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, 2013. The MD&A was prepared as of November 26, 2013 and was approved by the Board of Directors on November 26, 2013. It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the three months ended September 30, 2013, and the audited consolidated financial statements for the year ended June 30, 2013, 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
Arn Schoch	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 2014 fiscal year has started on a positive footing with first quarter revenues, gross margin, gross margin percentage and profitability each being greater in the first quarter than they were for the first quarter of 2012. Furthermore, the Company added to its equity, increased its capital under management, reduced its total liabilities and long-term debt, and reduced its working capital deficiency.

The Company also generated positive cash flow from operations for the tenth time in the past twelve quarters however the cash generated in the current period was lower than it was for the three months ended September 30, 2012. Cash flow from operations has been positive, far more often than not, and this trend is expected to continue but the overall cash flow will be a little more challenging in the upcoming months. This is because a debenture with a face value of $236,067 matures December 2013 and the Company expects to take delivery of new equipment priced at US$170,152 in January 2014. The Company will utilize a combination of cash flow from operations, its line of credit, and new debt financing to meet these obligations.

Management will continue its efforts to grow the business, to manage and minimize business risks, to manage its cash flows, and to build value for its stakeholders. The following data, prepared in accordance with International Financial Reporting Standards, may provide some additional insights relative to the Company's operating performance and financial position:

Corporate Performance - continued

	For the fiscal years ended:		
	June 13	June 12	June 11
Total Revenues	4,601,698	4,572,417	4,010,068
Net income (loss) income from operations	141,007	390,936	(178,066)
Per share	0.017	0.055	(0.031)
Net income (loss) for the year	148,319	392,778	(180,359)
Per share	0.018	0.056	(0.031)
Total assets	2,176,189	2,340,853	2,106,570
Total long-term financial liabilities	45,788	698,648	1,051,125
Total liabilities	1,759,668	2,416,943	2,575,438

	For the three month periods ended:				
	Sept. 13	June 13	Mar. 13	Dec. 12	Sept. 12
Total Revenues	1,134,250	1,288,374	1,127,445	1,113,223	1,072,656
Net income (loss) from operations	63,070	81,609	21,311	31,955	6,132
Per share - basic	0.006	0.008	0.003	0.004	0.004
Net income (loss) for the period	63,858	83,815	22,379	33,336	8,789
Per share - basic	0.006	0.008	0.003	0.005	0.004
Total assets	2,102,184	2,176,189	2,228,452	2,133,002	2,252,523
Total long-term financial liabilities	32,498	45,788	57,496	66,478	602,565
Total liabilities	1,614,305	1,759,668	2,036,126	2,141,525	2,299,246

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

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

Results of Operations

Profitability is up for the first quarter of 2014 as revenue and gross margin rose while expenses declined. There are many factors that contribute to the Company's operating results and the highlights are discussed below.

The Company has reported revenue growth of $61,594 or 5.7% in the first fiscal quarter of 2014 in comparison to the three months ended September 30, 2012. Although revenue has risen in six out of the past seven fiscal years, quarterly comparisons are less conclusive. In a year-over-year comparison, quarterly revenue has risen in five of the past seven quarters but only in two of the past four quarters and in six of the past twelve. Clearly there has been no clear trend for quarterly revenues and the growth realized in this fiscal quarter, which exceeded expectations, is not necessarily indicative of future periods.

The revenue growth for the quarter translated into an increase of $38,413 in gross margin which rose to $421,542. The gross margin, which was 35.7% of product sales at September 2012, rose to 37.2% of product sales as the increase in cost of product sales did not keep pace with the revenue growth. This is the second quarter in a row for which gross margin percentage has risen but that follows four consecutive quarters wherein this percentage declined and it is just the fifth time in the last twelve quarters where the gross margin percentage has risen. Once again there is a lack of any clear trend with respect to gross margin and gross margin percentage and the reasons for this can be seen by analysing the cost of product sales.

Results of Operations - continued

The different elements of cost of product sales for the three month periods ended September 30, and the changes realized, are as follows:

Three month periods ended	2013	2012	Change
Raw materials and supplies consumed	$ 453,505	$ 467,068	$ (13,563)
Labour costs incurred	179,846	175,910	3,936
Depreciation	30,553	37,497	(6,944)
Other costs	30,228	25,706	4,522
Net change in finished goods and work in process	18,576	(16,655)	35,231
Total cost of product sales	$ 712,708	$ 689,526	$ 23,182

When the gross margin percentage rises, provided revenue is strong, the expectation is that the cost of raw materials and supplies consumed will have declined. This inverse correlation holds in the current period as the expense not only declined in value by 2.9% but was also reduced from 43.5% of revenue to 40.0%. This is the second consecutive quarter in which costs have dropped as a percentage of revenue however it is only the third time in the past twelve quarters that such a reduction has occurred. These costs had been rising, with a significant rise mid-way through the 2012 fiscal year, but the results of the past two quarters suggest that this growth has slowed considerably. The percentage realized in any given period is subject to fluctuation depending on demand as well as the timing of production and product delivery. The 40.0% factor realized in the current period is the lowest since the second quarter of 2012 but remains significantly higher than historical periods and it is not considered to indicate that demand is waning. The Company anticipates that demand will remain strong but also anticipates fluctuations from period to period.

Whenever revenue rises and material costs decline then there must, almost certainly, be a rise in labour utilization and corresponding costs. Labour costs incurred in the period rose 2.2%, suggesting a modest increase in demand, but a truer picture can be seen by combining this with the net change in finished goods and work in process which is a measure of the labour costs included in inventory. In aggregate these costs have risen by $39,167 or 24.6% and equate to 17.5% of product sales. While the percentage increase may appear to be high the aggregate cost and the percentage of sales are in line with expectations.

Depreciation costs are calculated as a percentage of the carrying value of equipment and have been declining in recent periods. Depreciation costs are expected to rise in the third quarter of this year with the acquisition of additional machinery.

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

Selling, general and administrative expenses for the three month periods ended September 30 were as follows:

Three month periods ended	2013	2012	Change
Employee and consultant compensation	$ 245,352	$ 201,796	$ 43,556
Occupancy costs	68,213	68,239	(26)
Professional fees	12,402	17,656	(5,254)
Regulatory fees	1,505	15,291	(13,786)
Insurance	8,160	5,296	2,864
Other costs	8,944	7,715	1,229
Total selling, general and administrative	$ 344,576	$ 315,993	$ 28,583

Results of Operations - continued

Compensation costs rose by $43,556 in 2013 primarily as a result of increased consulting services. The Company has been investigating potential new business prospects and retained the services of two consultants, at an aggregate cost of $38,000 for the quarter, to assist with and to advise upon these matters. One consultant completed their tasks during the quarter and the second completed their services in October. Although some matters were noted for future follow-up no new transactions arose or are considered to be imminent.

Occupancy costs consist primarily of rent and utility charges for the Company's operating facility. Base rental costs increased approximately 4% January 1, 2013 however this increase continues to be offset by lower utility and common area costs.

Professional fees are comprised of the cost of legal services as well as the cost of the annual financial statement audit. Audit costs have remained consistent from period to period but legal costs have declined. The Company held a shareholder meeting in September 2012 and incurred additional fees associated with the preparation for and the holding of this meeting. There were no similar costs during the period ended September 2013 as the next shareholder meeting is scheduled for December 2013.

Shareholder services include all public disclosures, stock exchange fees, and transfer agent fees incurred. The majority of the costs incurred in 2012 relate to the mailing of documentation related to the shareholder meeting held September 2012. Costs related to the meeting scheduled for December 2013 are not expected to be as high as new rules permit the electronic distribution of documents in certain cases in place of sending physical copies by mail.

Insurance costs have risen in the 2013 year as a result of the introduction of a new liability policy.

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 closely monitored by management and do not warrant detailed investigation or elaboration.

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

Three month periods ended	Sept. 13	Sept. 12	Change
Interest expense – long term (cash based)	$ 5,721	$ 20,158	$ (14,437)
Interest expense – long term (accretion)	3,871	8,866	(4,995)
Interest expense – other	211	149	62
Loan guarantee fees	-	2,400	(2,400)
Total financing expenses	$ 9,803	$ 31,573	$ (21,770)

At September 30, 2012 the Company had five long-term debt obligations with an aggregate carrying value of $904,733 and a weighted average interest rate of 8.4%. As at September 30, 2013 this has been reduced to three obligations with a combined carrying value of $347,278 and a weighted average interest rate of 5.4%. The significant reduction in long-term debt, achieved through a combination of required and optional advance payments, has resulted in a reduction of the interest payments being made and the interest being accreted.

Until May 2013 the bank operating loan was secured, in part, by a guarantee provided by a third party for which that party was entitled to a guarantee fee of $800 per month. In May 2013 the Company replaced that guarantee with its own term deposit pledged as security thereby allowing the guarantee fees to stop.

Liquidity

As at September 30, 2013 the Company reported a working capital deficiency of $106,687 representing an improvement of $89,377 for the quarter and $99,961 in comparison to September 30, 2012. The deficiency includes $776,792 in current liabilities that have been outstanding since June 2007, are not secured, bear no interest or other charges, and for which there are no immediate plans for settlement. Management does not consider the working capital deficiency to be a significant source of business risk and will continue to focus on maximizing cash flows from operations as opposed to managing this deficiency.

The Company 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 expected to be met through the bank operating line.

In addition to satisfying the cost of operations the Company must also address the payment or other settlement of the following amounts as at September 30, 2013:

	Due by Sept. 2014	Due by Sept. 2016	Due by Sept. 2018	Due after Sept. 2018	Total Due
Long-term debt [1, 2]	280,000	33,209	-	-	313,209
Operating leases	89,182	189,455	205,978	268,678	753,293
Actively serviced obligations	369,182	222,664	205,978	268,678	1,066,502
Repurchase of preferred shares [3, 4]	$ 665,501	$ -	$ -	$ -	$ 665,501
Settlement of dividends payable [5]	263,337	-	-	-	263,337
Debenture [6]	39,600	-	-	-	39,600
Past-due obligations	968,438	-	-	-	968,438
All obligations	$ 1,337,620	$ 222,664	$ 205,978	$ 268,678	$ 2,034,940

(1) Amount excludes a debenture which was past due.
(2) Long-term debt is comprised of two obligations for which their carrying value is lower than their face values. The unaudited condensed interim consolidated financial statements as at September 30, 2013 report these obligations based upon their carrying values while the figures reported above represent the non-discounted cash payments to be made.
(3) The repurchase price includes $473,855 reported as a current liability plus $191,646 in paid up capital that is reported as an element of share capital.
(4) Obligation came due May 2004 as to $160,000 and May 2007 as to $505,501. No settlement terms have been established.
(5) Obligation arose at various dates up to May 2007. No settlement terms have been established.
(6) Obligation matured December 2005. No settlement terms have been established.

Capital Resources

The Company has a $250,000 line of credit with its financial institution from which nothing was drawn as at September 30, 2013 or June 30, 2013. The loan bears interest at the prime lending rate plus 0.5%, is due upon demand, is subject to renewal May 2014, and is secured by a $250,000 term deposit and a general security agreement covering the assets of PEC. The term deposit bears interest at 1.25% and matured October 21, 2013 at which time the principal was reinvested at 1.25% until January 19, 2014.

The Company has entered into a commitment to acquire equipment at a price of US$170,152 with delivery anticipated in January. The alternative means of financing this acquisition are currently being investigated and compared.

During the period 75,000 stock options were exercised for aggregate proceeds of $7,500.

Related Party Transactions

The Company has an outstanding loan payable to 1114377 Ontario Inc., a company which is controlled by the spouse of Mr. W. Drzazga, the CEO and a Director of the Company. At its inception the loan provided the Company with cash for working capital purposes. The interest rate charged on the loan is consistent with the rates that were being charged to the Company by non-related parties for similar debts as at the date the loan originated.

The Company compensates its key management personnel for services rendered. These include salaries and benefits paid to Wojciech Drzazga (CEO) and John Perreault (President), consulting fees paid to Michael D. Kindy (CFO), legal fees paid to a legal firm in which William R. Johnstone (Corporate Secretary) is a partner, Directors' fees, and share-based payments. The Compensation rates are agreed to by the key management personnel and are predicated upon prevailing market rates.

The following balances are due to related parties as at September 30 of each year:

	2013	2012
Loan payable to 1114377 Ontario Inc. at prime +8% [(1)]	77,142	105,983
Salaries and benefits payable	10,730	29,517
Consulting fees payable [(2)]	16,445	48,803
Legal fees payable [(2)]	1,000	2,570

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

[(2)] Reported in the unaudited condensed interim consolidated financial statements as an element of accounts payable and accrued liabilities.

The following expenses have arisen as a result of transactions involving the related parties defined above:

	2013	2012
Salaries and benefits [(1)]	$ 62,545	$ 61,800
Consulting fees [(1)]	11,779	12,600
Directors' fees [(1)]	9,150	6,900
Legal fees [(2)]	4,122	9,426
Interest expense – long term	2,588	3,328
Cash based expenditures	$ 87,824	$ 94,054
Share-based payments	$ -	$ 20,578

[(1)] Reported in the unaudited condensed interim consolidated financial statements as an element of employee and consultant compensation.

[(2)] Reported in the unaudited condensed interim consolidated financial statements as an element of professional fees.

The following stock options have been issued to Directors and/or Officers of the Company and were outstanding as at September 30, 2013:

Description	Expiry Date	Number of Common shares
Stock options @ $0.10 per share [(1)]	Nov. 2015	250,000
Stock options @ $0.10 per share [(2)]	Sept. 2017	155,000
Stock options @ $0.15 per share	Mar. 2018	200,000

[(1)] 50,000 options were exercised during the period leaving the above noted balance outstanding.

[(2)] 25,000 options were exercised during the period leaving the above noted balance outstanding.

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Share capital	Quantity	Amount
Common shares, June 30, 2013	10,573,696	$ 22,330,215
Stock options exercised	75,000	7,500
Plus: value previously attributed to options		5,338
Common shares, Sept. 30, 2013 and as at the date of this document	10,648,696	$ 22,343,053

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 at Sept. 30, 2013 and June 30, 2013 and as at the date of this document		$ 473,855

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

Shares reserved	Expiry Date	Number of Common shares
Common shares to be issued for Class A shares		8,246
Stock options @ $0.10 per share	Nov. 2015	250,000
Warrants @ $0.10 per share	Feb. 2016	1,100,000
Warrants @ $0.10 per share	Mar. 2016	900,000
Stock options @ $0.10 per share	Sept. 2017	155,000
Stock options @ $0.15 per share	Mar. 2018	200,000
Shares reserved, Sept. 30, 2013 and as at the date of this document		2,613,246

Fully diluted position	
Shares issued	10,648,696
Shares reserved	2,613,246
Fully diluted position, Sept. 30, 2013 and as at the date of this document	13,261,942

Additional disclosures relative to stock options are as follows:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted Nov. 30, 2010	275,000 (1)	275,000	$ 0.10	Nov. 30, 2015
Granted Sept. 14, 2012	130,000 (1)	130,000	$ 0.10	Sept. 14, 2017
Granted March 11, 2013	200,000 (1)	200,000	$ 0.15	Mar. 11, 2018

	Common Shares Under Option	Weighted Average Price/Option	Weighted Average Expiry Date
Balance, June 30, 2013	680,000	$ 0.115	Jan. 20, 2017
Exercised during the period	(75,000)	$ 0.100	Feb. 8, 2017
Balance, Sept. 30, 2013 and as at the date of this document	605,000	$ 0.117	Jan. 18, 2017

Convertible Instruments and Other Securities - continued

All stock options have vested and are held by Directors and Officers of the Company. The Company has no ability to cause these options to be exercised.

Additional disclosures relative to share purchase warrants are as follows:

	Number of Warrants	Value of Warrants	Exercise Price	Expiry Date
Issued Mar. 24, 2011	900,000	$ 38,818	$ 0.10	Mar. 24, 2016
Issued Feb. 4, 2013	1,100,000	37,859	$ 0.10	Feb. 4, 2016
		$ 76,677		

	Number of Warrants	Weighted Average Price/Warrant	Weighted Average Expiry Date
Balance, June 30, 2012	1,400,000	$ 0.113	Mar. 18, 2015
Issued during the year	1,100,000	$ 0.100	Feb. 4, 2016
Exercised during the year	(500,000)	$ 0.135	May 13, 2013
Balance, June 30, 2013 and at the 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. The following changes to IFRS were effective July 1, 2013 and were adopted without impact upon the amounts or disclosures presented in these unaudited condensed interim consolidated financial statements.

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 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 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.

Accounting Standards Effective For Future Periods

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.

Financial Instruments

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

Financial assets:	*Classification*
Cash and cash equivalents	Fair value through profit and loss
Restricted cash	Loans and receivables
Accounts receivable	Loans and receivables

Financial Instruments - continued

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

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

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

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

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

Evidence of impairment could include:

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

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

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

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

Financial instruments - continued

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

As of June 30, 2013 and 2012 cash and cash equivalents and restricted cash are measured at fair value and are classified within Level 1 of the fair value hierarchy.

Financial instruments recorded at amortized cost:
Financial instruments recorded at amortized cost on the consolidated statement of financial position are amortized using the market rates of interest prevailing at the inception of the financial instrument applied to expected future cash flows. The amortized cost is recomputed in the event that the underlying terms, and therefore the expected future cash flows, of the financial instrument are altered with any change in the amortized cost being charged to income of the period. Dividends payable and preferred shares are each carried at historical cost as the future cash flows cannot be reasonably estimated.

Impairment of non-financial assets
At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the income for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in income for the period.

The Company has assessed the assets of all its operating entities and has determined that there is no impairment of its non-financial assets.

Risk Factors

Events seemingly unrelated to the Company, or to its industry, may adversely affect its finances or operations in ways that are hard to predict or defend against. For example, credit contraction in financial markets may hamper the Company's ability to access credit when needed or rapid changes in foreign exchange rates may adversely affect its financial results. Finally, a reduction in credit, combined with reduced economic activity, may adversely affect businesses and industries that constitute a significant portion of the Company's customer base. As a result, these customers may need to reduce their purchases, or the Company 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 the Company's business, operating results, and financial condition.

Risk Factors - continued

In addition to the foregoing, the Company is exposed to credit risk, concentration of credit risk, liquidity risk, and currency 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 risk management strategies during the current year.

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**.**

Concentration of credit risk

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. During the current period, one of the Company's customers accounted for more than 20% (36%) of total revenue (2012 –43%). Amounts due from this customer accounted for 26% of the Company's accounts receivable at September 30, 2013 (June 30, 2013 - 24%). The loss of this customer or significant curtailment of purchases by such customer could have a material adverse effect on the Company's results of operations and financial condition. The Company monitors the relationship with this customer closely and ensures that every customer is subject to the same risk management criteria.

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 $106,687 (June 30, 2013 - $196,064). This includes financial liabilities (a specific long-term debt instrument plus preferred shares and dividends payable) with an aggregate carrying amount of $776,792 (June 30, 2013 - $776,792) 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 currency risk related 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. Currency risk is closely monitored but not actively managed. The Company has reported a foreign exchange loss of $3,337 (2012 – $7,905).

Sensitivity to market risks

At June 30, 2013 the Company had US$225,564 (June 30, 2013 –US$131,220) included in accounts receivable. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $11,673 in future cash inflow.

At June 30, 2013 the Company had US$150,464 (June 30, 2013 – US$186,818) included in accounts payable. A 5% decrease in the value of the Canadian dollar relative to the US dollar would result in an increase of $7,786 in future cash outflow.

The existence of both accounts receivable and accounts payable denominated in US$ does 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.

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.