## General

The following Management Discussion and Analysis ("MD&A") has been prepared by the Company's management, without review or comment from the Company's auditors, to accompany the unaudited interim consolidated financial statements of the Company as at March 31, 2011 and should only be read in conjunction with those financial statements. Additional information about the Company can be found at www.sedar.com.

## Forward-looking Information

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

## The Company

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

| 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**

He third quarter was a challenging period for the Company as operations were negatively impacted by market shortages of, and prolonged lead times for, electronic components. These unfavourable conditions resulted in the month of February being one of the weakest sales months in recent history. The quarter finished well, with revenues in March being much stronger, and this enabled the Company to report the fourth consecutive quarter with revenues that exceeded the comparable period two years prior but it was also the first time in five fiscal quarters that total revenues did not exceed those of the comparable period one year earlier. Although difficulties in obtaining some components still exist it appears that the market has stabilized so that deliveries have at least become more predictable.

Even with the challenges of the period the Company was able to realize positive cash flow from operations. Although the resulting figure was not large the fact that it was favourable in spite of having reported an operating loss is a testament to the effectiveness of the Company's cash management practices. Although component delivery issues made cash management more challenging than normal the Company still managed to maintain strong cash reserves while operating within the credit limits established by its suppliers.

The cash reserves were further supplemented by the completion of a private placement financing during the period. The financing generated gross proceeds of $135,000 and resulted in the issuance of 1,800,000 common shares and 900,000 share purchase warrants with each warrant entitling the holder to acquire an additional common share of the Company at a price of $0.10 for a period of five years. These proceeds not only facilitated the continued reduction of long-term debt during the quarter but also resulted in a further reduction of the Company's working capital deficiency.

In spite of the Company's relatively strong cash position, apparent ability to manage its cash flows, and track record of having acquired short term financing when required, there are still those that remain skeptical about the Company's ability to deal with short term working capital pressures that may arise. This skepticism has been an impediment to the Company securing certain product orders even though the Company has been extremely competitive with respect to product price and quality. In response to this skepticism, management has worked diligently to obtain commercial financing. On May 13, 2011 the Company finalized negotiations on a $250,000 line of credit, and on an associated guarantee agreement, that are expected to significantly enhance the Company's ability to secure product orders that were previously unattainable.

To obtain this facility the Company issued 500,000 share purchase warrants to an individual known to, but not related to, the Company. This issuance, plus a fee of $800 per month, is being paid to this individual in exchange for their having provided a personal guarantee in support of the credit line. Each warrant entitles the individual to acquire one common share of the Company at a price of $0.135 per share until the earlier of May 18, 2013 and the date that the Company eliminates the guarantee. The Company will also pay interest to this individual, based upon any amounts drawn under this loan facility, equal to 10% per annum less interest at prime plus 0.5% which is payable directly to the lender.

The Company continues to work through and overcome the challenges placed before it and to provide itself with the opportunity to grow its operations and to enhance its profitability and financial position. Although some supply and lead time issues are always prevalent in the marketplace for electronic components it is believed that the most sever aspects of the extreme situation that arose during the third quarter have passed. With improving component supply, enhanced cash reserves, access to short term borrowing if and when it is needed, and reasonable market demand for the Company's services it is anticipated that the revenue and profitability declines experienced recently will not persist into the final quarter of the 2011 fiscal year.

**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 10 | June 09 | June 08 |
| Total Revenues | 3,837,630 | 3,435,283 | 4,066,902 |
| Net income (loss) from operations | 266,210 | (165,302) | 250,963 |
| Per share [(1)] | 0.051 | (0.031) | 0.048 |
| Net income (loss) for the period | 380,613 | (196,656) | 237,958 |
| Per share [(1)] | 0.072 | (0.037) | 0.045 |
| Total assets | 2,255,703 | 2,119,699 | 1,591,396 |
| Total long-term financial liabilities | 1,352,187 | 1,390,403 | 497,844 |
| Total liabilities | 2,786,454 | 3,037,900 | 2,401,374 |

| | 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 (loss) income from operations | (117,154) | (51,768) | 91,021 | 267,162 | 48,105 |
| Per share [(1)] | (0.022) | (0.010) | 0.017 | 0.051 | 0.009 |
| Net (loss) income for the period | (117,154) | (51,768) | 86,883 | 381,565 | 48,105 |
| Per share [(1)] | (0.022) | (0.010) | 0.017 | 0.073 | 0.009 |
| Total assets | 2,299,219 | 2,212,766 | 2,250,671 | 2,255,703 | 1,895,945 |
| 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 |

| | For the three month periods ended: | | | | |
|---|---|---|---|---|---|
| | Dec. 09 | Sept. 09 | June 09 | Mar. 09 | Dec. 08 |
| Total Revenues | 777,838 | 762,174 | 785,581 | 690,777 | 928,499 |
| Net (loss) income from operations | (19,073) | (29,984) | (180,183) | (26,845) | 601 |
| Per share [(1)] | (0.004) | (0.006) | 0.035) | (0.005) | 0.000 |
| Net (loss) income for the period | (19,073) | (29,984) | (211,537) | (26,845) | 601 |
| Per share [(1)] | (0.004) | (0.006) | (0.041) | (0.005) | 0.000 |
| Total assets | 1,918,100 | 1,959,494 | 2,119,699 | 1,291,890 | 1,322,065 |
| Total long-term financial liabilities | 1,350,369 | 1,416,359 | 1,390,403 | 474,187 | 414,131 |
| Total liabilities | 2,884,984 | 2,907,491 | 3,037,900 | 2,084,721 | 2,088,625 |

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

[(1)] Earnings per share figures for each period have been restated to give retroactive effect to the share consolidation transaction that occurred April 2010.

**Results of Operations**

Product sales for the third quarter of 2011 amounted to $820,976 which resulted in revenues for the nine month period being raised to $3,052,251. In comparison, the year to date revenues at March 2010 were 20.4% lower at $2,428,861 even though revenues for that quarter were 8.2% higher at $888,849. Although there are still some lingering effects, it is believed that the worst of the supply shortages that gave rise to the decline in quarterly revenues have passed.

The lower revenues for the period translated into a loss from operations, and a net loss for the period, of $117,154. This represents a profitability change of $$165,259 in comparison to the three months ended March 31, 2010 which provided $48,105 in net income from operations and in net income for the period. This change is a result of having realized lower margins in the current period while also incurring higher expenses. The loss in the current quarter was also sufficient to result in a nine-month loss from operations of $77,901 and net loss for the period of $82,039. Each of these figures exceeds the corresponding losses of $952 reported for the nine months ended March 31, 2010. In addition to the impact of the third quarter, the cumulative loss figures for the current year also include stock option compensation costs from Q2 that exceed 2010 levels by more than $68,000.

**Results of Operations - continued**

As noted previously, the gross margin for the current period, which amounted to $229,872, was lower than the gross margin of $345,940 reported for Q3-2010. While revenues were lower in the current period the margins have also declined as a percentage of sales. In almost every prior period a decline in gross margins as a percentage of sales has been attributed to a shift in the product mix between turnkey and non-turnkey work. While this was a factor in the current period it was not the primary cause of the decline. The current period margins were instead reduced primarily as a result of higher labour costs. Thus far in 2011 the gross margin of $1,033,105 exceeds the amount t of $918,441 reported at March 31, 2010 but, in spite of the value increase, it is lower when looked upon as a percentage of product sales. While the labour issues arising in Q3 contributed to this percentage decline the more traditional shift in product mix was the dominant factor.

For the three and nine month periods ended March 31, 2011 the Company has incurred direct labour costs, net of the amount charged to inventory, of $233,781 and $844,239. For the same periods ended March 31, 2010 these costs amounted to $177,412 and $631,139. It has been noted previously that there was a market shortage of components and that the lead times for delivery of components had become longer. This situation arose rather abruptly and with little warning. In addition, the timing of deliveries and quantities received were less predictable. Each of these factors translated into reduced productivity and, by extension, higher than average labour costs. These factors have not disappeared entirely but by the end of the period these factors, and the labour utilization, had stabilized

Component cost, the best indicator of product mix, reflected very little change in value as they amounted to $246,017 for the current quarter and $247,679 in Q3-2010. There has been a change however, as these costs equated to 30.0% of product sales in the 2011 period as compared to 27.9% in 2010. The year-to-date figures show a little more disparity as the cost of $808,625 incurred for the nine months ended March 31, 2011 represent 26.5% of product sales while the cost of $542,385 for the first three quarters of 2010 was 22.3%. Gross margin and component costs are inversely correlated when taken as a percentage of sales however the procurement of components contributes to the Company's profitability while also being a cost effective solution for its customers. The Company will continue to promote the mutual benefit however it remains a discretionary service and will continue to vary from period to period.

The amortization of production equipment is the only other cost that exceeds 5% of cost of sales in any period. No significant equipment acquisitions have occurred since May 2009 and, as a result, amortization costs have fallen from $62,629 and $187,888 for the three and nine month periods ended March 31, 2010 to $50,728 and $151,943 for the corresponding periods ended March 31, 2011 periods. The Company is in process of having a machine installed and when this machine, expected to have a cost of $80,000, is operational an increase in amortization costs will occur.

The remaining elements of cost of sales are production supplies, equipment maintenance, freight, packaging supplies, and other incidental charges. None of these expenses are significant for any of the periods being discussed. These costs are monitored regularly by management and are within expectations so the variance, if any, in the amounts recognized for each period have not been investigated.

The apparent trend of higher selling, general and administrative expenses ("SG&A) continued in the current period with costs rising from $256,434 in Q3-2010 to $305,237 for Q3-2011. This represents an increase of just over 19% between these two periods. The increase appears to be even greater when the nine month periods are compared as the change from $779,289 at March 2010 to $988,591 at March 2011 represents an increase of almost 27%. While it is undeniable that costs are higher in the current periods than they were at March 2010 it would be more accurate to describe this result as a return to traditional levels than as an increase. During the economic downturn of 2008-2010 the Company took significant steps to reduce these costs but it was not conceivable to maintain these reduced service levels once operating volumes began to increase. This return to historical cost levels began in the final quarter of the 2010 fiscal year and is expected to continue for the foreseeable future.

**Results of Operations - continued**

Employee and consultant remuneration is most reflective of the cost cutting measures that were taken in prior periods and the return to more traditional cost levels. Costs for the current quarter amounted to $200,280 while costs for the first nine months were $646,442. In contrast, costs for Q3-2010 were $139,145 and the total for the first three quarters was $445,491. During the periods ended March 2010 the Company was still enforcing reduced work hours with corresponding reductions in remuneration. As noted previously, this came to an end as the Company entered the final quarter of its 2010 fiscal year and costs have remained relatively consistent since that time. It shoud be noted however that the nine-month figure for 2011 includes $68,696 in stock option compensation that was recognized as a result of stock options being granted during the second quarter. There was no similar cost incurred in the current period or in any period in 2010.

Occupancy costs for the current period equated to $71,510. This is more than 11% lower than the amounts incurred during each of the two preceding fiscal quarters as would seem apparent when looking at the nine month total of $232,767. This cost decline was anticipated as the Company entered into a new lease for its operating facility that included a reduction in base rent from what it had previously been paying. The new lease rate took effect at the start of the third quarter while the old rate had been in effect for the previous 24 months. Aside from base rent this cost is also affected by the demand for utilities and changes in rates related to utilities, realty taxes and common area maintenance charges. These other factors have contributed to the costs of $68,917 and $224,926 incurred during the three and nine month periods ended March 31, 2010. The Company's new lease has a term of ten years and calls for annual escalations in the base rent amount. Depending upon the variations experienced in the other elements of occupancy costs it would be reasonable to anticipate minor increases in these costs from year to year throughout this new lease period.

There are no other expenses that were individually significant elements of SG&A for either the current or comparable periods, or that reflected significant changes. These remaining expenses include professional fees, regulatory fees, insurance and other miscellaneous charges. Each of these costs is monitored closely by management and is within expected cost levels.

Interest expense continues to decline, as is expected given that debt levels are also decreasing. Interest costs for the current quarter were $36,872 representing a decline of more than 14% in comparison to the $42,934 borne during the same period one year earlier. On a year-to-date basis the costs have also declined more than 14% having decreased from $130,887 to $111,951. The Company has eliminated its short-term debt, and corresponding interest costs although incidental interest of $149 was paid during the current quarter. The Company has also reduced the balance of long-term debt outstanding and has therefore managed to reduce its interest on long term debts as well. It should be noted however that the Company now has certain debts with interest rates that fluctuate with market rates of interest, which are trending higher. Even though debt levels are expected to continue to decline the potential exists that rising interest rates will slow decline in this expense.

**Liquidity**

As at March 31, 2011 the Company has reported a working capital deficiency of $126,470 making this the fifth consecutive quarter that the Company has realized a reduction in its working capital deficiency. During this 15 month period the deficiency has been reduced by $644,979. This working capital enhancement generally coincides with improvements in the Company's cash position, growth in net equity and reductions in total liabilities.

During the third quarter cash reserves increased by $79,439 and net equity increased by $13,646 although total liabilities also increased by $72,807. The increase in liabilities is not consistent with working capital improvement and a significant reason why the working capital only improved by $4,729 during the current quarter.

**Liquidity - continued**

Since the current trend towards working capital improvement commenced in December 2009 cash on hand has risen by $388,367, total liabilities have declined by $172,470 and net equity has increased by $553,589, While the Company is continuously working to improve its financial position and to maximize return for its stakeholders there is no assurance that improvements to liquidity will continue to occur each period. For example, it is anticipated that reductions in long-term debt will continue but also that the current portion of these debts will increase as the debts progress towards maturity. This increase in this element of current liabilities may make it increasingly difficult to achieve working capital improvements. This has been observed in each of the first three fiscal quarters of 2011 as working capital improvements have arisen, but at declining rates, while the current portion of long term debt has risen by $92,597.

It should be noted that the working capital deficiency continues to include the sum of $781,656 which remains in current liabilities on account of preferred shares that matured during Q4-2007, the unpaid dividends thereon, and a debenture that matured December 2005. No repayments of these obligations have occurred subsequent to their maturity dates and will not occur unless suitable repayment arrangements can be negotiated.

In addition to satisfying the cost of operations the Company must also address the payment or other settlement of the following amounts:

| | Due by Mar. 2012 | Due by Mar. 2014 | Due by Mar. 2016 | Due after Mar. 2016 | Total Due |
|---|---|---|---|---|---|
| Repurchase of preferred shares (1) | 665,501 | - | - | - | 665,501 |
| Settlement of dividends payable | 268,201 | - | - | - | 268,201 |
| Matured debenture | 39,600 | - | - | - | 39,600 |
| Other long-term debt (2) | 210,289 | 1,088,784 | 125,132 | - | 1,424,205 |
| Operating leases | 82,391 | 174,064 | 184,476 | 524,453 | 965,384 |
| Total | 1,265,982 | 1,262,848 | 309,608 | 524,453 | 3,362,891 |

(1) The repurchase price includes an amount of $473,855 included in current liabilities plus paid up capital of $191,646 that is included as an element of share capital.

(2) Other long-term debt includes three obligations that each has a carrying value that is lower than their respective face values. The financial statements as at March 31, 2011 report these obligations based upon their carrying values while the figures reported above represent the non-discounted cash payments to be made in accordance with the face value amounts.

**Capital Resources**

During the period the Company continued to work towards the commissioning of a refurbished machine that, when fully operational, is expected to provide greater production capability and capacity. The acquisition and installation of this machine is still expected to cost an aggregate of approximately $80,000. Deposits aggregating $53,338 had been paid as at March 31, 2011 and the remaining costs are expected to be paid from working capital once the machine is operational.

During the period the Company completed a financing transaction whereby it issued 1,800,000 units at $0.075 each for gross proceeds of $135,000. Each unit was comprised of one common share and one-half share purchase warrant with each full warrant entitling the holder to acquire an additional common share for $0.15 until March 24, 2016. the Company paid finders fees in the amount of $4,200 in connection with this transaction.

In May 2011 the Company obtained a $250,000 revolving line of credit from its financial institition, secured by a general security agreement over the assets of Permatech Electronics Corporation and by the personal guarantee of an individual that is not otherwise related to the Company. The guarantor will be paid $800 per month as a guarantee fee and will also receive interest equal to the difference between 10% and the floating rate of prime plus 0.5% being charged by the bank. The loan is due on demand and matures May 13, 2013.

## Related Party Transactions

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

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

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

| | Mar. 31 2011 | June 30 2010 | Mar. 31 2010 | June 30 2009 |
|---|---|---|---|---|
| Loan payable at prime + 8% | 194,524 | 199,042 | - | - |
| Notes payable at 12.0% | - | - | 44,453 | 116,572 |
| Term loan payable at 8.0% | - | - | 41,009 | 37,971 |
| Term loans payable at 10.5% | - | - | 125,074 | - |
| Term loans payable at 12% | - | - | 55,380 | 161,383 |

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

| | Mar. 31 2011 | June 30 2010 | Mar. 31 2010 | June 30 2009 |
|---|---|---|---|---|
| Interest expense – long term | 16,065 | 22,954 | 16,477 | 20,981 |
| Interest expense – other | - | 9,002 | 8,715 | 14,588 |

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 @ $2.04 per share | June 2011 | 75,000 |
| Stock options @ $0.10 per share | Nov. 2015 | 900,000 |
| | | 975,000 |

## Convertible Instruments and Other Securities

As at March 31, 2011, and as at the date of this document, the Company had the following securities issued and outstanding:

| Description | Quantity | Amount |
|---|---|---|
| Common shares | 7,062,488 | $ 21,773,391 |
| Paid in capital of preferred shares | | 191,646 |
| Value attributed to warrants not yet exercised | | 38,818 |
| Class A special shares | 1,193,442 | 100,000 |
| | | $ 22,103,055 |
| 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 | | $ - |

## Convertible Instruments and Other Securities - continued

In addition to the shares issued and outstanding the Company has reserved shares for the potential exercise of stock options and share purchase warrants as reflected in the following chart.

| Description | Expiry Date | Number of Common shares |
|---|---|---|
| Stock options @ $2.04 per share | June 2011 | 75,000 |
| Stock options @ $0.10 per share | Nov 2015 | 900,000 |
| Warrants @ $0.10 per share | Mar 2016 | 900,000 |
| Shares reserved as at March 31, 2011 | | 1,875,000 |
| Warrants issued after March 31, 2011 | May 2013 (2) | 500,000 (1) |
| Shares reserved as at the date of this document | | 2,375,000 |
| Shares issued as at March 31, 2011 | | 7,062,488 |
| Shares reserved as at March 31, 2011 | | 1,875,000 |
| Fully diluted position as at March 31, 2011 | | 8,937,488 |
| Shares reserved subsequent to March 31, 2011 | | 500,000 |
| Fully diluted position as at the date of this document | | 9,437,488 |

Additional disclosures relative to stock options are as follows:

| | Common Shares Under Option | Weighted Average Price/Option | Weighted Average Expiry Date |
|---|---|---|---|
| Beginning of period | 79,167 | $2.031 | June 8, 2011 |
| Expired | (4,167) | $1.860 | July 10, 2010 |
| Granted | 900,000 | $0.100 | Nov. 30, 2015 |
| End of period | 975,000 | $0.250 | July 28, 2015 |

While the remaining stock options are held by related parties, the Company has no ability to cause any of the items noted above 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 of period | - | - | - |
| Issued during the period | 900,000 | $0.100 | Mar. 24, 2016 |
| End of period | 900,000 | $0.100 | Mar. 24, 2016 |
| Issued after the period | 500,000 (1) | $0.135 | May 24, 2013 (2) |
| Date of document | 1,400,000 | $0.113 | Mar. 18, 2015 |

(1) If the borrowing limit of the credit line is reduced from $250,000, in any manner, prior to May 18, 2012 then the number of warrants will be reduced on a pro rata basis within thirty days of the reduction. These warrants are also subject to claw-back provisions as may be imposed by the TSX Venture Exchange.

(2) 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.

## Changes in Accounting Policy

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

## Changes in Accounting Policy - continued

*International reporting standards:*

In February 2008, the Accounting Standards Board (“AcSB”) confirmed that the transition to International Financial Reporting Standards (“IFRS”) from Canadian GAAP will occur on January 1, 2011 for public entities. Although early adoption is permissible the Company has determined that it will commence reporting under these new standards for its fiscal year ended June 30, 2012 in accordance with the implementation deadline. While all aspects of the implementation are not yet known with certainty it is anticipated that the financial reporting impact of the transition to IFRS will be minimal.

The changeover to the new standards will occur on July 1, 2011 and the first fiscal period which will be reported upon under the new standards will be the quarter ended September 30, 2011. An initial review of key areas for which changes to accounting policies may be required has been completed and it revealed that changes are expected to be minimal. Notwithstanding this result however, the Company has commenced a comprehensive review of each of its accounting policies to determine what policy alternatives are available under IFRS and the exact extent, if any, that each policy will change. This review will be conducted throughout the 2011 fiscal year. To the extent that policy changes are required, they will be identified, quantified and disclosed in the immediately subsequent MD&A.

## Financial Instruments

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

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

## 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, concentration of 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.

**Risk Factors - continued**

*Credit risk and concentration of credit risk;*
Credit risk represents the financial loss that the Company would experience if one or more of its customers failed to meet its obligations. The maximum credit exposure is represented by the carrying amount of accounts receivable as reported on the balance sheet. Concentration of credit risk arises when a significant portion of the financial assets subject to credit risk arise from a single or limited number of sources. As at March 31, 2001 one of the Company's customers accounted for more than 20% of accounts receivable (2010 – none). In an effort to mitigate these risks, 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 for amounts that may be uncollectible.

*Liquidity risk*:
Liquidity risk represents the potential difficulties that the Company may encounter in meeting obligations associated with financial liabilities. The Company is reporting a working capital deficiency of $126,470 (June 2010 - $220,226). This includes a long-term debt, preferred shares and dividends payable, with an aggregate carrying value of $781,656 (June 2010 - $781,656), that are each past due. The Company manages its liquidity risk through the management of its capital (see Note 11 to the financial statements) which incorporates the continuous monitoring of actual and projected cash flows to ensure that it has sufficient liquidity to meet its operating commitments without incurring unacceptable losses or risking damage to the Company's reputation.

*Currency risk*:
Currency risk is the risk that the amount of future cash flows of cash, accounts receivable, accounts payable and accrued liabilities that are denominated in US dollars will fluctuate because of changes in foreign exchange rates. The Company purchases some inventory components and makes some of its product sales in US dollars. The Company monitors its exposure to, but does not actively manage this risk. During the current period the Company reported a net loss on foreign exchange of $1,734 (Mar. 2010 – loss of $909).

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