General

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of ZTEST Electronics Inc. ("ZTEST" or the "Company") constitutes management's review of the factors that affected the Company's interim condensed consolidated financial and operating performance for the three months ended September 30, 2012. The MD&A was prepared as of November 27, 2012 and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the three months ended September 30, 2012, and the audited consolidated financial statements for the year ended June 30, 2012, including the notes thereto. Unless otherwise stated, all amounts discussed herein are denominated in Canadian dollars.

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

The Company

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

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

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

Corporate Performance

The start of the 2013 fiscal year was quite positive for the Company. During the inaugural quarter the Company reported revenues approximately 12% greater than for the same period one year earlier, generated positive cash flow from operations, continued its reduction of long-term debt, reduced its deficiency in assets and realized a marginal increase in capital under management. In spite of all of these favourable results the period was not entirely positive because the Company also experienced a decline in profitability and an increase in the working capital deficiency.

For many periods now the Company has been succeeding relative to its objective of achieving, controlled and sustainable growth. From management's perspective this means revenue growth combined with strong cash management. As at September 30, 2012 the Company has reported increased revenues, increased cash and cash equivalents, and an enhanced equity position. It seems to follow then that the first quarter of 2013 was another successful period in the context of this goal.

Cash management is the means by which the Company manages its financial risks. It is an unending process and one which the Company continues to demonstrate a significant aptitude. The process is fed through the maximization of revenues and the collection of the resulting accounts receivable. The process then continues with the strategic deployment of the cash collected. The Company has continued its traditional management of credit risk and completed yet another fiscal quarter with no accounts considered to be anything other than fully collectible. The Company has a very strong credit history with its vendors, has operated for two fiscal years without utilizing working capital financing, has made pre-payments against its long-term debts, and has cash and cash equivalents on hand to help fund future operations.

Management will continue striving to maximize revenues, to minimize expenses, to optimize its cash utilization, and to maximize the benefits derived for its stakeholders. The following data may provide some additional insights relative to the Company's operating performance and financial position:

Corporate Performance - continued

	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:				
	Sept. 12	June 12	Mar. 12	Dec. 11	Sept. 11
Total Revenues	1,072,656	1,289,855	1,483,588	839,112	959,862
Net income (loss) from operations	6,132	42,073	279,280	(17,116)	86,699
Per share - basic	0.004	0.006	0.040	(0.002)	0.012
Net income (loss) for the period	8,789	44,015	279,280	(17,216)	86,699
Per share - basic	0.004	0.006	0.040	(0.002)	0.012
Total assets	2,252,523	2,340,853	2,652,994	2,122,488	2,033,096
Total long-term financial liabilities	602,565	698,648	785,338	902,553	962,334
Total liabilities	2,299,246	2,416,943	2,773,099	2,521,873	2,415,265

	For the three month periods ended:				
	June 11	Mar. 11	Dec. 10	Sept. 10	June 10
Total Revenues	957,817	820,976	1,112,951	1,118,324	1,408,769
Net income (loss) from operations	(100,165)	(117,154)	(51,768)	91,021	267,162
Per share - basic	(0.014)	(0.022)	(0.010)	0.017	0.051
Net income (loss) for the period	(98,320)	(117,154)	(51,768)	86,883	381,565
Per share - basic	(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

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

Results of Operations

For the three month period ended September 30, 2012 the Company has reported revenues of $1,072,656 representing an increase of $112,794 or approximately 12% in comparison to the September 2011 figure of $959,862. This revenue increase did not translate into enhanced profitability however, as net income from operations dropped from $86,699 to $6,132. Net income in the current period was negatively impacted by a decline in the gross margin realized and by increased expenses. The highlights from operations are discussed below.

The cost of product sales reported for the three month period ended September 30, 2012 were $689,526 representing an increase of $139,870 in comparison to the total for the first three months of the 2012 fiscal year. The different elements of cost of product sales, and the changes realized, are as follows:

	Sept. 12	Sept. 11	Change
Raw materials and supplies consumed	$ 467,068	$ 257,356	$ 209,712
Labour costs incurred	175,910	203,289	(27,379)
Depreciation	37,497	42,814	(5,317)
Other costs	25,706	39,672	(13,966)
Net change in finished goods and work in process	(16,655)	6,525	(23,180)
Total cost of product sales	$ 689,526	$ 549,656	$ 139,870

Results of Operations - continued

The cost of raw materials and supplies consumed increased by $209,712 or more than 81%. It also increased from 26.8% of product sales to 43.5%. This does not signify a decrease in efficiency but rather a significant increase in the number of assemblies that contained components and supplies provided by the Company as opposed to those for which the customers supply them. Although the Company actively promotes the procurement of components and supplies as a cost-effective supplemental service for all of its customers it remains a discretionary service and accordingly volumes will fluctuate from one period to the next.

Labour costs incurred during the first quarter of 2012 were almost 13.5% lower than they were for the corresponding period ended September 30, 2011. This decline arose even though there was a government sponsored work-share program in place throughout the September 2011 fiscal period. The work-share program, which remained in place until April 2012, provided the Company with labour savings but also enabled it to capitalize upon efficiency gains achieved through additional training and automation. The additional training and automation enabled the Company to implement a permanent reduction in its workforce when the work-share program ended. The reduced workforce and enhanced efficiency, in combination with lower labour demand, contributed to the current period labour savings.

The actual amount of labour costs included in the costs of products sold for the period is determined by combining the labour costs incurred with the net change in inventory for the period. For the three month period ended September 30, 2012 this aggregate total is $159,255 which is significantly lower than the September 30, 2011 total of $209,814. These figures are more indicative of the impact of the cost reduction factors described in the preceding paragraph than the actual labour costs incurred.

Depreciation costs are calculated as a percentage of the carrying value of equipment which has been declining as depreciation charges exceed new additions. During the most recent fiscal quarter equipment additions amounted to $1,690 while $17,708 was added in the period ended September 2011. The Company continually monitors its equipment requirements and makes acquisitions if and when they will provide future benefit. Based upon the assessed capacity, capability, and reliability of the existing equipment there are no immediate plans for major acquisitions or enhancements.

Other costs of product sales 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 and 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.

Selling, general and administrative expenses rose from $281,223 at September 30, 2011 to $315,993 at September 30, 2012 representing an increase of 12.3%. The major elements of this cost category are identified as follows:

	Sept. 12	Sept. 11	Change
Employee and consultant compensation	$ 201,796	$ 169,442	$ 32,354
Occupancy costs	68,239	74,518	(6,279)
Professional fees	17,656	12,984	4,672
Bad debts	-	8,047	(8,047)
Regulatory fees	15,291	2,740	12,551
Other costs	13,011	13,492	(481)
Total selling, general and administrative	$ 315,993	$ 281,223	$ 34,770

Employee and consultant compensation has increased by more than 19% in comparison to September 2011 levels. This increase encompasses the impact from the termination of the work-share program described previously, increased director fees, increased compensation rates, and increased consultant fees. There was no reduction in administrative personnel when the work-share program ended so costs returned to previous levels and increased due to annual salary adjustments. Consultants provide services on an as needed basis and while nothing out of the ordinary arose the timing of their retention led to increased costs in the current period that are not expected to be sustained.

Results of Operations - continued

Occupancy costs consist primarily of rent and utility charges for the Company's operating facility. The base rental charges for the two periods were almost identical however the utility charges were lower in the period ended September 2012. The utility cost reduction was a combination of lower utilization and lower billing rates.

Professional fees, which include a pro-rated portion of estimated annual audit fees as well as the cost of legal services, rose by $4,672 for the period ended September 30, 2102. This is primarily as a result of incremental legal fees arising from the conversion of the Class A shares to common shares and the Company's annual shareholder meeting which was held September 12, 2012. Neither of these events occurred during the period ended September 30, 2011

The Company had an unusual event arise during the period ended September 30, 20111 when, for the first time in many periods, it incurred a bad debt charge. No similar charge occurred in the current period. The Company is extremely diligent with respect to the investigation of the credit worthiness of its customers, the extension of credit, and the continuation of credit grants but no system is infallible as demonstrated by the 2011 charge.

Regulatory fees include all stock exchange and transfer agent fees incurred. On September 12, 2012 the Company held its shareholders' meeting and the surge in expenses reflects all of the costs of mailings and services related to that meeting. There were no similar costs incurred during the period ended September 2011. The previous shareholders meeting had been held June 2011.

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 debt load continues to decline which results in lower costs of financing. The financing costs are comprised of interest on long-term debt, other interest expense, and loan guarantee fees as follows:

	Sept. 12	Sept. 11	Change
Interest expense – long term	$ 29,024	$ 33,149	$ (4,125)
Interest expense – other	149	158	(9)
Loan guarantee fees	2,400	2,400	-
Total financing expenses	$ 31,573	$ 35,707	$ (4,134)

The Company's total long-term debt has been declining for a number of periods and as at September 30, 2012 the face value was $925,843 and the carrying value was $904,733. In contrast the face value at September 30, 2011 was $1,271,034 and the carrying value was $1,225,787. Interest expense – long term includes the cash-based interest charges incurred plus accretion of the difference between the face values and the carrying amounts. Accretion charges have risen from $4,932 to $8,866 while cash based interest cost declined from $28,217 to $20,158. It is anticipated that long-term debt will continue to decline resulting in further reduction in interest expense.

The Company has an operating loan facility in place with its financial institution whereby it can borrow up to $250,000. While this loan was not drawn upon the Company is still required to pay a guarantee fee of $800 per month to an individual that provided a guarantee as additional security for this loan. The current loan facility and the corresponding guarantee are scheduled to expire in May 2013.

Liquidity

The Company has reported a working capital deficiency in the amount of $206,648 as at September 30, 2012, representing a decline in working capital of $29,961 for the three month period then ended. As at September 30, 2011 the working capital deficiency was $332,327 and included a decline of $44,629 for that three month period. The deficiency for each period includes $742,056 in current liabilities related to preferred shares and the associated dividends which have not changed since the final quarter of 2007. These obligations are not secured, bear no interest or other charges, and there are no immediate plans for settlement. The decline in the current period can be attributed, in part, to an optional pre-payment of $28,000 made against a debenture payable, just as a pre-payment of $30,000 contributed to the decline at September 2011. Management continues to place greater priority on the accelerated repayment of long-term debts, in compliance with its cash management program, than it does on short-term gains in working capital.

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

In addition to satisfying the cost of operations the Company must also address the settlement of the following amounts as at September 30, 2012:

	Due by Sept. 2013	Due by Sept. 2015	Due by Sept. 2017	Due after Sept. 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]	278,001	608,242	-	-	886,243
Operating leases	87,145	180,854	199,414	373,025	840,438
Total	$ 1,338,448	$ 789,096	$ 199,414	$ 373,025	$ 2,699,983

(1) Each of these amounts were past due as at September 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 September 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 November 6, 2012 the Company made a $16,000 principal pre-payment on one debt. The effect of this pre-payment has not been reflected in the amounts presented above.

Capital Resources

The Company, through its subsidiary, has access to a $250,000 revolving line of credit from its financial institution to use for working capital purposes. 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 three month period ended September 30, 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.

Related Party Transactions - continued

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

	2012		2011	
	Sept 30	June 30	Sept 30	June 30
Loan payable at prime + 8% [1]	105,983	111,845	126,929	131,540

[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:

	2012		2011	
	Sept 30	June 30	Sept 30	June 30
Interest expense – long term	3,328	14,433	3,881	21,030

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

Description	Expiry Date	Number of Common shares
Stock options @ $0.10 per share	Nov. 30, 2015	900,000
Stock options @ $0.10 per share	Sept. 14, 2017	300,000

Convertible Instruments and Other Securities

As at September 30, 2012, and as at the date of this document, the Company had the following securities issued and outstanding:

Description	Quantity	Amount
Common shares	7,161,942	$21,773,391
Paid in capital of preferred shares		191,646
		$21,973,988

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

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

Description	Expiry Date	Number of Common shares
Warrants @ $0.135 per share [1]	May 2013	500,000
Stock options @ $0.10 per share	Nov. 2015	900,000
Warrants @ $0.10 per share	Mar 2016	900,000
Stock options @ $0.10 per share	Sept. 2017	300,000
Shares reserved as at September 30, 2012 and 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 also subject to claw-back provisions as may be imposed by the TSX Venture Exchange.

Convertible Instruments and Other Securities - continued

Shares issued	7,161,942
Shares reserved	2,600,000
Fully diluted as at September 30, 2012 and as at the date of this document	9,761,942

Additional disclosures relative to stock options are as follows:

	Common Shares Under Option	Weighted Average Price/Option	Weighted Average Expiry Date
Beginning of period	900,000	$ 0.10	Nov. 30, 2015
Issued during period	300,000	$ 0.10	Sept. 14, 2017
End of period and date of this document	1,200,000	$ 0.10	May 11, 2016

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

Additional disclosures relative to share purchase warrants are as follows:

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

Changes in Accounting Policy

The accounting policies followed by the Company are established in accordance with International Financial Reporting Standards (IFRS) and once policies are established they will not, as a matter of policy, be revised unless IFRS changes.

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.

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	Held for trading
Accounts receivable	Loans and receivables
Lease deposit	Loans and receivables

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

Held for trading:

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

Loans and receivables:

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

Other financial liabilities:

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

Impairment of financial assets:

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

Evidence of impairment could include:

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

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

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

Financial Assets - continued

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

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

As of September 30, 2012 and June 30, 2012 cash and cash equivalents are measured at fair value and as such are classified within Level 1 of the fair value hierarchy.

Forward-looking Information

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

Should one or more of these risks and uncertainties, such as actual results of current exploration programs, the general risks associated with the mining industry, the price of gold and other metals, currency and interest rate fluctuations, increased competition and general economic and market factors, occur or should assumptions underlying the forward looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, or expected. The forward-looking statements contained in this MD&A speak only as of the date hereof. The Company does not undertake or assume any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law. Stakeholders are cautioned not to put undue reliance on such forward-looking statements.

Risk Factors

Events seemingly unrelated to us, or to our industry, may adversely affect our finances or operations in ways that are hard to predict or defend against. For example, credit contraction in financial markets may hamper our ability to access credit when needed or rapid changes in foreign exchange rates may adversely affect our financial results. Finally, a reduction in credit, combined with reduced economic activity, may adversely affect businesses and industries that constitute a significant portion of our customer base. As a result, these customers may need to reduce purchases from us, or we may experience greater difficulty in collecting amounts due from them. Any of these events, or others caused by uncertainty in world financial markets, may have a material adverse effect on our business, operating results, and financial condition.

In addition to the foregoing, the Company is exposed in varying degrees to a variety of financial instrument related risks. The Company's primary risk management objective is to protect earnings and cash flow and, ultimately, shareholder value. Risk management strategies, as discussed below, are designed and implemented to ensure that the Company's risks and the related exposure are consistent with its business objectives and risk tolerance. There have been no changes to the risks to which the Company is exposed or to the corresponding risk management strategies during the current period.

Risk Factors - continued

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 $206,648 (June 2012 - $176,687). 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 2012 - $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 Company is exposed to interest rate risk and currency risk. The interest rate risk arises from two long-term debt instruments for which interest rates are fixed annually based upon prevailing market rates. Currency risk relates to accounts receivable and accounts payable denominated in US dollars and the potential for future cash flows to fluctuate because of changes in foreign exchange rates. Credit risk is minimized through the reduction of debt when cash flow permits. Currency risk is closely monitored but not actively managed. During the period the Company incurred a loss on foreign exchange in the amount of $7,905 (Sept 2011 – $5,443).

Sensitivity to market risks

If interest rates are 1% higher on the next subsequent interest adjustment date than they were at September 30, 2012, the monthly payments required on long-term debt over the next twelve months will increase by $273 representing additional interest expense.

At September 30, 2012 the Company had US$328,094 (2011 –US$Nil) 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 $17,540 in future cash inflow.

At September 30, 2012 the Company had US$138,568 (2011 – US$59,345) 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 $6,928 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.