General

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of ZTEST Electronics Inc. ("ZTEST" or the "Company") constitutes management's review of the factors that affected the Company's consolidated financial and operating performance for the year ended June 30, 2012. The MD&A was prepared as of October 23, 2012 and should be read in conjunction with the consolidated financial statements of the Company for the year ended June 30, 2012, which were the Company's first annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as described in Note 2 to those financial statements. Unless otherwise stated, all amounts discussed herein are denominated in Canadian dollars.

Additional information about the Company can be found at www.sedar.com.

The Company

The Company operates a single business segment involving the design, development, and assembly of printed circuit boards. The management of the Company, which remains unchanged from the prior year and was re-elected and/or reappointed on September 12, 2012, is comprised of the following individuals:

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

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

Corporate Performance

The 2012 fiscal year was a very positive year for the Company. Revenues increased almost 14% over 2011 levels and net income was approximately 8.6% of revenues. Furthermore, the Company generated positive cash flow from operations, reduced its long term liabilities, increased its capital under management, reduced its deficiency in assets, and reduced its working capital deficiency. The Company capitalized upon its strong reputation as a reliable, high-quality source for designing, developing, and assembling printed circuit boards to achieve these positive results. While domestic and international market conditions remain inconsistent there can be no certainty that the results of 2012 can or will be repeated however management continues to take the steps it considers most prudent in relation to its efforts to enhance profitability, improve the Company's financial position and to deliver value to the Company's stakeholders.

Risk management has been a focal point for the Company in recent years with the belief that if risks can be minimized, while continuing to grow the business, then the Company will be in a much better position to capitalize on opportunities that may arise and to endure economic conditions that may be less than optimal. Management has been very successful in managing its business risks and capitalizing upon opportunities and each of these has contributed to the 2012 increase in profitability and the corresponding improvement in financial position.

Strong cash management practices have proven to be a primary means of risk management for the Company. Credit practices have, once again, provided positive results with only negligible credit losses arising during the year. The near perfect collection results provided the Company the ability to self-finance the growth in operations during 2012 while simultaneously accelerating the repayment of long terms debts. Long-term debt was reduced by $312,334 or 24% during 2012, including $100,000 in optional pre-payments. Management will continue its aggressive management of credit risk and will continue to make strategic use of available cash to finance the growth and maintenance of the business and to further reduce its exposure to liquidity risk and interest rate risk whenever possible.

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:		
	June 12	June 11	June 10
Total Revenues	4,571,417	4,010,068	3,837,630
Net income (loss) income from operations	390,936	(178,066)	266,210
Per share	0.055	(0.031)	0.051
Net income (loss) for the year	392,778	(180,359)	380,613
Per share	0.056	(0.031)	0.072
Total assets	2,340,853	2,106,570	2,255,703
Total long-term financial liabilities	698,648	1,051,125	1,352,187
Total liabilities	2,416,943	2,575,438	2,786,454

	For the three month periods ended:				
	June 12	Mar. 12	Dec. 11	Sept. 11	June 11
Total Revenues	1,289,855	1,483,588	839,112	959,862	957,817
Net income (loss) from operations	42,073	279,280	(17,116)	86,699	(100,165)
Per share - basic	0.006	0.040	(0.002)	0.012	(0.014)
Net income (loss) for the period	44,015	279,280	(17,216)	86,699	(98,320)
Per share - basic	0.006	0.040	(0.002)	0.012	(0.014)
Total assets	2,340,853	2,652,994	2,122,488	2,033,096	2,106,570
Total long-term financial liabilities	698,648	785,338	902,553	962,334	1,051,125
Total liabilities	2,416,943	2,773,099	2,521,873	2,415,265	2,575,438

	For the three month periods ended:				
	Mar. 11	Dec. 10	Sept. 10	June 10	Mar. 10
Total Revenues	820,976	1,112,951	1,118,324	1,408,769	888,849
Net income (loss) from operations	(117,154)	(51,768)	91,021	267,162	48,105
Per share - basic	(0.022)	(0.010)	0.017	0.051	0.009
Net income (loss) for the period	(117,154)	(51,768)	86,883	381,565	48,105
Per share - basic	(0.022)	(0.010)	0.017	0.073	0.009
Total assets	2,299,219	2,212,766	2,250,671	2,255,703	1,895,045
Total long-term financial liabilities	1,173,917	1,227,289	1,115,540	1,352,187	1,348,797
Total liabilities	2,712,514	2,639,707	2,694,540	2,786,454	2,814,543

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

Results of Operations

For the 2012 fiscal year the Company has reported income from operations of $390,936 and net income for the year of $392,778. This compares very favourably to the losses realized in 2011 when the loss from operations amounted to $178,066 and net loss for the year was $180,359. The final quarter of 2012 provides a similar comparison with income from operations of $42,073 and net income for the period of $44,015 as opposed to the Q4-2011 loss from operations of $100,165 and net loss for the period of $98,320. Many factors contributed to the Company's enhanced profitability in 2012 as demonstrated by an increase in revenues, an increase in gross margin percentage, and a decrease in total expenses. The highlights from operations are discussed below.

The Company has raised the bar on revenues with the fourth quarter tally of $1,289,855 helping to raise the annual total to $4,571,417, representing the highest annual sales the Company has reported to date. The 2011 revenue total of $4,010,068 was close to a new annual threshold but the final quarter revenues of $957,817 were insufficient to surpass the 2008 total of $4,066,902. 2012 represents the fifth time in six fiscal years in which annual revenues have risen but Q4 was the sixth quarter out of the last ten for which revenues were less than the immediately preceding quarter. The only year in the past six for which revenues declined was 2009 and that came as a result of the start of the global economic downturn. Global economic uncertainty has persisted ever since and contributes significantly to short-term inconsistencies however management remains optimistic that the annual growth trend can, and will, continue.

Results of Operations - continued

For fiscal 2012 the Company generated a gross margin of $1,686,571, which again establishes a new upper threshold. This also represents a 23.4% increase when compared to the 2011 total of $1,366,584. In the fourth quarter of 2012 the gross margin of $399,321 was not a record high but was 19.7% higher than the $333,479 achieved in Q4-2011. Based upon these results it may appear that gross margins are generally increasing, just as revenues are, but this is not the case. Gross margins are affected by product mix, economies of scale, and other factors affecting the elements of cost of goods sold. Management strives to capitalize on economies of scale and to control the other factors that impact upon the cost of product sales but the constantly changing product mix ensures that gross margins will continue to be inconsistent with respect to value and percentage of sales.

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

Years ended	June 12	June 11	Change
Raw materials and supplies consumed	$ 1,764,787	$ 1,202,607	$ 562,180
Labour costs incurred	776,883	1,083,418	(306,535)
Depreciation	173,201	202,665	(29,464)
Other costs	140,020	146,569	(6,549)
Net change in finished goods and work in process	30,955	8,225	22,730
Total cost of product sales	$ 2,885,846	$ 2,643,484	$ 242,362

Three month periods ended	June 12	June 11	Change
Raw materials and supplies consumed	$ 589,256	$ 298,890	$ 290,366
Labour costs incurred	187,907	250,359	(62,452)
Depreciation	43,760	50,722	(6,962)
Other costs	49,048	27,321	21,727
Net change in finished goods and work in process	20,563	(2,955)	23,518
Total cost of product sales	$ 890,534	$ 624,337	$ 266,197

The cost of raw materials and supplies consumed is the best indicator of product mix. For the year ended June 30, 2012 the cost of $1,764,878 represents 38.6% of annual sales which is greater than the 30% of sales that the June 2011 cost of $1,202,607 represents. Traditionally, gross margin percentages decline when this cost grows as a percentage of product sales however this period demonstrates that this is not always the case. It is certain that the growth in this cost has put downward pressure on the gross margin percentage but the savings achieved in other costs were sufficient to overcome this pressure and allowed the gross margin percentage to increase. The fourth quarter results were slightly more traditional as the rise in material and supply costs from 31.2% of sales at June 2011 to 45.7% of sales at June 2012 was sufficient to result in a decline in gross margin percentage, even with the savings realized in other cost areas. The supply of raw materials and supplies may, in isolation, have the effect of lowering the gross margin percent but the other economic benefits, for both the Company and its customers, associated with providing this service ensure that it will always be promoted.

The primary source of the cost savings referred to above was labour. Labour costs were 28.3% lower for the year ended June 2012 and 24.9% lower for the three month period then ended. From July 2011 to April 2012 the Company was able to take advantage of a government sponsored work-share program. This program enabled the Company to strategically match labour supply with labour demand without the loss of trained personnel. Throughout the term of the program the Company also capitalized upon efficiency gains achieved through additional training and automation. These efficiency gains enabled the Company to implement a permanent reduction in its labour force when the program ended April 2012 thereby maintaining a significant portion of the labour savings.

Results of Operations - continued

Depreciation costs are determined as a percentage of the carrying value of equipment. Accordingly, these costs decline over time unless new acquisitions are made. The Company continually monitors its equipment requirements and makes acquisitions if and when they will provide future benefit. There were some equipment additions and enhancements made during the 2012 year but the cost of these new items was not sufficiently large to cause depreciation charges to keep pace with those from the prior year. Based upon the assessed capacity, capability, and reliability of the existing equipment there are no immediate plans for major acquisitions or enhancements.

Other costs include repairs and maintenance, stencils and tooling, packaging, and freight costs net of amounts recovered. Each of these costs is incurred on an as-needed basis without any specific correlation with revenues which can lead to fluctuations from one period to the next. Each of these costs is constantly monitored and is within management expectations so they will not be further elaborated upon.

As previously noted the Company has achieved reductions in many of its expenses in 2012 including a 14.7% reduction in selling, general and administrative costs. The major elements of this cost category are identified as follows:

Years ended	June 12	June 11	Change
Employee and consultant compensation	$ 752,170	$ 866,279	$ (114,109)
Occupancy costs	260,807	303,955	(43,148)
Professional fees	43,864	77,415	(33,551)
Bad debts	8,047	727	7,320
Regulatory fees	17,817	25,758	(7,941)
Other costs	61,097	66,258	(5,161)
Total selling, general and administrative	$ 1,143,802	$ 1,340,392	$ (196,590)

Three month periods ended	June 12	June 11	Change
Employee and consultant compensation	$ 224,920	$ 219,837	$ 5,083
Occupancy costs	67,009	71,188	(4,179)
Professional fees	7,923	34,127	(26,204)
Bad debts	-	727	(727)
Regulatory fees	1,774	12,872	(11,098)
Other costs	14,879	13,350	1,529
Total selling, general and administrative	$ 316,505	$ 352,101	$ (35,596)

The Company extended the work share program discussed above to also apply to certain administrative personnel and this contributed to a reduction in employee and consultant compensation throughout the first ten months of the year. In addition, there was one fewer employee throughout the 2012 fiscal year which further contributed to cost savings. In the final quarter of 2012 the Company recognized the cost of a performance bonus which is based primarily upon the annual net income of Permatech Electronics Corporation. This bonus, which is payable to the CEO and the President, was approved by the Board of Directors at the end of the year so no similar costs arose in any prior periods. The effect of this fourth quarter adjustment was to convert what would have been an 11% decrease in costs in comparison to the final quarter of 2011into a 2% increase. This new bonus program will apply to future periods as well.

Results of Operations - continued

Occupancy costs consist primarily of rent and utility charges for the Company's operating facility. The Company commenced a new ten year lease term in January 2011 which requires lower base rental rates than did the previous lease. Furthermore, a fixed rate hydro supply contract, with rates in excess of prevailing market rates, expired in May 2011 after which the Company commenced paying market rates. The benefit of these cost reductions was mitigated to some extent by the seemingly inevitable increases in additional rent charges for realty taxes and maintenance however annual costs still declined by more than 14% and fourth quarter costs were almost 6% lower in 2012. As the new lease and the expiring hydro contract each arose prior to the end of the 2011 fiscal year it is not anticipated that similar savings will recur in the future.

Professional fees, which include the cost of legal services and the annual financial statement audit, are lower for both the three and twelve month periods ended June 30, 2012 than they were for the corresponding periods ended in 2011. Audit costs are pro-rated over the course of the fiscal year and have remained comparable from period to period. In the final quarter of 2011 the Company prepared for a possible financing transaction, which was not completed, and negotiated a bank operating loan facility which is secured, in part, by the personal guarantee of an unrelated individual. These transactions gave rise to higher legal costs for that period and did not recur in 2012

Regulatory fees include all stock exchange and transfer agent fees incurred. There were no transactions during the 2012 fiscal year that involved the issuance of any new shares, stock options or share purchase warrants and accordingly there were no associated fees incurred. Furthermore, the Company held an annual general meeting during the fourth quarter of 2011 which added significantly to the costs of that period. The most recent annual general meeting was held during the first quarter of 2013 so no similar costs arose during Q4-2012.

The remaining elements of SG&A are individually insignificant and, in aggregate, represent less than 5% of total SG&A for the periods presented. These expenses are continuously monitored by management and do not warrant detailed investigation or elaboration.

The Company's costs of financing continue to decline. They are comprised of interest on long-term debt, other interest expense, and loan guarantee fees as follows:

Years ended	June 12	June 11	Change
Interest expense – long term	$ 120,740	$ 147,119	$ (26,379)
Interest expense – other	624	299	325
Loan guarantee fees	9,600	44,346	(34,746)
Total financing expenses	$ 130,964	$ 191,764	$ (60,800)

Three month periods ended	June 12	June 11	Change
Interest expense – long term	$ 26,743	$ 35,317	$ (8,574)
Interest expense – other	162	150	12
Loan guarantee fees	2,400	44,346	(41,946)
Total financing expenses	$ 29,305	$ 79,813	$ (50,508)

Interest expense – long term represents the cash-based interest charges incurred in accordance with the face value of long term debt instruments plus accretion of the difference between those face values and their carrying amounts. Accretion charges have risen marginally to $20,182 for fiscal 2012, as opposed to $19,730 for the 2011 year, and $5,620 for Q4-2012 as compared to $4,933 for Q4-2011. Cash-based interest costs, on the other hand, have fallen by more than 20% on an annual basis and by more than 30% upon comparison of fourth quarter results. This decline in interest payments is attributable to the Company's aggressive reduction of long-term debt which is expected to continue for the foreseeable future.

Results of Operations - continued

During the fourth quarter of the 2011 fiscal year the Company negotiated a $250,000 operating facility with its financial institution. This operating facility is secured by the Company's assets but is also guaranteed by an individual. In exchange for this guarantee the individual received share purchase warrants and is also entitled to a monthly guarantee fee of $800. The share purchase warrants were valued at $42,746 and this cost was recognized in its entirety when they were issued. The $800 per month fee commenced in May 2011 and was paid throughout the 2012 fiscal year.

Liquidity

The Company continues to strive for the reduction, and elimination, of its working capital deficiency however this is not considered to be a significant source of business risk and therefore is not a primary objective for management. The deficiency amounted to $176,687 as at June 30, 2012 however this figure includes $742,056 in current liabilities related to preferred shares and the associated dividends. These obligations have not changed since the final quarter of 2007, are not secured, bear no interest or other charges, and there are no immediate plans for settlement. It is the belief of management that continuing its strong cash management practices to finance operational growth, and continue to generate positive cash flow from operations, and reduce long term debt is a much greater priority. These practices are intended to minimize business risks, including liquidity risk, with the expectation that the working capital deficiency will ultimately be eliminated as a result. The current deficiency balance represents an improvement of $111,011 or 38.5% in comparison to the balance of $287,698 but is $50,217 greater than it was at the beginning of Q4-2012. The increase in the final quarter can be attributed to the repayment of $81,542 in long-term debts, including $50,000 in optional pre-payments.

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, 2012, without discount:

	Due by June 2013	Due by June 2015	Due by June 2017	Due after June 2017	Total Due
Repurchase of preferred shares [1, 2]	$ 665,501	$ -	$ -	$ -	$ 665,501
Settlement of dividends payable [1]	268,201	-	-	-	268,201
Debenture [1]	39,600	-	-	-	39,600
Other long-term debt [3, 4]	269,806	709,542	-	-	1,018,948
Operating leases	86,466	179,722	196,924	398,603	861,715
Total	$ 1,329,574	$ 889,264	$ 196,924	$ 398,603	$ 2,814,365

(1) Each of these amounts were past due as at June 30, 2012
(2) The repurchase price includes $473,855 reported as an element of current liabilities plus $191,646 in paid up capital that is reported as an element of share capital.
(3) Other long-term debt includes three obligations for which their carrying value is lower than their face values. The financial statements as at June 30, 2012 report these obligations based upon their carrying values while the figures reported above represent the non-discounted cash payments to be made.
(4) On July 15, 2012 the Company made a $28,000 principal pre-payment on one debt. The effect of this pre-payment would be to reduce the amount due by June 2015 by $28,000 from what is reported above.

Capital Resources

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

There were no financing transactions completed during the nine month period ended March 31, 2012 or up to the date of this document and there are no current plans to undertake any financing transactions.

Related Party Transactions

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

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

	2012	2011	2010
Loan payable at prime +8% (1)	111,845	131,540	199,042

(1) This is the face value of this obligation. It is reported in the consolidated financial statements at a discounted value. The creditor is a company controlled by the spouse of a Director of the Company and as additional compensation for having advanced these funds it was granted an option that gives it the right to acquire a 24% interest in Permatech Electronics Corporation for $200,000 on or before May 1, 2015.

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

	2012	2011	2010
Interest expense – long term	14,433	21,030	22,854
Interest expense – other	-	-	9,002

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

Description	Expiry Date	Number of Common shares
Stock options @ $0.10 per share	Nov. 2015	900,000
Stock options @ $0.10 per share (1)	Sept. 2017	300,000

(1) These options were issued September 2012.

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Share capital	Quantity	Amount
Common shares	7,062,488	$ 21,773,391
Paid in capital of preferred shares		191,646
Class A special shares	1,193,442	100,000
Balance at June 30, 2012 and June 30, 2011		22,064,037
Class A special shares exchanged for common shares	(1,193,442)	(100,000)
Common shares issued for Class A special shares	99,454	8,951
Balance as of the date of this document	7,161,942	$ 21,972,988

The Company held its annual and special meeting on September 12, 2012 at which time the shareholders approved the issuance of 1 common share in exchange for each 12 special shares then outstanding. The value attributed to the 99,454 common shares issued as a result of this transaction is based upon the closing market value of $0.09 per share on September 12, 2012 and the difference of $91,049 between the carrying value of the Class A special shares and the value of the common shares was added to contributed surplus.

Preferred shares	Quantity	Amount
Series A preferred shares	166,667	$ 160,000
Series C preferred shares	288,858	505,501
Balance at June 30, 2012 and June 30, 2011		665,501
Less: amount accounted for as paid in capital		191,646
Liability element of preferred shares		473,855
Less: amount reported as a current liability		(473,855)
Equity element of preferred shares		$ -

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

Reserved shares	Expiry Date	Number of Common shares
Warrants @ $0.135 per share (1)	May 2013	500,000
Stock options @ $0.10 per share	Nov 2015	900,000
Warrants @ $0.10 per share	Mar 2016	900,000
Shares reserved as at June 30, 2012		2,300,000
Stock options @ $0.10 per share	Sept 2017	300,000
Shares reserved as at the date of this document		2,600,000

(1) These warrants will expire on the earlier of May 18, 2013 and the date that the Company eliminates the guarantee that the holder has provided as security for the Company's line of credit. These warrants are subject to claw-back provisions as may be imposed by the TSX Venture Exchange.

Fully diluted position	Number of Common shares
Shares issued	7,062,488
Shares reserved	2,300,000
Fully diluted position as at June 30, 2012 and	9,362,488
Common shares issued for Class A special shares	99,454
Shares reserved for stock options	300,000
Fully diluted position as at the date of this document	9,761,942

Convertible Instruments and Other Securities - continued

Additional disclosures relative to stock options are as follows:

	Common Shares Under Option	Weighted Average Price/Option	Weighted Average Expiry Date
Beginning and end of year	900,000	$0.100	Nov. 30, 2015
Granted after end of year	300,000	$0.100	Sept 14, 2017
As of the date of this document	1,200,000	$0.100	May 11, 2016

All stock options are held by related parties however the Company has no ability to cause them to be exercised.

Additional disclosures relative to share purchase warrants are as follows:

	Number of Warrants	Weighted Average Price/Warrant	Weighted Average Expiry Date
Beginning and end of year and as at the date of this document	1,400,000	$0.113	Mar. 18, 2015

Changes in Accounting Policy

The accounting policies followed by the Company are established in accordance with Canadian generally accepted accounting principles (GAAP) and once policies are established they will not, as a matter of policy, be revised unless Canadian GAAP changes. Commencing with the year ended June 30, 2012, Canadian GAAP now requires that financial reporting be completed in accordance with IFRS. Accordingly, the Company has issued its consolidated financial statements as at June 30, 2012 in accordance with IFRS including having applied IFRS 1 First Time Adoption of International Financial Reporting Standards. The Company has applied the policies of IFRS as set out in Note 2 to the consolidated financial statements consistently to all the periods presented, unless otherwise noted. The transition from Canadian GAAP to IFRS did not result in the restatement of any amounts previously presented.

Accounting standards effective in the current period but not yet adopted

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

IFRS 10, 11, 12 and 13 were all issued in May 2011 and are effective for annual periods beginning January 1, 2013, with early adoption allowed. The Company has not yet considered the potential impact, if any, of the adoption of these standards.

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

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

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

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

Changes in Accounting Policy - continued

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

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

Financial Assets

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

Financial assets:	*Classification*
Cash and cash equivalents	Fair value through profit and loss
Accounts receivable	Loans and receivables
Financial liabilities:	*Classification*
Customer deposits and deferred revenue	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Dividends payable	Other financial liabilities
Preferred shares	Other financial liabilities
Long-term debt	Other financial liabilities

Fair value through profit and loss:

Financial assets are designated as fair value through profit and loss if they were acquired principally for the purpose of selling in the short term. Fair value through profit and loss assets are recognized and carried at their fair value.

Loans and receivables:

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

Other financial liabilities:

Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument to the net carrying amount on initial recognition. Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

Impairment of financial assets:

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

Evidence of impairment could include:

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

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

Financial Assets - continued

Impairment of financial assets - continued:

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

Financial instruments recorded at fair value:

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

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

As of June 30, 2012, June 30, 2011 and July 1, 2010, cash and cash equivalents are measured at fair value and are classified within Level 1 of the fair value hierarchy.

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.

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 is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is in its accounts receivable. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. Bad debt experience has not been significant and it has been determined that no allowance is required as all amounts outstanding are considered collectible**.**

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company has reported a working capital deficiency of $176,687 (June 2011 - $287,698). This includes financial liabilities (a specific long-term debt instrument plus preferred shares and dividends payable) with an aggregate carrying amount of $781,656 (June 2011 - $781,656) which are past due and for which the timing of future cash flows are undetermined. The Company manages its liquidity risk through the management of its capital (note 11) which incorporates the continuous monitoring of actual and projected cash flows to ensure that it has sufficient liquidity to meet its operating commitments without incurring unacceptable losses or risking damage to the Company's reputation.

Market risks

The significant market risks to which the Company is exposed are interest rate risk and currency risk. The interest rate risk arises from two long-term debt instruments for which interest rates are fixed annually based upon prevailing market rates. Currency risk relates to accounts receivable and accounts payable denominated in US dollars and the potential for future cash flows to fluctuate because of changes in foreign exchange rates. Credit risk is minimized through the reduction of debt when cash flow permits. Currency risk is closely monitored but not actively managed. During the year the Company incurred a loss on foreign exchange in the amount of $16,138 (2011 – $2,049).

Sensitivity to market risks

If interest rates are 1% higher on the next subsequent interest adjustment date than they were at June 30, 2012, the monthly payments required on long-term debt over the next twelve months will increase by $522 representing additional interest expense.

At June 30, 2012 the Company had US$217,295 (2011 –US$10,014) included in accounts receivable. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $11,279 in future cash inflow.

At June 30, 2012 the Company had US$151,702 (2011 – US$73,670) included in accounts payable. A 5% decrease in the value of the Canadian dollar relative to the US dollar would result in an increase of $7,874 in future cash outflow.

The existence of both accounts receivable and accounts payable denominated in US$ do not serve as a hedge with respect to currency risk.

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