General

The following managementôs discussion and analysis (ñMD&Aò) of the financial condition and results of operations of ZTEST Electronics Inc. (ñZTESTò or the ñCompanyò) constitutes managementôs review of the factors that affected the Companyôs interim condensed consolidated financial and operating performance for the nine months ended March 31, 2013. The MD&A was prepared as of May 28, 2013 and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the nine months ended March 31, 2013, 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 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
Arn Schoch (3)	Director
Michael D. Kindy	VP Finance & CFO
William R. Johnstone	Secretary

(1) Denotes member of audit committee
(2) Denotes member of compensation committee
(3) Mr. Schoch, an independent Director, was appointed to the Board on March 11, 2013.

Corporate Performance

The first nine months of the 2013 fiscal year have been assessed by management as being generally favourable as the Company continues to make strides in its efforts to enhance its financial health and to provide return for stakeholders.

The Company was profitable for the fifth consecutive quarter, and for the sixth time in the past seven quarters. The profitability for both the three and nine month periods ended March 31, 2013 is not as great as it was during the similar periods ended March 2012 but the March 2012 periods were anomalous in this regard making comparison difficult. The profitability achieved, in combination with a private placement completed in February 2013, has contributed to the Company reporting positive net equity for the first time in many periods and to having almost doubled capital under management in the last nine months.

Since June 2012 the Company has realized an increase of almost 95% in cash and cash equivalents. This increase has enabled the Company to post its own security for its commercial loan facility, thereby eliminating a personal guarantee that resulted in guarantee fees and a much higher effective interest rate on amounts borrowed. In addition to the accumulation of cash and cash equivalents the Company has continued to reduce its obligations. Total liabilities have declined by almost 16% in the first nine months with the majority of this decrease coming from repayment of long-term debt. The Company has repaid $289,792 in long-term debt during the first nine months including $117,659 repaid during the third fiscal quarter. This debt reduction includes $94,000 in optional pre-payments made between July 1, 2012 and March 31, 2013 and a further $132,000 was prepaid prior to the date of this document. Debt reduction reduces financing costs and will provide enhanced future cash flow as required monthly payments are reduced or eliminated.

Management will continue its rigorous cash management practices and to manage its capital in a manner that minimizes operating risks and enables the Company to meet its obligations as they come due.

Corporate Performance - continued

Management will also 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 Companyõs 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:				
	Mar. 13	Dec. 12	Sept. 12	June 12	Mar. 12
Total Revenues	1,127,445	1,113,223	1,072,656	1,289,855	1,483,588
Net income (loss) from operations	21,311	31,955	6,132	42,073	279,280
Per share - basic	0.003	0.004	0.004	0.006	0.040
Net income (loss) for the period	22,379	33,336	8,789	44,015	279,280
Per share - basic	0.003	0.005	0.004	0.006	0.040
Total assets	2,228,452	2,133,002	2,252,523	2,340,853	2,652,994
Total long-term financial liabilities	57,496	66,478	602,565	698,648	785,338
Total liabilities	2,036,126	2,141,525	2,299,246	2,416,943	2,773,099

	For the three month periods ended:				
	Dec. 11	Sept. 11	June 11	Mar. 11	Dec. 10
Total Revenues	839,112	959,862	957,817	820,976	1,112,951
Net income (loss) from operations	(17,116)	86,699	(100,165)	(117,154)	(51,768)
Per share - basic	(0.002)	0.012	(0.014)	(0.022)	(0.010)
Net income (loss) for the period	(17,216)	86,699	(98,320)	(117,154)	(51,768)
Per share - basic	(0.002)	0.012	(0.014)	(0.022)	(0.010)
Total assets	2,122,488	2,033,096	2,106,570	2,299,219	2,212,766
Total long-term financial liabilities	902,553	962,334	1,051,125	1,173,917	1,227,289
Total liabilities	2,521,873	2,415,265	2,575,438	2,712,514	2,639,707

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

Results of Operations

For the nine month period ended March 31, 2013 the Company has reported revenues of $3,313,324, including $1,127,445 generated during the three month period then ended. The figures reported for the corresponding periods ended March 31, 2012 were $3,282,562 and $1,483,588. Income from operations for the periods ended March 31, 2013 were $59,398 for the nine month period and $21,311 for the three month period. Each of these figures lag behind the March 2012 results when income from operations amounted to $348,863 on a year to date basis including $279,280 realized during the fiscal quarter then ended. The revenues and income from operations for the three months ended March 31, 2012 included amounts realized when a new customer came on board and cleared their backlog requirements. The highlights from operations are discussed below.

Results of Operations - continued

The cost of product sales reported for the periods ended March 31 were as follows:

Nine month periods:	Mar. 13	Mar. 12	Change
Raw materials and supplies consumed	$ 1,464,621	$ 1,175,531	$ 289,090
Labour costs incurred	552,578	588,976	(36,398)
Depreciation	113,056	129,441	(16,385)
Other costs	86,663	90,972	(4,309)
Net change in finished goods and work in process	(18,886)	10,392	(29,278)
Total cost of product sales	$ 2,198,032	$ 1,995,312	$ 202,720

Three month periods:	Mar. 13	Mar. 12	Change
Raw materials and supplies consumed	$ 509,292	$ 623,214	$ (113,922)
Labour costs incurred	189,067	205,421	(16,354)
Depreciation	38,063	43,814	(5,751)
Other costs	35,641	25,512	10,129
Net change in finished goods and work in process	(6,648)	(3,242)	(3,406)
Total cost of product sales	$ 765,415	$ 894,719	$ (129,304)

The cost of raw materials and supplies consumed continues to fluctuate from one period to the next in correlation with fluctuating demand for the Company`s turnkey services. The Company actively promotes turnkey assembly, which incorporates the procurement of components and supplies, as a cost-effective option for its customers. The alternative is pure assembly where the customers must provide all materials. The most recent quarter is the first three month period since December 2011 where these costs have been less than those reported for the comparative period one year prior. While this may suggest that a decline in demand for these services may be occurring, the year to date figures do not support that suggestion. As noted previously, the March 2012 operating results include the impact of servicing the product requirement backlog from a new customer. A significant portion of this backlog was turnkey based resulting in a significant jump in material and supply costs for the period. Management contends that the effects of this backlog are skewing the quarterly results and that continuing demand for turnkey services is not declining. The Company will continue to promote its turnkey service however it remains at the customerõs discretion and accordingly volumes, and the corresponding cost of raw materials and supplies consumed, will fluctuate from one period to the next independent from assembly volumes.

Labour costs incurred are almost 8% lower for the quarter, in comparison to the prior year, and more than 6% lower on a year to date basis. The current period cost reduction represents a return to a previously developing trend. Following the cessation of a government sponsored work-share program in April 2012 the Company implemented a permanent reduction in its workforce, capitalizing on efficiencies that had been realized. Lower labour costs have persisted since that time, with the exception of the quarter ended December 2012. During that quarter increases assembly volume, and the provision of some more labour-intensive assemblies, resulted in a cost increase. The Company will continue to monitor its labour requirements, to make every effort to match supply to demand, and to continue to benefit from efficiency enhancements whenever feasible.

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 finished goods and work in process for the period. For the nine month period ended March 31, 2013 this aggregate total is $533,692 which is almost 11% less than the March 31, 2012 total of $599,368. The three month results are similar with March 2013 results being almost 10% less than the March 2012 costs. These figures are indicative of the labour efficiencies being realized.

Depreciation costs are calculated as a percentage of the carrying value of equipment. Only $14,023 has been spent on equipment enhancements so far this year which is not sufficient to stall the decline in depreciation costs. The Company continually monitors its equipment requirements and makes acquisitions and enhancements when it is prudent to do so according to a cost-benefit analysis. Based upon the assessed capacity, capability, and reliability of the existing equipment there are no immediate plans for major acquisitions or enhancements.

Results of Operations - continued

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 for the periods ended March 31 were as follows:

Nine month periods:	Mar. 13	Mar. 12	Change
Employee and consultant compensation	$ 581,998	$ 529,465	$ 52,533
Occupancy costs	194,376	193,798	578
Professional fees	54,599	33,919	20,680
Regulatory fees	29,684	16,043	13,641
Bad debts	-	8,047	(8,047)
Other costs	55,138	46,025	9,113
Total selling, general and administrative	$ 915,795	$ 827,297	$ 88,498

Three month periods:	Mar. 13	Mar. 12	Change
Employee and consultant compensation	$ 182,854	$ 186,638	$ (3,784)
Occupancy costs	61,458	63,073	(1,615)
Professional fees	22,233	4,308	17,925
Regulatory fees	8,346	6,916	1,430
Bad debts	-	-	-
Other costs	15,645	13,507	2,138
Total selling, general and administrative	$ 290,536	$ 274,442	$ 16,094

Compensation costs were quite comparable for the quarters ended March 31 but remain almost 10% higher for the current nine month period when compared to March 2012 results. As the year to date figures suggest, these costs have been trending higher as a result of the April 2012 cessation of the work-share program, increased director fees, and increased compensation rates. Each of these conditions persisted through the recent quarter, resulting in higher costs, but that increase was offset by a reduction in consultant compensation for the period.

Occupancy costs consist primarily of rent and utility charges for the Companyös operating facility. Base rental costs increased approximately 4% on January 1, 2013 however these costs only account for approximately 1/3 of the periodic expense. The remainder of the costs, which incorporate utility costs and additional rents arising from realty taxes and common area costs, declined sufficiently to offset the increase in base rent.

Professional fees, which include a pro-rated portion of estimated annual audit fees as well as the cost of legal services, are significantly higher for the periods ended March 2013 than they were at March 2012 with virtually all of the increase occurring in the most recent quarter. This increase is attributable to legal expenses resulting primarily from governance and stock related matters. The quarterly costs at March 2013 were higher even though $6,000 in legal fees specifically related to the private placement having been accounted for as stock issuance costs which are deducted from share capital.

Regulatory fees include all public disclosure, stock exchange and transfer agent fees incurred. The fees for the current three month period are higher than the preceding year due to the issuance of press releases. The costs associated with having held a shareholdersô meeting September 2012 continue to cause the year-to-date figures to be higher since there were no similar costs incurred during the March 2012 periods.

As expected the bad debt incurred during the first quarter the 2012 fiscal year has not recurred. The Company has a very strong history of collecting on each of its accounts and does not anticipate the recurrence of this cost.

Results of Operations - continued

The remaining elements of SG&A are insignificant, both individually and in aggregate, and are not analyzed herein. These expenses are continuously monitored by management and remain within expectations.

The Companyøs 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:

Nine month periods:	Mar. 13	Mar. 12	Change
Interest expense ï long term (cash based)	$ 54,642	$ 78,435	$ (23,793)
Interest expense ï long term (accretion)	16,556	15,562	994
Interest expense ï other	447	462	(15)
Loan guarantee fees	7,200	7,200	-
Total financing expenses	$ 78,845	$ 101,659	$ (22,814)

Three month periods:	Mar. 13	Mar. 12	Change
Interest expense ï long term (cash based)	$ 16,180	$ 23,858	$ (7,678)
Interest expense ï long term (accretion)	3,888	5,698	(1,810)
Interest expense ï other	150	155	(5)
Loan guarantee fees	2,400	2,400	-
Total financing expenses	$ 22,618	$ 32,111	$ (9,493)

Interest expense ï long term, as reported in the financial statements, includes cash-based interest charges, being the amount paid or payable to lenders, plus accretion of the difference between the face values of the debts and their carrying amounts. Cash-based interest charges have declined by more than 30% for the nine month period, and more than 32% for the three month period, reflecting the income benefits derived from managementøs efforts to accelerate the reduction of long-term debt. As at March 31, 2013 the face value of long-term debt was $725,375 with a weighted average interest rate of 7.86%. This represents a debt reduction of $376,916 since March 31, 2012 when the weighted average interest rate was 8.28%. It is expected that long-term debt will continue to decline resulting in further reductions 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 guarantee, and the corresponding fee, was eliminated in May 2013 when the operating facility was renewed and the Company provided its own security.

Liquidity

The Company has reported a working capital deficiency in the amount of $447,493 as at March 31, 2013 representing an improvement of $218,598 for the three month period but a decline of $176,687 for the nine month period. Although the recent improvement was partially due to the Company having raised net proceeds of $156,930 through a private placement the most impactful element of working capital in recent periods has been the current portion of long-term debt. At June 30, 2012 the Company reported $988,952 in long-term debt including $290,304 classified as the current portion since it was due in the ensuing twelve months. As of March 31, 2013 total long-term debt has declined to $711,936 but the current portion now stands at $654,440. The increase in the current portion of long-term debt is primarily attributable to two debentures which mature December 2013 and require lump sum payments at maturity. The Company has been utilizing cash not considered to be required for short-term operating requirements to make pre-payments and reduce these lump sum payments. Prepayments made during the current fiscal year aggregate $66,000 including $50,000 made in the most recent quarter. Subsequent to March 31, 2013 the Company has utilized cash received due to the exercise of stock options and warrants to make further prepayments of $132,500. The Company anticipates being able to settle each of its long-term obligations as they mature.

Liquidity

The Company utilizes long term debt as a means of financing new equipment acquisitions. The Companyøs short-term financing requirements, if any, are now expected to be met through the bank operating line.

In addition to satisfying the cost of operations the Company must also address the settlement of the following amounts as at March 31, 2013:

	Due by Mar. 2014	Due by Mar. 2016	Due by Mar. 2018	Due after Mar. 2018	Total Due
Repurchase of preferred shares [1, 2]	$ 665,501	$ -	$ -	$ -	$ 665,501
Settlement of dividends payable [1]	263,337	-	-	-	263,337
Debenture [1]	39,600	-	-	-	39,600
Other long-term debt [3,4]	626,957	58,818	-	-	685,775
Operating leases	88,277	184,476	203,262	321,191	797,206
Total	$ 1,683,672	$ 243,294	$ 203,262	$ 321,191	$ 2,451,419

(1) Each of these amounts were past due as at March 31, 2013

(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 unaudited condensed interim consolidated financial statements as at March 31, 2013 report these obligations based upon their carrying values while the figures reported above represent the non-discounted cash payments to be made.

(4) The amount reported as due by March 2014 has not been reduced by $132,500 in pre-payments completed subsequent to March 31, 2013.

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, and is secured by a general security agreement covering the assets of Permatech Electronics Corporation and by $250,000 in cash-based investments of the Company. Prior to posting the cash-based investments as security the credit line was secured by the personal guarantee of an individual that was not related to the Company. That individual was issued 500,000 share purchase warrants which entitled them to acquire 500,000 common shares of the Company at a price of $0.135 per warrant. The warrants were exercised on May 13, 2013 being the date the guarantee was removed. The guarantor was also paid a guarantee fee of $800 per month which was accounted for as financing fees.

The Company completed a private placement financing on February 4, 2013 which resulted in the issuance of 2,200,000 units at $0.08 per unit for gross proceeds of $176,000. Each unit was comprised of 1 common share and ½ share purchase warrant with the shares restricted from trading until June 5, 2013. Each full warrant entitles the holder to acquire one additional common share for $0.10 until February 4, 2016. The Company paid a cash findersô fee of $10,560 and incurred other costs of $8,510 in respect of this offering.

Related Party Transactions

The Company has participated in transactions with a company that is a shareholder of the Company and is controlled by the spouse of a Director of the Company. All expenses and period end balances with the related party are at exchange amounts established and agreed to by the related party. All transactions with the related party 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 were due to the related party defined above as at the following dates:

	Mar. 31 2013	June 30 2012	Mar. 31 2012	June 30 2011
Loan payable at prime + 8% [1]	93,767	111,845	117,318	131,540

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

Related Party Transactions - continued

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

	Nine months ended		Three months ended	
	Mar. 13	Mar. 12	Mar. 13	Mar. 12
Interest expense ï long term	9,490	11,254	2,998	3,621

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 (1)	Nov. 30, 2015	375,000
Stock options @ $0.10 per share (2)	Sept. 14, 2017	180,000
Stock options @ $0.15 per share	Mar. 11, 2018	200,000

(1) 525,000 options were exercised April 2013 leaving the above noted balance outstanding.

(2) 120,000 options were exercised April 2013 leaving the above noted balance outstanding.

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Share capital	Quantity	Amount
Balance, December 31, 2011 and June 30, 2012	7,062,488	$ 21,773,391
Private placement	2,200,000	176,000
Less: issuance costs		(19,070)
Less: value attributed to warrants		(37,859)
Common shares issued in exchange for Class A shares	99,454	8,951
Common shares	9,361,942	21,901,413
Paid in capital of preferred shares		191,646
Balance March 31, 2013	9,361,942	22,093,509
Options exercised	645,000	64,500
Warrants exercised	500,000	67,500
Plus: value previously attributed to warrants		42,746
Balance as at the date of this document	10,506,942	$ 22,268,255

Preferred shares	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

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.

Reserved shares	Expiry Date	Number of Common shares
Warrants @ $0.135 per share	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	Dec. 2017	300,000
Warrants @ $0.10 per share	Feb. 2016	1,100,000
Shares reserved as at March 31, 2013		3,700,000

Convertible Instruments and Other Securities - continued

Reserved shares	Expiry Date	Number of Common shares
Shares reserved as at March 31, 2013		3,700,000
Stock options exercised @ $0.10 per share	Nov. 2015	(525,000)
Stock options exercised @ $0.10 per share	Dec. 2017	(120,000)
Warrants exercised @ $0.135 per share	May 2013	(500,000)
Shares reserved as at the date of this document		2,555,000

Fully diluted position	Number of Common shares
Shares issued	9,361,942
Shares reserved	3,700,000
Fully diluted as at March 31, 2013	13,061,942
Shares issued subsequently	1,145,000
Reduction in shares reserved as a result of subsequent issuances	(1,145,000)
Fully diluted as at the date of this document	13,061,942

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	500,000	0.12	Nov. 24, 2017
End of period	1,400,000	0.11	Aug. 15, 2016
Exercised after end of period	(645,000)	0.10	Mar. 30, 2016
As of the date of this document	755,000	$ 0.10	Dec. 10, 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 of period	1,400,000	$ 0.113	Mar. 18, 2015
Issued during period	1,100,000	0.100	Feb. 4, 2016
End of period	2,500,000	0.107	Aug. 7, 2015
Exercised after end of period	(500,000)	0.135	May 18, 2013
As at date of this document	2,000,000	$ 0.100	Feb. 26, 2016

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.

Changes in Accounting Policy - continued

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

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 Companyøs 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

Financial Assets - continued

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

Evidence of impairment could include:

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

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

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

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

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

As of March 31, 2013 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 Managementôs 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", ñshouldò, "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 ñRisk Factorsò 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 Companyøs 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 Companyøs 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 Companyøs 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 Companyøs 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 ï $5,443).

Sensitivity to market risks

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

At March 31, 2013 the Company had US$132,271 (2012 ï US$215,620) 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 $6,895 in future cash inflow.

At March 31, 2013 the Company had US$187,712 (2012 ï US$113,167) 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 $9,765 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 Companyøs immediate market risk exposures.