012 and the first report to be issued in under IFRS will be the interim consolidated financial statements for the period ended September 30, 2011. It is currently anticipated that this transition will result in additional disclosures but that it will not result in any revision to, or restatement of, the carrying value of any assets or liabilities or the amounts of any revenues or expenses presented in these consolidated financial statements.

2. Significant Accounting Policies - continued

Segment Disclosure

The Company has one operating segment involving the design, development, and assembly of printed circuit boards and other electronic equipment. All of the Company's assets are located in Canada.

3. Financial Instruments

The Company has determined the most appropriate classification for its financial instruments such that cash is classified as held for trading and is measured at fair value. Accounts receivable has been classified as loans and receivables and accounts payable, accrued liabilities, customer deposits, deferred revenue, dividends payable, notes payable, long-term debt and preferred shares are classified as other financial liabilities, which are measured at amortized cost. These classifications have remained unchanged since initial recognition.

Fair Values

The carrying amounts of cash, accounts receivable, customer deposits and deferred revenue, accounts payable and accrued liabilities, and notes payable approximate their fair values due to the short-term maturities of these instruments. Long-term debt is recognized initially at fair value. The difference between face value and initial fair value, if any, is amortized on a straight line basis over the remaining term of the debt. It is not practicable to determine the fair value of preferred shares or dividends payable since the timing of cash flows are not known.

Risks

The Company is exposed to credit risk, liquidity risk, currency risk, and interest rate risk. 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 year.

Credit risk:

Credit risk represents the financial loss that the Company would experience if one or more of its customers failed to meet its obligations. The maximum credit exposure is represented by the carrying amount of accounts receivable as reported on the balance sheet. 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 represents the potential difficulties that the Company may encounter in meeting obligations associated with financial liabilities. The Company is reporting a working capital deficiency of \$287,698 (2010 - \$220,226). This includes a long-term debt, preferred shares and dividends payable with an aggregate carrying value of \$781,656 (2010 - \$781,656), that are each past due. 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.

Currency risk:

Currency risk is the risk that the amount of future cash flows of cash, accounts receivables, accounts payable and accrued liabilities that are denominated in US dollars will fluctuate because of changes in foreign exchange rates. The Company purchases some inventory components and makes some of its product sales in US dollars. The Company monitors its exposure to, but does not actively manage this risk. During the current year the Company reported a net loss on foreign exchange of \$2,049 (2010 - \$2,132).

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

3. Financial instruments - continued

Interest rate risk:

Interest rate risk represents the possibility that future cash flows arising from financial instruments may fluctuate because of changes in the market rate of interest. The Company has certain long-term debts for which the interest rate is reset periodically in accordance with the prime lending rate of its financial institution. The future monthly payments on these debts will increase or decrease in correlation with the change, if any, in the prime lending rate. The Company manages this risk by establishing fixed interest rates whenever possible.

4. Inventories

The carrying value of inventory is comprised of:

| | 2011 | 2010 |
|-----------------|-------------------|-------------------|
| Raw materials | \$ 272,645 | \$ 228,419 |
| Work in process | 20,697 | 33,110 |
| Finished goods | 16,170 | 11,983 |
| | \$ 309,512 | \$ 273,512 |

Inventory utilization during the year was as follows:

| | 2011 | 2010 |
|--------------------------------------------------|---------------------|---------------------|
| Raw materials and supplies used | \$ 1,202,607 | \$ 984,481 |
| Labour costs | 1,083,418 | 889,884 |
| Amortization of equipment | 202,665 | 251,972 |
| Other costs | 146,569 | 128,965 |
| Net change in finished goods and work in process | 8,225 | 17,633 |
| Cost of product sales | \$ 2,643,484 | \$ 2,272,935 |

5. Equipment

| 2011 | Cost | Accumulated Amortization | Net Book Value |
|----------------------------------------|---------------------|-----------------------------|---------------------|
| Computer equipment | \$ 168,449 | \$ 160,286 | \$ 8,163 |
| Office equipment and furniture | 71,277 | 64,346 | 6,931 |
| Manufacturing equipment ⁽¹⁾ | 2,250,093 | 1,430,232 | 819,861 |
| Leasehold improvements | 61,003 | 61,003 | - |
| | \$ 2,550,822 | \$ 1,715,867 | \$ 834,955 |
| 2010 | Cost | Accumulated Amortization | Net Book Value |
| Computer equipment | \$ 166,880 | \$ 157,124 | \$ 9,756 |
| Office equipment and furniture | 70,287 | 62,736 | 7,551 |
| Manufacturing equipment ⁽¹⁾ | 2,259,510 | 1,239,947 | 1,018,563 |
| Leasehold improvements | 61,003 | 56,211 | 4,792 |
| | \$ 2,557,680 | \$ 1,516,018 | \$ 1,041,662 |

⁽¹⁾ Equipment with net book value of \$550,768 (2010 - \$688,460) is pledged as security (note 7).

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

6. Long-Term Debt

| | 2011 | 2010 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Non interest bearing debenture has matured. ⁽¹⁾ | \$ 39,600 | \$ 39,600 |
| Term loan bearing interest at the prime lending rate plus 4.75%, fixed annually each September 30 and currently at 7.75%, secured by a general security agreement covering the assets of Permatest Electronics Corporation, matures September 2013. Repayment is to be made by way of monthly payments, blended as to principal and interest, of \$6,601 until September 2011, followed by twelve monthly payments of \$8,626, and twelve monthly payments of \$10,859. ⁽²⁾ | 230,434 | 312,694 |
| Debenture, bearing interest at 10.5%, secured on a pro-rata basis with another debenture by specific equipment having a net book value of \$550,768 (June 2010 - \$688,460), matures December 2013. The debenture has a face value of \$665,824. It may be repaid, in whole or in part, at any time. Monthly payments, blended as to principal and interest of \$15,865 are required until December 2011, and then \$16,171 each month until maturity. The holder of this debenture was issued 2,800,000 pre-consolidation common shares of the Company as additional compensation for having advanced the funds. | 656,935 | 711,751 |
| Debenture, bearing interest at 4.5%, secured on a pro-rata basis with another debenture by specific equipment having a net book value of \$550,768 (June 2010 - \$688,460), matures December 2013. The debenture has a face value of \$284,067 and may be repaid, in whole or in part, at any time at the Company's discretion. Payments as to interest only are required until maturity. The holder of this debenture was granted an option to acquire a 24% interest in Permatest Electronics Corporation for \$200,000 on or before June 15, 2012 as additional compensation for having advanced the funds. | 247,457 | 232,565 |
| Term loan bearing interest at the prime lending rate plus 8%, fixed semi-annually each April 30 and currently at 11.00%, secured by a general security agreement covering the assets of Permatest Electronics Corporation, matures April 2015. The loan has a face value of \$131,540. It may be repaid, in whole or in part, at any time and the Company opted to make an extra payment of \$60,000 during the year. Repayment is to be made by way of monthly payments, blended as to principal and interest, of \$2,728 until April 2012, then \$2,961 until April 2013, then \$3,692 until April 2014, then \$4,920 until maturity. The holder of this debenture was granted an option to acquire a 24% interest in Permatest Electronics Corporation for \$200,000 on or before May 1, 2015 as additional compensation for having advanced the funds. ⁽³⁾ | 126,860 | 193,140 |
| Total long-term debt | 1,301,286 | 1,489,750 |
| Less: Current portion | 250,161 | 137,563 |
| | \$ 1,051,125 | \$ 1,352,187 |

(1) The debenture has matured but no means of settlement has been reached. It is classified as current.

(2) Subsequent to the year end the Company provided the lender with notice and made a pre-payment of \$30,000 on September 30, 2011. Commencing October 31, 2011 the monthly payments will be amended to reflect the reduced principal.

(3) Payable to a corporate shareholder that is controlled by the spouse of a Director of the Company.

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

6. Long-Term Debt - continued

| | |
|----------------------------------------------------------------|--------------|
| The minimum annual future principal repayments are as follows: | |
| 2012 | \$ 250,161 |
| 2013 | 266,604 |
| 2014 | 738,732 |
| 2015 | 45,789 |
| | <hr/> |
| | \$ 1,301,286 |

7. Commitments

Bank operating loan

During the year the Company obtained a \$250,000 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, 2013, and is secured by a general security agreement covering the assets of Permatest Electronics Corporation and by the personal guarantee of an individual who 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 will 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. The monthly fee and the value attributed to the warrants have been accounted for as financing fees.

Operating leases

The Company leases its operating facility under a lease that is due to expire March 31, 2021. A lease deposit in the amount of \$35,000 has been paid and will be applied or refunded at the end of the lease. Minimum monthly rental payments ranging from \$6,791 to \$8,979 are required over the term of the lease as follows:

| | |
|-----------|------------|
| 2012 | \$ 83,297 |
| 2013 | 86,466 |
| 2014 | 88,729 |
| 2015 | 90,993 |
| 2016 | 95,972 |
| Remaining | 499,555 |
| | <hr/> |
| | \$ 945,012 |

8. Share Capital

(a) Authorized

Unlimited Common shares

Unlimited Non-voting, non-participating Class A special shares redeemable by the Company or the holders, under specific conditions that have not yet been satisfied, on a one for one basis for common shares of Northern Cross Minerals Inc.

Unlimited Preferred shares in one or more series. The following four series have been authorized to date:

Series A redeemable, voting ⁽¹⁾ shares were to be repurchased May 2004. ⁽²⁾

Series B shares may no longer be issued and all previously issued shares were converted into common shares.

Series C redeemable, voting ⁽¹⁾ shares were to be repurchased May 2007. ⁽²⁾

Series D redeemable, voting ⁽¹⁾ shares were to be repurchased June 2007. ⁽²⁾

⁽¹⁾ These preferred shares carry the right to vote at the meeting of common shareholders as the cumulative dividends previously payable thereon are more than 12 months in arrears.

⁽²⁾ Negotiations as to a means of settlement are ongoing.

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

8. Share Capital - continued

(b) Issued

| | 2011 | 2010 |
|------------------------------------------------|----------------------|----------------------|
| Common shares | \$ 21,965,037 | \$ 21,873,055 |
| Class A special shares (1,193,442 outstanding) | 100,000 | 100,000 |
| Share capital | \$ 22,065,037 | \$ 21,973,055 |

| Common shares: | Number of Shares | Amount |
|----------------------------------------------------------------|------------------|----------------------|
| Balance June 30, 2009 | 63,151,804 | \$ 21,873,055 |
| Share consolidation completed April 2010 (12:1) ⁽²⁾ | (57,889,316) | - |
| Balance June 30, 2010 | 5,262,488 | 21,873,055 |
| Private placement ⁽¹⁾ | 1,800,000 | 91,982 |
| Balance June 30, 2011 | 7,062,488 | \$ 21,965,037 |

(1) During the year the Company completed a private placement financing whereby it issued 1,800,000 units, at a price of \$0.075 per unit, for gross proceeds of \$135,000. Each unit was comprised of 1 common share and ½ share purchase warrant with each full warrant entitling the holder to acquire 1 common share of the Company at a price of \$0.10 until March 24, 2016. Related parties subscribed for 1,400,000 units and paid gross proceeds of \$105,000. The reported value is net of finders' fees of \$4,200 paid relative to this financing and the value of \$38,818 attributed to the warrants.

(2) During the 2010 fiscal year the Company undertook a share consolidation transaction whereby each 12 common shares outstanding immediately prior to the transaction were replaced by 1 post-consolidation common share. This transaction also resulted in the number of stock options outstanding being reduced on the same 1:12 basis and the exercise prices of the post-consolidation stock options are twelve times the pre-consolidation exercise price.

| Preferred shares: | 2011 | 2010 |
|-----------------------------------------|------------|------------|
| Balance June 30, 2011 and June 30, 2010 | \$ 473,855 | \$ 473,855 |

(c) Details of warrants outstanding are as follows:

| | 2011 | 2010 |
|----------------------------|-----------|------|
| Warrants not yet exercised | \$ 81,564 | \$ - |

| | Number of Warrants | Amount |
|---------------------------------------------------------------|--------------------|------------------|
| Balance June 30, 2010 and June 30, 2009 | - | \$ - |
| Value attributed to warrants issued through private placement | 900,000 | 38,818 |
| Value attributed to warrants issued for loan guarantee | 500,000 | 42,746 |
| Balance June 30, 2011 | 1,400,000 | \$ 81,564 |

| | Number of warrants | Weighted Average Price/Warrant | Weighted Average Expiry Date |
|--------------------|--------------------|--------------------------------|------------------------------|
| Beginning of year | - | - | - |
| Issued during year | 1,400,000 | \$0.113 | Mar. 18, 2015 |
| End of year | 1,400,000 | \$0.113 | Mar. 18, 2015 |

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

8. Share Capital - continued

(c) Details of warrants outstanding - continued

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

| | 2011 | 2010 |
|-------------------------------|-----------------|-------------|
| Dividend yield | Nil | Nil |
| Risk free interest rate (%) | 1.64 - 2.66 | None issued |
| Expected stock volatility (%) | 123.68 - 134.53 | None issued |
| Expected life (years) | 2 - 5 | None issued |

(d) Details of options outstanding are as follows:

| Common Shares Under Option | Number of Options Vested | Price/Option | Expiry Date |
|----------------------------|--------------------------|--------------|---------------|
| 900,000 ⁽¹⁾ | 900,000 | \$0.10 | Nov. 30, 2015 |

| | Common Shares Under Option | Weighted Average Price/Option | Weighted Average Expiry Date |
|---------------------|----------------------------|-------------------------------|------------------------------|
| Beginning of year | 79,167 | \$2.031 | June 8, 2011 |
| Expired during year | (79,167) | \$2.031 | June 8, 2011 |
| Granted during year | 900,000 | \$0.100 | Nov. 30, 2015 |
| End of year | 900,000 | \$0.100 | Nov. 30, 2015 |

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

(e) Stock based compensation and contributed surplus:

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

| | 2011 | 2010 |
|----------------------------------------------------------------------------------|------------|------------|
| Contributed surplus, beginning of year | \$ 416,755 | \$ 409,918 |
| Compensation expense related to stock options | 68,696 | 732 |
| Value attributed to option on Permtech Electronics Corporation (<i>note 6</i>) | - | 6,105 |
| Contributed surplus, end of year | \$ 485,451 | \$ 416,755 |

The following weighted average assumptions were used to calculate the fair value of the stock options granted during the year:

| | 2011 | 2010 |
|-------------------------------|--------|--------------|
| Dividend yield | Nil | Nil |
| Risk free interest rate (%) | 2.34 | None granted |
| Expected stock volatility (%) | 127.90 | None granted |
| Expected life (years) | 5 | None granted |

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

9. Related Party Transactions

In addition to the Directors and Officers, the following related parties had transactions with the Company during the year or outstanding balances at the end of the year:

1114377 Ontario Inc. ("1114377")

A shareholder, which is controlled by the spouse of a Director of the Company.

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

| Description | Related Party | 2011 | 2010 |
|------------------------------|--------------------|-----------|-----------|
| Interest expense - long-term | 1114377 | \$ 21,030 | \$ 11,680 |
| Interest expense - long-term | Directors/Officers | \$ - | \$ 11,274 |
| Interest expense - other | Directors/Officers | \$ - | \$ 9,002 |

10. Income Taxes

Current Income Taxes

A reconciliation of combined federal and provincial corporate income taxes at the Company's effective tax rate of 29.26% (2010 – 32.50%) is as follows:

| | 2011 | 2010 |
|---------------------------------------------------------------------|--------------|------------|
| (Loss) income before income taxes | \$ (180,359) | \$ 380,613 |
| Income taxes at statutory rates | \$ (52,766) | \$ 123,715 |
| Expenses not deductible for income tax purposes | 25,869 | 376,380 |
| Capital cost allowance claimed in excess of accounting amortization | (153,406) | (755,366) |
| Accounting loss on disposal of equipment | 1,211 | (24,665) |
| Accounting expenses deferred for income tax purposes | 10,005 | - |
| Expenses of prior years claimed for income tax purposes | - | (82,461) |
| | (169,087) | (362,397) |
| Increase in valuation allowance | 169,087 | 362,397 |
| Current income tax expense | \$ - | \$ - |

Tax Loss Carry-Forwards

The potential income tax benefits resulting from the application of income tax losses have not been recognized in these consolidated financial statements. The following losses include 100% of the respective losses of the subsidiary companies and will expire at the end of the taxation years as follows:

| Year | |
|------|--------------|
| 2014 | \$ 114,285 |
| 2027 | 253,037 |
| 2029 | 67,017 |
| 2030 | 1,379,162 |
| 2031 | 577,958 |
| | \$ 2,391,459 |

The full realization of these losses is subject to the result of audits by the Canada Revenue Agency. In addition, expenses in the amount of \$1,399,668 have been recorded in the accounts but have not yet been claimed for income tax purposes and capital losses of approximately \$15,593,000 are available indefinitely.

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

10. Income Taxes - continued

Future Income Taxes

The approximate tax effect of each type of temporary difference that gives rise to the Company's future income tax assets (liabilities) is as follows:

| | 2011 | 2010 |
|------------------------------------------------------|-------------|-------------|
| Resource related expenditures | \$ 87,263 | \$ 87,263 |
| Scientific research and experimental development | 262,655 | 262,867 |
| Reserves claimed | 8,828 | - |
| Undepreciated capital cost | 207,873 | 325,249 |
| Non-capital losses | 597,597 | 480,013 |
| Capital losses | 1,949,124 | 1,949,124 |
| Future income tax assets, before valuation allowance | 3,113,140 | 3,104,516 |
| Valuation allowance | (3,113,140) | (3,104,516) |
| Net future tax assets | \$ - | \$ - |

The timing of the utilization of the future tax assets is undeterminable. Consequently, a full valuation allowance has been provided against the future value of these assets.

11. Capital Management

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

Management includes the following items in its definition of capital:

| | 2011 | 2010 |
|-------------------------------------------|--------------|--------------|
| Long-term debt ⁽¹⁾ | \$ 396,894 | \$ 545,434 |
| Share Capital | 22,065,037 | 21,973,055 |
| Warrants | 81,564 | - |
| Contributed surplus | 485,451 | 416,755 |
| Deficit | (23,100,920) | (22,920,561) |
| Net (deficiency) capital under management | \$ (71,974) | \$ 14,683 |

⁽¹⁾ Excludes long-term debts that are both secured by specific equipment and due to unrelated parties.

ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2011

(Prepared as at October 20, 2011)

General

The following Management Discussion and Analysis ("MD&A") has been prepared by the Company's management to accompany the consolidated financial statements of the Company as at June 30, 2011 and should only be read in conjunction with those financial statements. Additional information about the Company can be found at www.sedar.com.

Forward-looking Information

Certain statements in this MD&A may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and its subsidiary, or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this report, the words "estimate", "believe", "anticipate", "intend", "expect", "plan", "may", "should", "will", the negative thereof or other variations thereon or comparable terminology are intended to identify forward-looking statements. Such forward-looking statements reflect the current expectations of the management of the Company with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results, performance or achievements to differ materially from those expressed or implied by those forward-looking statements, such as reduced funding, long sales cycles, currency and interest rate fluctuations, increased competition and general economic and market factors and including the risk factors summarized below under the heading "Risk Factors". New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those expressed or implied in such forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements contained in this MD&A speak only as of the date hereof. The Company does not undertake or assume any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.

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:

| <u>Name</u> | <u>Position(s)</u> |
|-----------------------------------------|---------------------------|
| 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

The 2011 fiscal year provided very mixed results for the Company. Sales rose to more than \$4,000,000 for the second time in four years however the Company also incurred a loss for the year. The Company generated positive cash flow from operations and improved its cash position but also experienced an increase in its working capital deficiency. The Company reduced its long term debt, total liabilities and deficiency in assets but it also experienced a decline in capital under management. It would seem that the existence of these apparent contradictions makes it difficult to portray 2011 as being a successful year.

ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2011

(Prepared as at October 20, 2011)

Corporate Performance - continued

Growth in product sales is certainly a positive result. The fact that this growth occurred during a period with some less than favourable economic conditions makes this an even more favourable result. Throughout 2011 the Company experienced market shortages of electronic components and significant increases in lead times when components were available. These market factors led directly to numerous issues related to scheduling production, in hampered ability to produce optimal product quantities in a single production run, and other production and shipping delays. These factors, in combination with continuing uncertainty in world financial markets, also served to reduce or delay the securing of certain customer orders. These external forces, both individually and collectively, impacts negatively upon the Company's operating results and upon the timing and amount of the Company's cash flows. While the Company will continue to grow its sales revenue and is hopeful that these unfavourable market factors will stabilize or improve it remains difficult to project the extent of the profitability, if any, which may result from operations in the immediate future.

In spite of these unfavourable market factors, and in spite of the loss realized for the year, the Company was still able to generate positive cash flow from operations and to improve its cash position in 2011. The delays experienced in the receipt of electronic components resulted in the deferral, reduction or complete cancellation of certain customer orders during the year. This correlated directly with delays, reductions and elimination of the Company's ability to bill customers and to collect upon those billings. The negative impact on cash inflows is undesirable on its own but it becomes even less desirable when combined with increases in cash outflows due to associated incremental costs. The Company's ability to overcome these factors and manage its cash flow in such a way as to enable the generation of positive cash flow for the year is certainly a positive result.

One of the elements of managing cash flow is to ensure that available cash is utilized in a manner that benefits the Company in both the short term and in the longer term. During the year the Company not only made all scheduled payments to debt holders but also managed to take advantage of pre-payment options to pay an extra \$90,000 in principal payments. This provides immediate benefits by reducing interest costs and eliminates the need to make certain future payments. Clearly all aspects of this are positive but a by-product of this is that the maturity dates of these debts are accelerated which serves to increase the current portion of long term debt. During 2011 the current portion of long term debt rose by \$112,598 and the effect of this is to reduce working capital or increase a working capital deficiency. The Company's working capital deficiency rose by \$67,472 in 2011 which is clearly less than the increase in current portion of long term debt. It would appear therefore that the Company has experienced an unfavourable consequence of otherwise favourable debt reduction.

During 2011 the Company repaid a total of \$208,194 in long term debt and experienced a reduction of \$211,016 in total liabilities. The Company also completed a private placement financing that enabled the deficiency in assets to be reduced, in spite of the losses for the year which caused an increase in the deficit. Raising new capital and achieving debt reduction are both favourable results. However, certain of the debts that were reduced also constitute an element of the Company's capital under management. During the 2011 year these particular debts were reduced by \$148,540, including the optional pre-payments of \$90,000 mentioned above. During 2011 the Company's capital under management declined by \$86,658 and created a capital deficiency. Given that the reduction in capital is less than the optional debt pre-payment it would appear once again there is an unfavourable consequence of otherwise favourable debt reduction.

Admittedly, any fiscal year in which a Company reports a loss from operations and a net loss for the year is not going to be portrayed as successful under any circumstances. It would appear however that 2011 is a year that can be portrayed as being almost successful. 2011 was clearly a year in which many favourable results were achieved and where some positive actions led directly to some unfortunate financial measurements. The Company will continue to grow its sales, to strive for enhanced profitability, and to manage its liquidity risk and will endure the odd unfortunate impact should it arise.

ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2011

(Prepared as at October 20, 2011)

Corporate Performance - continued

The following data may provide some additional insights relative to the Company's operating performance and financial position:

| | For the fiscal years ended: | | | | |
|---------------------------------------|------------------------------------|----------------|-----------------|-----------------|----------------|
| | <u>June 11</u> | <u>June 10</u> | <u>June 09</u> | | |
| 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: | | | | |
| | <u>June 11</u> | <u>Mar. 11</u> | <u>Dec. 10</u> | <u>Sept. 10</u> | <u>June 10</u> |
| Total Revenues | 957,817 | 820,976 | 1,112,951 | 1,118,324 | 1,408,769 |
| Net (loss) income from operations | (100,165) | (117,154) | (51,768) | 91,021 | 267,162 |
| Per share ⁽¹⁾ | (0.014) | (0.022) | (0.010) | 0.017 | 0.051 |
| Net (loss) income for the period | (98,320) | (117,154) | (51,768) | 86,883 | 381,565 |
| Per share ⁽¹⁾ | (0.014) | (0.022) | (0.010) | 0.017 | 0.073 |
| Total assets | 2,106,570 | 2,299,219 | 2,212,766 | 2,250,671 | 2,255,703 |
| Total long-term financial liabilities | 1,051,125 | 1,173,917 | 1,227,289 | 1,115,540 | 1,352,187 |
| Total liabilities | 2,575,438 | 2,712,514 | 2,639,707 | 2,694,540 | 2,786,454 |
| | For the three month periods ended: | | | | |
| | <u>Mar. 10</u> | <u>Dec. 09</u> | <u>Sept. 09</u> | <u>June 09</u> | <u>Mar. 09</u> |
| Total Revenues | 888,849 | 777,838 | 762,174 | 785,581 | 690,777 |
| Net (loss) income from operations | 48,105 | (19,073) | (29,984) | (180,183) | (26,845) |
| Per share ⁽¹⁾ | 0.009 | (0.004) | (0.006) | 0.035 | (0.005) |
| Net (loss) income for the period | 48,105 | (19,073) | (29,984) | (211,537) | (26,845) |
| Per share ⁽¹⁾ | 0.009 | (0.004) | (0.006) | (0.041) | (0.005) |
| Total assets | 1,895,045 | 1,918,100 | 1,959,494 | 2,119,699 | 1,291,890 |
| Total long-term financial liabilities | 1,348,797 | 1,350,369 | 1,416,359 | 1,390,403 | 474,187 |
| Total liabilities | 2,814,543 | 2,884,984 | 2,907,491 | 3,037,900 | 2,084,721 |

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

The Company has reported a net loss from operations of \$178,066 for the 2011 fiscal year including a loss of \$100,165 that arose in the final quarter. In comparison, the Company reported net income from operations of \$266,610 for the 2010 fiscal year as a consequence of realizing income of \$267,162 during the fourth quarter. While revenue growth in the current year has certainly helped to generate improved profitability there were also other factors that contributed to the losses incurred in 2009. The largest item would be the amortization arising from new equipment acquired in May 2009. In accordance with Company policy, the amortization recognized in the year that equipment is installed and available for use is equal to ½ of the annual depreciation regardless of the date the asset was actually acquired. In this instance the Company recognized six months of depreciation in the final quarter of 2009 resulting in an increase of approximately \$96,000 in comparison to the amortization recognized in previous quarters. Given that the equipment was only available for use during the final month of the year, and that its practical applicability in that month was limited due to how new it was, the impact on 2009 income was substantial.

ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2011

(Prepared as at October 20, 2011)

Results of Operations - continued

Product sales for the 2011 year amounted to \$4,010,068 which represents the second highest annual sales figure realized since operations became focussed on the assembly of printed circuit boards. The highest annual sales figure arose in 2008 and amounted to \$4,066,835. Prior to 2011, the second highest figure for annual sales had arisen in 2010 when they amounted to \$3,837,630. The 2010 sales figure included \$1,408,769 which arose during an exceptional fourth quarter which represents the highest quarterly sales figure that the Company has reported to date. Although sales in Q4 2011 were quite strong at \$957,817 they do not compare favourably to the record sales from one year earlier. The increase in annual sales realized in 2011 is attributed to a rise in turnkey sales and the corresponding revenue derived from the supply of components. Management is confident that the relative demand for turnkey sales will remain strong heading into the 2012 fiscal year but is also aware that the inconsistent market conditions will continue to have an impact on product sales.

The gross margin realized in 2011 amounted to \$1,366,584 or 34.1% of product sales. This represents a decline of \$198,111 in comparison to 2010 levels when the gross margin was approximately 40.8% of sales. While lower, the 2011 margins are within expectations for a period with a significant portion of revenues derived from turnkey sales. 2010 was the first fiscal year for which the gross margin exceeded 40% of annual sales. This was made possible by the high margin realized during the fourth quarter of 2010 when economies of scale attributable to record sales led to a gross margin of \$646,254. That figure represented 45.9% of sales and also accounted for more than 41% of the total gross margin for the year. The gross margin realized during the final quarter of 2011 was \$333,479 representing a more traditional 35% of sales and 24.4% of the annual gross margin. The gross margin to be realized in future periods will continue to be affected by product mix and by inconsistent market conditions but management currently anticipates that future margins will be fairly comparable with the more traditional results of 2011.

The best indicator of the volume of turnkey sales and of product mix is the cost for electronic components provided by the Company during a particular period. During 2011 this cost amounted to \$1,090,459 which represents an increase of almost 22% in comparison to the 2010 total of \$894,012 and supports that turnkey volumes rose in 2011. This cost was equal to 41.3% of sales revenue in 2011 as compared to 39.3% in 2010 and this supports that turnkey sales represented a larger portion of total product sales in 2011. An examination of fourth quarter results indicates that component costs declined from \$351,672 in 2010 to \$281,834 in 2011 but rose from 25% of sales in 2010 to 29.4% in 2011. Although an increase in component costs as a percentage of sales translates into a decline in the gross margin percentage the Company promotes this service on the basis that it provides economic benefit to the Company while simultaneously providing a cost effective solution for its customers.

There are two significant elements of costs of sales. The cost of electronic components is one and the other is direct labour. In combination these cost factors represent more than 80% of the total cost of goods sold in each period. Actual direct labour expenditures for the 2011 fiscal year amounted to \$1,083,418 but the amount of labour included in costs of goods sold was \$1,091,643 due to a decline during the year in the amount of labour costs included as an element of the cost of inventory. For the 2010 fiscal year the labour expenditures amounted to \$889,884 with the aggregate labour charges in cost of product sales amounting to \$907,517. During the first three quarters of the 2010 fiscal year the Company was operating below capacity and took advantage of government sponsored work-share programs to reduce their staff complement and the associated costs. This reduction of the labour force ended late in the third quarter of 2010 and resulted in fourth quarter labour expenditures of \$265,240 and aggregate labour charges of \$276,378. No work-share program was implemented at any time during the 2011 fiscal year and there was no reduction in customer demand that suggested that a permanent workforce reduction was warranted. The maintaining of the staff complement throughout 2011 resulted in the higher annual costs and in reasonably comparable fourth quarter amounts. Labour expenditures in Q4 2011 were \$250,359 and aggregate labour charges for the period were \$247,404. Work-share programs enable the retention of these trained employees but at a reduced cost to the Company and allows production capacity to be better matched to short-term fluctuations in production demand. A similar work-share program was initiated in the first quarter of 2012 and should result in reduced labour costs for that period.

ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2011

(Prepared as at October 20, 2011)

Results of Operations - continued

Equipment costs, which include amortization and maintenance costs, amounted to \$261,409 in 2011 as compared to \$305,285 in 2010. Maintenance costs rose slightly from \$53,313 to \$58,744 while amortization charges fell from \$251,972 to \$202,655. In Q4 2011 the Company incurred \$10,994 in maintenance costs and \$50,722 in amortization charges for total machinery costs of \$61,716. Each of these figures was higher in 2010 when the total of \$87,215 was comprised of \$64,084 in amortization charges and \$23,131 in maintenance costs. Although the Company follows a standard maintenance program for all of its equipment it is not feasible to standardize the timing or nature of all maintenance costs. Also, while every effort is made to minimize unscheduled maintenance it cannot be completely prevented. These factors can and will lead to fluctuations over relatively short periods like a fiscal quarter but the inconsistencies will be less evident when observed over a longer period like an entire fiscal year. Amortization charges decline over time unless significant new equipment is acquired. There were no significant equipment purchases made in either 2010 or 2011 so the decline experienced was anticipated. Although one piece of equipment has been added to the production line during the first quarter of 2012 its cost is not sufficiently large to cause an increase in amortization charges.

Production supplies represent products that are consumed during the production process but are not of sufficient individual cost to warrant tracking through the Company's inventory system. These costs amounted to \$112,148 for 2011 including \$17,056 incurred in the final quarter. During 2010 these costs were \$90,469 including the fourth quarter total of \$24,084. Although the acquisition of supply items is subject to the Company's purchase control procedures the costs incurred in any given period is a function of when the purchase occurs which is not necessarily in the same period in which the items are consumed. While this may lead to some minor inconsistencies in the periodic expenses there is no intent to increase the cost tracking detail since the cost of doing so would exceed the benefit derived.

The remainder of the cost of product sales for each period is made up of freight costs, tooling costs and the cost of packaging supplies. The aggregate of these costs represents less than 4% of the quarterly and annual cost of product sales totals in both 2011 and 2010. These expenses are continuously monitored by management and do not warrant detailed investigation or elaboration.

Selling, general and administrative expenses ("SG&A") are all costs incurred by the Company that are not directly attributable to the production process or to the cost of financing. These costs amounted to \$1,340,392 in 2011 representing an increase of 20.4% over the 2010 total of \$1,112,964. Fourth quarter figures are also higher in 2011 when they aggregated \$350,301 as compared to \$333,675. There are many components of SG&A and management continuously monitors each of them to ensure that they are both necessary and reasonable in the circumstances.

The largest single element of SG&A for each period is employee and consultant remuneration. These costs followed a similar pattern to direct labour costs as the annual expense rose from \$652,112 in 2010 to \$866,279 in 2011. In 2010 the administrative personnel were subjected to pay reductions and to a similar work-share program as was implemented for the production staff. The work-share program persisted through the first three quarters of 2010 leading to significantly reduced costs. The 2011 total also includes \$68,696 in stock option compensation associated with the issuance of stock options to Directors and Senior Officers. In 2010 stock option compensation amounted to \$732 on account of the vesting of options that had been granted back in 2006. Fourth quarter figures are more comparable but the 2011 total of \$219,837 is still greater than the 2010 figure of \$206,621. Although the work-share program was terminated prior to Q4 2010 the salary reductions remained in effect. At the end of the quarter the Company approved non-recurring bonuses based upon corporate performance and reinstated the salaries to historical levels. The total for Q4 2011 not only reflects the higher salary figure but also includes the costs of settling with a terminated employee. It is anticipated that 2011 figures will be indicative of future costs.

ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2011

(Prepared as at October 20, 2011)

Results of Operations - continued

Occupancy costs are the next largest element of SG&A and consist primarily of rent and utility charges. During the 2011 fiscal year the Company negotiated a new ten year lease for its operating facility. This new lease included base rental rates which escalate over the term of the lease but always remain lower than the final base rates were on the expiring lease. The new rates took effect at the beginning of the third fiscal quarter of 2011 and contributed to the decline in total annual costs from \$307,466 to \$303,955. The benefit of the reduction in base rates was eroded to some degree by seemingly inevitable increases in additional rent charges for realty taxes and maintenance. The utility usage and rates also continue to vary with the trend being for costs to rise each year. Occupancy costs incurred in the fourth quarter of 2010 amounted to \$82,540 but included approximately \$6,500 in costs that carried over from the preceding quarter as a consequence of a utility billing delay. The expense for Q4 2011 amounted to \$71,188.

Professional fees for the 2011 fiscal year amounted to \$77,415 which is \$15,617 higher than the 2010 total of \$61,798. During the year the Company prepared for a possible financing transaction that was not completed and negotiated a bank operating loan facility which is secured, in part, by the personal guarantee of an unrelated individual. The increase in professional fees is a reflection of the legal fees attributable to these two transactions as nothing similar arose in 2010. It should be noted that the Company did complete a private placement transaction in 2011 but there is no incremental legal expense associated with that transaction. The bank operating loan was obtained in the fourth quarter of 2011 and this certainly contributed to the total professional fees of \$34,127 for that period and to the increase over the expense of \$20,715 incurred in Q4 2010.

Regulatory fees include all stock exchange and transfer agent fees incurred. The Company completed a 12:1 share consolidation in April 2010 and saw its regulatory fees rise to \$40,342 in the 2010 fiscal year as a result. No similar transaction arose in 2011 and as a result the fee total of \$25,758 is almost identical to the 2009 expense of \$25,233 as was expected. Most of the fees associated with the April 2010 consolidation were incurred in the third quarter of 2010 and did not impact upon the final quarter when costs amounted to \$11,086. The costs for Q4 2011 were comparable at \$12,872. It should be noted that a disproportionate amount of the annual costs arise in the final quarter as a result of hosting the Company's annual general meeting during that period.

The remaining elements of SG&A are individually insignificant and, in aggregate, represent less than 5% of total SG&A for the 2011 and 2010 fiscal years and for the fourth quarter of each year. These expenses are continuously monitored by management and do not warrant detailed investigation or elaboration.

Interest on long-term debt declined to \$147,119 in 2011 from \$160,123 in 2010 and from \$39,918 in Q4 2010 to \$35,317 in the fourth quarter of 2011. The Company incurred no new long-term debts during the 2011 fiscal year and repaid \$208,194 in long term debt during the year. The Company also repaid \$227,810 in long term debt during 2010 while receiving \$7,132 in new proceeds. The reduction in long-term debt resulting from these repayments is the reason why interest costs have declined and are expected to fall further in future periods. It should be noted that the carrying value of long term debt does not decline in any period by an amount equal to the principal repaid. This is due to certain debts having a carrying value that is less than their cash or face value. This difference between face value and carrying value is accreted each period such that the two values will be identical as at the maturity date of the debt. Accretion charges of \$19,730 arose in fiscal 2011 and \$18,711 in fiscal 2010. These figures are included as an element of interest expense.

By June 30, 2010 the Company had extinguished all of its short term debts and as a result it only incurred \$299 in other interest charges in 2011. These charges arose as a consequence of opting to pay insurance costs monthly rather than annually and included \$150 in charges that arose in the fourth quarter. The 2010 expense of \$11,147, including \$465 in Q4, was attributable to interest on notes payable which arose before they were finally settled. With the negotiation of the bank operating facility there is no expectation of utilizing notes payable as a means of short term financing in the foreseeable future.

ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2011

(Prepared as at October 20, 2011)

Results of Operations - continued

The costs associated with the aforementioned bank operating facility have been segregated from other interest and are reflected as financing fees. The 2011 expense, all of which arose in the fourth quarter, includes the value of \$42,746 attributed to the share purchase warrants issued to the guarantor plus \$1,600 in guarantee fees. The guarantor is entitled to a monthly guarantee fee of \$800 in addition to interest charged on the outstanding loan balance, if any, equal to the difference between 10% and the amount paid to the bank based upon a lending rate of prime plus 0.5%. As of the date of this document the Company has yet to draw upon this operating loan.

Liquidity

For the first time in five fiscal years the Company has experienced an increase in its working capital deficiency. It rose from \$220,226 at June 2010 to \$287,698 as at June 30, 2011. As noted previously, this increase arose because the aggregate improvement in other working capital items was not sufficient to offset the increase in current portion of long term debt that arises when debts proceed towards maturity. The Company generated positive cash flow from operations is confident that combining favourable cash flows with continued debt reduction will lead to improved liquidity in future periods.

There is 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 final quarter 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 payment or other settlement of the following amounts which are presented at face value, as at June 30, 2011, without discount:

| | Due by <u>June 2012</u> | Due by <u>June 2014</u> | Due by <u>June 2016</u> | Due after <u>June 2016</u> | Total <u>Due</u> |
|--------------------------------------------------|----------------------------|----------------------------|----------------------------|-------------------------------|---------------------|
| 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) | 230,290 | 1,034,769 | 46,806 | - | 1,311,865 |
| Operating leases | <u>83,297</u> | <u>175,195</u> | <u>186,965</u> | <u>499,555</u> | <u>945,012</u> |
| Total | <u>\$ 1,286,889</u> | <u>\$ 1,209,964</u> | <u>\$ 233,771</u> | <u>\$ 499,555</u> | <u>\$ 3,230,179</u> |

⁽¹⁾ Each of these amounts were past due as at June 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 value that is lower than their respective face values. The financial statements as at June 30, 2011 report these obligations based upon their carrying values while the figures reported above represent the non-discounted cash payments to be made in accordance with the face value amounts.

⁽⁴⁾ On September 30, 2011 the Company paid a \$30,000 principal pre-payment on one loan. The effects of this payment have not been reflected in this table.

ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2011

(Prepared as at October 20, 2011)

Capital Resources

In May 2011 the Company obtained 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 Permotech 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 will 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.

In March 2011 the Company completed a financing transaction whereby it issued 1,800,000 units at \$0.075 each for gross proceeds of \$135,000. Each unit was comprised of one common share and one-half share purchase warrant with each full warrant entitling the holder to acquire an additional common share for \$0.135 until March 24, 2016. The Company paid a finder's fee in the amount of \$4,200 in connection with this transaction.

No additional financing transactions were completed during the fiscal year or up to the date of this document.

The Company currently has no formal arrangement with any party to provide financing for capital acquisitions.

Related Party Transactions

The Company has participated in a number of transactions with the Company's Officers, Directors, their spouses, companies that are considered related as a consequence of the involvement of one or more of these individuals, and a corporation that holds more than 10% of the Company's issued common shares.

The majority of these related party transactions involve the provision of financing to the Company along with the corresponding interest expense. All related party transactions are in the normal course of operations and have been carried out on the same terms as those accorded to unrelated parties.

The following balances are due to the related parties described above as at June 30 of each year:

| | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|------------------------------------------|-------------|-------------|-------------|
| Loan payable at prime +8% ⁽¹⁾ | 131,540 | 199,042 | - |
| Note payable at prime +2% | - | - | - |
| Notes payable at 12.0% | - | - | 116,572 |
| Term loan at 8.0% | - | - | 37,871 |
| Term loans at 12.0% | - | - | 161,383 |

⁽¹⁾ This is the face value of this obligation. It is reported in the 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:

| | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|------------------------------|-------------|-------------|-------------|
| Interest expense – long term | 21,030 | 22,854 | 20,981 |
| Interest expense – other | - | 9,002 | 14,588 |

ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2011

(Prepared as at October 20, 2011)

Related Party Transactions - continued

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:

| <u>Description</u> | <u>Expiry Date</u> | <u>Number of Common shares</u> |
|----------------------------------|--------------------|--------------------------------|
| Stock options @ \$0.10 per share | Nov. 2015 | 900,000 |

An additional 75,000 stock options that had been held by Directors and/or Officers of the Company expired during the 2011 fiscal year.

Convertible Instruments and Other Securities

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

| <u>Description</u> | <u>Quantity</u> | <u>Amount</u> |
|-----------------------------------------------|-----------------|----------------------|
| Common shares | 7,062,488 | \$ 21,773,391 |
| Paid in capital of preferred shares | | 191,646 |
| Class A special shares | 1,193,442 | <u>100,000</u> |
| | | <u>\$ 22,064,037</u> |
| Series A preferred shares | 166,667 | \$ 160,000 |
| Series C preferred shares | 288,858 | <u>505,501</u> |
| | | 665,501 |
| Less: amount accounted for as paid in capital | | <u>191,646</u> |
| Liability element of preferred shares | | 473,855 |
| Less: amount reported as a current liability | | <u>(473,855)</u> |
| Equity element of preferred shares | | <u>\$ -</u> |

| <u>Description</u> | <u>Expiry Date</u> | <u>Number of Common shares</u> |
|-------------------------------------------------------------------------|--------------------|--------------------------------|
| Stock options @ \$2.04 per share | June 2011 | 75,000 |
| 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 | <u>900,000</u> |
| Shares reserved as at June 30, 2011 and as at the date of this document | | <u>2,375,000</u> |

⁽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 | <u>1,875,000</u> |
| Fully diluted position as at June 30, 2011 and as at the date of this document | <u>9,437,488</u> |

ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2011

(Prepared as at October 20, 2011)

Convertible Instruments and Other Securities - continued

Additional disclosures relative to stock options are as follows:

| | Common Shares <u>Under Option</u> | Weighted Average <u>Price/Option</u> | Weighted Average <u>Expiry Date</u> |
|---------------------|--------------------------------------|-----------------------------------------|----------------------------------------|
| Beginning of period | 79,167 | \$2.031 | June 8, 2011 |
| Expired | (79,167) | \$2.031 | June 8, 2011 |
| Granted | <u>900,000</u> | \$0.100 | Nov. 30, 2015 |
| End of period | <u>900,000</u> | \$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 <u>Warrants</u> | Weighted Average <u>Price/Warrant</u> | Weighted Average <u>Expiry Date</u> |
|--------------------------|------------------------------|------------------------------------------|----------------------------------------|
| Beginning of period | - | - | - |
| Issued during the period | <u>1,400,000</u> | \$0.113 | Mar. 18, 2015 |
| End of period | <u>1,400,000</u> | \$0.113 | Mar. 18, 2015 |

Changes in Accounting Policy

The accounting policies followed by the Company are established in accordance with Canadian GAAP and once policies are established they will not, as a matter of policy, be revised unless Canadian GAAP changes. The following aspects of Canadian GAAP will be changing in the future and, accordingly, will cause the Company's accounting policies to change:

International reporting standards:

The Accounting Standards Board ("AcSB") requires that all public entities transition to International Financial Reporting Standards (IFRS) from Canadian GAAP for fiscal years commencing on or after January 1, 2011. Accordingly, the Company will begin reporting in accordance with IFRS for its fiscal year ended June 30, 2012 and the first report to be issued in under IFRS will be the interim financial statements for the period ended September 30, 2011. It is currently anticipated that this transition will result in additional disclosures but that it will not result in any revision to, or restatement of, the carrying value of any assets or liabilities or the amounts of any revenues or expenses presented in these financial statements.

Financial Instruments

The Company has determined the most appropriate classification for its financial instruments such that cash is classified as held for trading and is measured at fair value. Accounts receivable has been classified as loans and receivables and accounts payable, accrued liabilities, customer deposits, deferred revenue, dividends payable, notes payable, long-term debt and preferred shares are classified as other financial liabilities, which are measured at amortized cost. These classifications have remained unchanged since initial recognition.

The carrying amounts of cash, accounts receivable, customer deposits and deferred revenue, accounts payable and accrued liabilities, and notes payable approximate their fair values due to the short-term maturities of these instruments. Long-term debt is recognized initially at fair value. The difference between face value and initial fair value, if any, is amortized on a straight line basis over the remaining term of the debt. It is not practicable to determine the fair value of preferred shares or dividends payable since the timing of cash flows are not known.

ZTEST Electronics Inc.

Management's Discussion and Analysis

For The Year Ended June 30, 2011

(Prepared as at October 20, 2011)

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 to credit risk, liquidity risk, currency risk, and interest rate risk. 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 represents the financial loss that the Company would experience if one or more of its customers failed to meet its obligations. The maximum credit exposure is represented by the carrying amount of accounts receivable as reported on the balance sheet. 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 represents the potential difficulties that the Company may encounter in meeting obligations associated with financial liabilities. The Company is reporting a working capital deficiency of \$287,698 (2010 - \$220,226). This includes a long-term debt, preferred shares and dividends payable with an aggregate carrying value of \$781,656 (2010 - \$781,656), that are each past due. The Company manages its liquidity risk through the management of its capital (see 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.

Currency risk:

Currency risk is the risk that the amount of future cash flows of cash, accounts receivables, accounts payable and accrued liabilities that are denominated in US dollars will fluctuate because of changes in foreign exchange rates. The Company purchases some inventory components and makes some of its product sales in US dollars. The Company monitors its exposure to, but does not actively manage this risk. During the current year the Company reported a net loss on foreign exchange of \$2,049 (2010 - \$2,132).

Interest rate risk:

Interest rate risk represents the possibility that future cash flows arising from financial instruments may fluctuate because of changes in the market rate of interest. The Company has certain long-term debts for which the interest rate is reset periodically in accordance with the prime lending rate of its financial institution. The future monthly payments on these debts will increase or decrease in correlation with the change, if any, in the prime lending rate. The Company manages this risk by establishing fixed interest rates whenever possible.