



Management's discussion and analysis for the three months and year ended June 30, 2011

Fiscal 2011

This MD&A has been prepared as at September 14, 2011.

Pacific Insight Electronics Corp. (TSX:PIH) provides leadership, planning, design and manufacture of innovative electronic solutions for the transportation industry.

The Company designs and distributes its products and services to original equipment manufacturers (OEM) and distributors in the United States and Canada. For additional information about PI, its products and services, please visit the company web site at

www.pacificinsight.com.



The following Management Discussion and Analysis (MD&A) pertains to the fourth quarter and year ended June 30, 2011 of Pacific Insight Electronics Corp. (PI, Pacific Insight, or the Company). This MD&A is intended to help readers understand Pacific Insight: its business, strategies, performance, and future outlook from the perspective of management. The information provided should be read in conjunction with the audited financial statements and notes for the year ended June 30, 2011 as well as the audited financial statements, notes, and MD&A for the year ended June 30, 2010 and the Annual Information Forms for those years. These documents, news releases, and other important information may be viewed through the SEDAR website at www.sedar.com. Our company web site www.pacificinsight.com also contains further information and descriptions of our product lines, the Company history, and contact information.

Pacific Insight's Board of Directors follows generally accepted corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The Board's Audit Committee meets with management regularly to review the financial statement results, including the MD&A, and to discuss other financial, operating, and internal control matters. The Audit Committee is also free to meet with the independent auditors throughout the year.

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls. Management is also responsible to ensure that information disclosed externally, including the financial statements and MD&A, is complete and reliable. This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations". The audited financial statements for the year ended June 30, 2011 were prepared in accordance with Canadian generally accepted accounting principles (GAAP) and reported in Canadian dollars.

Forward-looking statements

The following MD&A may contain management estimates of anticipated future trends, activities, or results; these are not a guarantee of future performance, since actual results may vary based on factors and variables out of management's control. The words "estimate", "believe", "expect" and similar expressions are intended to identify forward-looking statements. Persons reading this report are cautioned that such statements are only predictions and the actual events or results may differ materially. In evaluating such forward-looking statements, readers should specifically consider the various factors that could cause actual events or results to differ materially from those indicated by such forward-looking statements.

Overview

Pacific Insight Electronics Corp. (PI) designs, manufactures and delivers electronic products and full service solutions to the heavy truck, automotive and specialty markets. PI maintains two manufacturing facilities - one located in Nelson, British Columbia, Canada and one located in Fresnillo, Zacatecas, Mexico. In addition the Company has an office in Novi, Michigan, USA that supports automotive customers and provides other key functions such as program management, engineering and sales.

Sales for the year ended June 30, 2011 were \$32.783 million, an increase of 12% from \$29.191 million for the comparative 2010 year. Sales for the fourth quarter ended June 30, 2011 were \$8.465 million, an increase of 4% from \$8.116 million for the comparative quarter ended June 30, 2010. The overall improvement in sales resulted from growth in new business with existing LED and wire harness customers, increased OEM production in the automotive and heavy truck markets and new product launches. The improvement in wire harness customer sales was largely possible because of the expansion and growth in capability of the Fresnillo, Mexico manufacturing plant that provides us with a cost competitive operation.

The net income for fiscal year 2011 was \$163,000 or 3¢ per share compared with net income of \$531,000 or 9¢ per share in the prior year. Fourth quarter results reported a net loss of \$19,000 or 0¢ per share compared with net income of \$316,000 or 6¢ per share in the prior year fourth quarter. Net income results for the year remained positive as a result of increased sales; however, the positive impact was offset by higher costs of manufacturing, continued foreign exchange pressures and PI's ongoing investment in the overall operations and in Novi, Michigan to meet future growth.

During the year, we further invested into engineering, program management, quality, and procurement resources in both Novi and Nelson to enable us to capitalize on the growing demand for electronic solutions in the automotive industry. In addition, PI invested \$1.6 million during the year into productive capital assets to further enhance our quality and manufacturing capabilities, efficiency and capacity.

Our experienced management team, sales force and product development division remains committed to pursuing additional markets and expanding existing product lines according to our customers' specific requirements.

For further information, please visit www.pacificinsight.com. For Corporate Relations, please contact our toll free line: 1-800-995-1155 or email investor@pacificinsight.com

Financial Results

During the year ending June 30, 2011, PI reported sales of \$32.783 million, an increase of 12% when compared to \$29.191 million a year earlier. For the three month period ended June 30, 2011 sales reached \$8.465 million as compared to \$8.116 million in the same period last year, and were the highest level of sales by quarter in fiscal 2011. The overall improvement in sales resulted from several new product launches, increased OEM production in the automotive and heavy truck markets, and a growth in new business with existing LED and wire harness customers. The improvement in wire harness customer demand was largely possible because of the expansion and growth in capability of the Fresnillo, Mexico wire harness manufacturing plant that provides us with a cost competitive operation.

Year end results returned net income of 3¢ per share versus a net income of 9¢ per share for the comparative year. For the three months ending June 30, 2011, PI reported a loss of \$19,000 or 0¢ per share when compared to net earnings of \$316,000 or 6¢ per share in the comparative period a year earlier. Net income results for the year remained positive as a result of increased sales however these positive impacts were offset by higher costs of manufacturing, continued foreign exchange pressures and PI's ongoing investment in the overall operations and in Novi, Michigan to meet future growth.

As a responsive supplier, PI adapts its systems and processes in response to the rapidly changing global economic situation. The Company has implemented proactive strategies to ensure it is well-positioned as the economic climate and customer demand continues to change.

In Thousands \$ (except EPS and exchange rate)	Fiscal		
	2011	2010	2009
Sales	\$32,783	\$29,191	\$24,240
Gross Profit \$	\$6,995	\$6,814	\$5,436
Gross Profit %	21%	23%	22%
Net earnings (loss)	\$163	\$531	(\$497)
EPS	\$0.03	\$0.09	(\$0.08)
EPS fully diluted	\$0.03	\$0.09	(\$0.08)
EBITDA	\$1,809	\$2,260	\$1,003
Average CDN/US exchange rate	1.0013	1.0578	1.1651

In Thousands \$ (except EPS and exchange rate)	For the 3 months ended	
	June 30, 2011	June 30, 2010
Sales	\$8,465	\$8,116
Gross Profit \$	\$1,817	\$2,037
Gross Profit %	23%	25%
Net earnings (loss)	(\$19)	\$316
EPS	\$0.00	\$0.06
EPS fully diluted	\$0.00	\$0.06
EBITDA	\$351	\$773
Average CDN/US exchange rate	0.9679	1.0578

Sales

PI designs and manufactures product solutions for its customers in three main business categories: Electronic Modules, LED Lighting, and Wire Harnesses. Our customers include some of the most respected brands in the transportation industry: Caterpillar, Ford, Kenworth, Peterbilt, Peterson Manufacturing, Volkswagen, and Western Star/Freightliner.

Summary of quarterly sales by product line

(in thousands \$)	F-2011				F-2010				F-2011	F-2010
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Year	Year
Sales										
Electronic Modules	3,583	3,974	3,527	3,197	3,406	4,241	3,907	2,838	14,281	14,392
LED Lighting	2,394	1,577	2,135	2,496	2,131	1,288	1,110	844	8,602	5,373
Wire Harness	2,486	2,755	2,461	2,198	2,579	2,490	2,388	1,969	9,900	9,426
Total Sales	8,465	8,305	8,122	7,891	8,116	8,019	7,405	5,651	32,783	29,191

*During the first quarter ending September 30, 2010, the Company consolidated the Instrumentation revenue category with the Electronic Modules revenue category as these product lines are closely related. Instrumentation revenue during the year ended June 30, 2011 was \$4.508 million and the year ended June 30, 2010 was \$3.150 million.

Electronic Modules

PI's Electronic Modules provide an enhanced driving environment and features that include safety, convenience and protection. Products include daytime running lights, heated seat control modules, and communication gateway modules. Recently designed and manufactured products include heated steering wheel, steering lock interface, ambient light control and rear fog control modules. Ambient lighting provides spot and accent lighting to vehicle interiors and offers a variation of light color customized to the car owner's preference.

Electronic Module sales for the three months ending June 30, 2011 were \$3.583 million compared to \$3.406 million in the comparative quarter, an increase of 5%. Revenues slightly decreased \$111,000 for the year compared to the previous twelve month period, from \$14.392 million to \$14.281.

Electronic Modules have been a key component of the Company's growth. Looking forward, management expects continued growth as a result of increasing demand for new products as a result of improving market conditions and PI's focus in the automotive sector with new investments and capabilities that is creating greater opportunity.

LED Lighting

PI manufactures both LED printed circuit assemblies and fully assembled LED interior lighting systems for OEMs and Tier 2 lighting suppliers. PI's LED lighting business is directly tied to the class 4-8 heavy truck and industrial markets. The Company's LED lighting products for the North American transportation industry and adjacent markets are power smart, innovative and cost competitive.

LED Lighting sales during the fourth quarter were \$2.394 million or a \$263,000 increase when compared to \$2.131 million for the similar period in fiscal 2010. Revenues have increased 60%, from \$5.373 million to \$8.602 million, relative to the prior year. The year over year increase is a

result of the modest increase in off-road and commercial vehicle build rates and new product growth for new and existing customers.

Wire Harness

PI is a full service wire harness manufacturer serving the heavy truck, automotive and specialty vehicle markets.

Fourth quarter sales in 2011 were \$2.486 million versus \$2.579 million for the corresponding period in 2010. Overall sales for the twelve month period however rose by 5% over the prior year, from \$9.426 million to \$9.900 million due to improving conditions in the transportation industry, new customers and product growth within the existing customer base.

The Company is actively pursuing and securing new customers. PI has strong, long-standing relationships with all levels of its OEM Tier 1 and 2 customers and continues to strengthen this foundation by providing enhanced products and services that meet changing market demand.

The Wire Harness business is an important component of PI's overall strategy and Management intends to capitalize on our competitive cost structure and expanded manufacturing capacity in Mexico. Sales of electrical distribution systems (EDS) and wire harnesses have a quick time-to-market cycle and provide an excellent lead-in for electronic module and LED product sales. In addition, they offer strength in terms of product content within OEMs that help secure our customer/supplier relationship.

Gross Profit

Gross profit for the fourth quarter was \$1.913 million or 23% when compared to \$2.037 million or 25% in the comparative 2010 quarter. The fiscal year ending June 30, 2011 reported a gross profit of \$6.994 million or 21% compared to \$ 6.813 million or 23% for the same period last year. Increased sales, the allocation of burden costs over a larger grouping of products and Management's continued focus on cost control has been offset by an increase in the proportion of sales of lower margin products, cost pressures from foreign exchange, and increasing material costs resulting in a lower gross margin.

Management continues to actively renew PI's business structures and processes, and makes necessary adjustments to sustain our brand and remain competitive. We consistently invest in productive manufacturing equipment, human resources and Lean Manufacturing initiatives at our plants in Canada and Mexico. Our Lean Manufacturing methods are designed to increase quality, efficiency and productivity while reducing cost and waste. Management continues to focus on lowering costs, accessing additional markets and achieving higher sales and profits as core objectives in creating sustained shareholder value.

Selling, general and administrative ('SG&A') expenses

Annual SG&A expenses totalled \$5.202 million for the year ending June 30, 2011 and \$4.531 million in 2010. SG&A expenses for the fourth quarter were \$1.470 million compared to \$1.278 million for the previous year, an increase of \$191,000. The increase reflects improving customer demand requiring support through the addition of engineering and other resources. In addition our office in Novi, Michigan continues to expand in terms of capabilities and resources to allow us to capitalize on the opportunities within the automotive sector.

Research and Development (R&D) expenses are included in SG&A costs. PI recovers certain customer design costs in the form of non-recurring engineering charges paid during the development process. Customer reimbursements for design work are applied to capitalized amounts where appropriate with the balance applied directly to expenses.

In anticipation of continuing growth, PI continues to invest in development tools, processes and intellectual capital to support new business. Investments in R&D are an important component of our growth and marketing strategies and our breadth and depth of engineering capabilities are defining characteristic of PI in all markets.

Net Earnings (loss) and Earnings (loss) per Share

Net loss for the fourth quarter of 2011 was \$19,000 or 0¢ per fully diluted share compared to a net earnings of \$316,000 or 6¢ per share in the quarter ending June 30, 2010. Earnings for the year ending June 30, 2011 were \$163,000 or 3¢ per share compared to a net earnings of \$531,000 or 9¢ per share for the prior year.

Net income results were positively impacted as a result of increased sales however these positive impacts were offset by higher costs of manufacturing, continued foreign exchange pressures and PI's ongoing investment in the overall operations and specifically in Novi, Michigan to meet future growth. Furthermore, we increased our presence in the automotive industry by enhancing PI's engineering capacity and focussing resources on developing new relationships.

Earnings continue to be impacted from a stronger Canadian dollar and the challenging conditions of the economy. With the uncertainty in the direction of the economy, the Company continues to actively pursue cost control measures and economies of scale to drive profitability. Despite the rapidly changing business climate, PI anticipates further growth in 2012.

(\$000) except EPS	F-2011				F-2010				F-2011	F-2010
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Year	Year
Total Sales	\$8,465	\$8,305	\$8,122	\$7,891	\$8,116	\$8,019	\$7,405	\$5,651	\$32,783	\$29,191
Net Earnings (loss)	(\$19)	\$221	(\$166)	\$127	\$316	\$324	\$23	(\$132)	\$163	\$531
EPS - Basic	0¢	4¢	(3¢)	2¢	6¢	5¢	0¢	(2¢)	3¢	9¢
EPS - Fully Diluted	0¢	4¢	(3¢)	2¢	6¢	5¢	0¢	(2¢)	3¢	9¢

Cash

As at June 30, 2011, PI's cash position was \$2.388 million and working capital was \$8.829 million compared to \$3.133 million and \$9.247 million respectively on June 30, 2010.

Liquidity

Pacific Insight has sufficient cash and working capital, and access to borrowing facilities to meet all current and anticipated commitments. The Company also has adequate liquidity to mitigate the effect of foreign exchange fluctuations and to compete effectively in the current and future currency and market environments. Management uses natural hedging in its business model by matching currency flows. The manufacturing operation in Mexico is a key element in our foreign exchange strategy as its expenses are effectively incurred in US dollars.

In Thousands \$	F-2011				F-2011	F-2010
	Q4	Q3	Q2	Q1	Year	Year
Cash flow provided by/(used by) operating activities	\$311	\$756	\$584	(\$619)	\$1,032	\$1,258
Cash flow provided by/(used by) investing activities	(\$1,214)	(\$483)	(\$524)	(\$285)	(\$2,506)	(\$1,878)
Cash flow provided by financing activities	\$60	\$265	\$119	\$285	\$729	\$486
Cash as at period end	\$2,389	\$3,232	\$2,694	\$2,515	\$2,389	\$3,134
Working capital as at period end	\$8,829	\$9,847	\$9,577	\$9,761	\$8,829	\$9,247
Total assets as at period end	\$22,233	\$22,002	\$20,970	\$21,525	\$22,233	\$20,370

Accounts receivable

Accounts receivable for the year ending June 30, 2011 was \$5.465 million compared to the prior year's balance of \$4.108 million. The increase from the previous year is due to the increase in sales and the timing of collections at period end. PI's customers are typically large, well-capitalized OEMs and industrial companies; over the last twenty years we have experienced an extremely low rate of bad debts.

Inventories

Inventory as at June 30, 2011 was \$4.733 million, compared to \$4.713 million in the prior year. In general, levels are consistent with the prior year and raw material and finished goods inventories are continually adjusted to meet production requirements and maintain customer service levels.

Prepaid expenses and deposits

Prepaid expenses and deposits as at June 30, 2011 were \$284,000 compared to \$101,000 in the prior year. The increase relates to prepayment of certain expenses to support the growth in the Novi office and plant expansion in Mexico.

Property, plant, and equipment

Additions during the year were \$1.596 million comparable with the prior year additions of \$1.424 million. The majority of the investment was made to support both our Canadian and Mexican manufacturing operations. We continually make investments in necessary manufacturing equipment to support our focus on improving efficiencies while reducing product costs.

Product development costs

Capitalized product development cost balances were \$2.029 million as at June 30, 2011 compared to \$1.416 million in 2010. Net additions to capitalized product development costs during the year were \$1.119 million, versus \$0.588 million in the comparative period. While the projects capitalized this year were in all product types and target industries, there were more automotive products with longer development times as compared to previous years. Customer reimbursements for design work are applied to capitalized amounts where appropriate with the balance applied directly to expenses. Amounts received under the Federal Government's Scientific Research and Experimental Development (SR&ED) Tax Incentive Program are applied against capitalized amounts with any balance against expenses.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities were \$4.031 million as at June 30, 2011, as compared to \$2.859 million at June 30, 2010. The variance in the annual amounts is directly related to increased customer demand and the resulting need for additional productive capacity and the timing of payments at period end.

Financing resources

As at June 30, 2011, Pacific Insight had a positive cash balance and limited debt.

Pacific Insight Electronics Corp. currently has the following unused credit facilities:

- An operating line of credit facility for up to \$5,000,000.
- A property, plant, and equipment acquisition facility for up to \$1,000,000.

The facilities are secured by a General Security Agreement on certain assets of the Company and require the Company to adhere to several covenants. As at June 30, 2011, the Company was in compliance with these covenants.

Long-term debt

The Company has been awarded funding under the Community Adjustment Fund (“CAF”) through Western Economic Diversification. The total project cost was \$2.8 million of which \$1.6 million was funded by the Company and \$1.2 million through the CAF (interest free loan, repayable beginning September 1, 2011, \$13,400 per month). The funding was used for our Focused Manufacturing Project, a company-wide initiative to improve manufacturing efficiency using a combination of Lean principles and capital investment.

At June 30, 2011, the Company recorded \$1,215,388 in funding under the agreement. The Company recognized, at fair value, a long-term liability of \$932,422 (discounted at 7.25%) and a reduction of property, plant, and equipment of \$55,310 and selling, general, and administrative expenses of \$227,656. During the year ended June 30, 2011, the Company recorded \$728,985 in funding under the agreement. The Company recognized, at fair value, a long-term liability of \$527,290 (discounted at 7.25%) and a reduction of selling, general, and administrative expenses of \$201,695.

During the year ended June 30, 2010, the Company received \$486,403 in funding under the agreement. The Company recognized, at fair value, a long-term liability of \$405,132 (discounted at 7.25%) and a reduction of property, plant, and equipment of \$55,310 and selling, general, and administrative expenses of \$25,961.

Share capital

The authorized share capital of Pacific Insight is 100,000,000 common shares without par value. As at June 30, 2011, and the date of this MD&A, the Company had 5,937,417 common shares outstanding.

As at June 30, 2011 and at the date of this report a total of 524,550 stock options are outstanding under the plan and 419,550 stock options are fully vested. If these vested options were exercised, the Company would receive \$1,136,981 in exchange for the issuance of shares.

On January 13, 2011, the Company renewed the Normal Course Issuer Bid (NCIB), permitting it to purchase up to 400,000 of its common shares up to January 12, 2012. No purchases were made during the year ending June 30, 2011. Share purchases into the NCIB are reported to various security exchanges on the SEDI website www.sedi.ca.

Dividend policy

Pacific Insight does not pay a dividend at this time.

Other matters

- a) The Company has had no transactions with related parties during the year.
- b) The Company has no material off-balance sheet financing arrangements.
- c) The Company currently has no material acquisition plans.

New accounting pronouncements

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of the Company will be July 1, 2011 and will require the restatement for comparative purposes of amounts reported for the year ended June 30, 2011.

Business Combinations

In January 2009, the CICA issued Handbook Sections 1582, Business Combinations, 1601, Consolidated Financial Statements and 1602, Non-Controlling Interests which replace CICA Handbook Sections 1581, Business Combinations and 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These sections are applicable for the Company's interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently.

International Financial Reporting Standards (IFRS) Implementation Plan

The Company has enrolled key employees in IFRS training. A review of current accounting policies and controls is being completed, focusing on the following areas:

- IAS 2 – Inventories – current inventories classified as 'machine replacement parts' are required to be capitalized under IFRS. Net impact estimated less than \$100,000, reclassification between current assets and property plant and equipment.
- IAS 16 - Property, Plant and Equipment - permits two accounting models
 - Cost Model - the asset is carried at cost less accumulated depreciation and impairment, or
 - Revaluation Model - the asset is carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation and impairment, provided that fair value can be measured reliably.

The Company is planning to use the Cost Model approach, similar to the current policy for accounting for property, plant and equipment.

- IAS 18 – Revenue – may impact the timing for recognition of customer design reimbursements received. Estimated impact is being assessed.

- Financial Statement Presentation and Note Disclosure – adoption of IFRS will impact current presentation and disclosure requirements as identified in the following:
 - IFRS 8 - Operating Segments
 - IAS 1 - Presentation of Financial Statements
 - IAS 24 - Related Party Disclosures
 - IAS 27 - Consolidated and Separate Financial Statements

The Company's IFRS implementation plan is finalized and complies with reporting requirements.

Subsequent events

As at the date of the MD&A, the Company experienced no subsequent events that would materially alter this MD&A or the June 30, 2011 financial statements.

Financial Instruments and Risk Management:

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The fair value of cash is determined using Level 1 inputs from the fair value hierarchy. The carrying value of accounts receivable, and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and receivables. Management manages cash default risk by dealing with only large financial institutions with good credit ratings and manages receivable credit risk through standard credit and reference checks.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2011 the Company had a cash balance of \$2,388,887 and an accounts receivable balance of \$5,465,373 to settle current liabilities of \$4,164,742, (June 30, 2010 \$3,133,709, \$4,108,578 and \$2,859,204 respectively). All of the Company's accounts payable liabilities have contractual maturities of less than 120 days and are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current practice is to invest excess cash in deposits and investment-grade securities.

(b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated in US Dollars (USD). The Company's current practice is to evaluate conditions and as needed, purchase forward contracts to hedge anticipated cash conversion needs. The effect on pre-tax earnings of a 1% change in the USD foreign exchange rate, based on current operations and product mix would approximate \$107,000.

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors certain commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

Risks and Uncertainties:

PI is an electronic solutions provider in the transportation industries, and is subject to the downturn and upturn cycles in those industries. There were no substantial changes during the year to PI's various risks and how they are managed. PI has minimal debt, and has unused credit facilities available. Please see below for a listing of the Company's potential and various risks and how they are managed. Management is working to minimize these risks.

Economic conditions

The current challenging economic climate has had a disproportionate impact on the North American automobile and heavy truck industries with significantly reduced levels of sales and production, which have in turn impacted on the volume of our sales to motor vehicle producers. We cannot predict when the slowdown will end or what our prospects will be once it has ended and markets resume to more normal conditions. The continuation of current economic conditions or of current or lower production volumes and sales levels for an extended period of time or the worsening of such conditions could have a material adverse effect on our profitability and financial condition. In addition, while we believe we have sufficient liquidity to survive the current slowdown, it may last longer and/or be more severe than we currently anticipate which could have an adverse impact on our continuing liquidity.

Dependence on major customers

Sales to the Company's four largest customers comprise over 53% of total revenues. Although these customers are large entities, any disruption in PI's relationships with these major customers or any decrease in revenue from these major customers, could have an adverse effect on the Company. In addition, operating results could be affected if one or more of these major customers cancel, delay or reduce significant orders in the future.

Sources and availability of raw materials

Most of the raw materials utilized by the PI are obtained from suppliers in North America. PI is not dependent upon any one supplier. Raw materials supply factors such as allocations, pricing, quality, transportation, warehousing, and timeliness of delivery may affect the raw material sourcing decisions of PI. When appropriate and available, PI has in the past and may continue to negotiate long-term agreements with raw material suppliers to ensure continued availability on favourable terms. In the event of significant unanticipated increase in demand for PI's products and therefore of component raw materials, the Company may in the future be unable to

manufacture certain products in a quantity sufficient to meet its customer demands in any particular period.

Technological change

The automotive, heavy truck and specialty markets are subject to technological changes, new product introductions, and evolving industry requirements and standards. Accordingly, PI believes that its future success depends on its ability to launch new programs as well as enhance or develop current and future products at competitive prices and in a timely manner. PI's inability to enhance, develop, or launch products in a timely manner in response to changing market conditions or customer requirements could also have an adverse effect on PI's results of operations. For the development and production of products, the ability for PI to compete successfully will depend on its ability to acquire and retain production associates, management, and product development staff that allow PI to quickly adapt to technological change and advances in processes. In addition, there can be no assurance that products or technologies developed by others will not render PI's products uncompetitive or obsolete.

Capital and liquidity risk

The amount of financial resources available to invest for the enhancement of shareholder value is dependent upon the size of the treasury, profitable operations, and a willingness to utilize debt and issue equity. Due to the size of the Company, financial resources are limited. Some of our competitors have far greater financial resources available to them. If the Company exceeds growth expectations or finds investment opportunities, it may require debt or equity financing. There is no assurance that PI will be able to obtain additional financial resources that may be required to successfully finance transactions or compete in its markets on favourable commercial terms. PI's current credit facility requires compliance with certain financial covenants. There can be no assurance of the Company's ability to continue to comply with these financial covenants or to appropriately service any debt given unforeseen events.

Acquisition and expansion risk

The Company intends to expand its operations through organic growth and depending on certain conditions, by acquiring additional businesses, products or technologies. There can be no assurance that PI will be able to identify, acquire or profitably manage additional businesses, or successfully integrate any acquired businesses, products or technologies into the Company without substantial expenses, delays or other operational or financial problems.

Foreign currency risk

PI typically negotiates sales contracts and purchases materials, equipment and products in US currency. PI's US dollar cash requirements for the purchase of materials and certain capital equipment denominated in US dollars are naturally hedged when contracts to sell products are also denominated in US funds. In an effort to manage the remaining exposure to foreign currency risk, PI may employ hedging programs primarily through the use of forward contracts. The contracts are purchased based on the projected US dollar cash flows from operations. The Company uses forecasted future cash flows of Canadian and US dollars to determine the level of hedges required. The purpose of the Company's foreign currency hedging activities is to minimize the effect of exchange rate fluctuations on business decisions and the resulting uncertainty on future financial results. Despite measures taken by the Company to mitigate the impacts of shifting relative currency values, currency risk still exists, and could impact the financial results of future operations. The Company does not hold or issue derivative financial instruments for trading or speculative purposes and controls are in place to detect and prevent these activities.

Credit risk

PI's largest accounts receivable are with four customers in the commercial and industrial vehicle industries and are subject to normal industry credit risks. PI is exposed to credit risk only with

respect to uncertainties as to the timing and amount of collectability of accounts receivable. The Company mitigates credit risk through standard credit and reference checks.

Competition

A large number of manufacturers characterize the electronic component and wiring harness design and manufacturing industry. As a result, manufacturers such as Pacific Insight are smaller niche players in the market. PI faces numerous sources of competition, including direct competitors and product alternatives. The Company believes that there are a large number of suppliers that have the capability to produce some or all of the components, modules and products that the Company currently produces. In addition, some of these competitors are larger and have access to greater resources than the Company has and or operate in countries where the cost structure is significantly lower than in Canada or Mexico. PI believes that none of the competitors are dominant in the markets in which PI operates. The basis for supplier selection by our customers is not typically determined solely by price, but also includes such elements as quality, service, historical performance, timeliness of delivery, scope of in-house capabilities, existing agreements, responsiveness and the overall relationship. Where practicable, PI will patent technology in order to protect and grow market position.

Insurance

PI's business subjects it to the risk that it may incur product liability claims, warranty or recall claims, as well as business interruption claims. No assurance can be given that the insurance coverage or insurance coverage limits of the company would be adequate to protect it against any claims for product liability claims, warranty or recall claims, or business interruption claims that may arise. Insurance is expensive and the insurance market is continually changing, therefore insurance may not be available on acceptable terms, or at all. Any uninsured or underinsured product liability claims, warranty or recall claims, or business interruption claims could have a material adverse effect on PI's financial condition, results of operations and prospects.

Tax laws

The tax laws in Canada and abroad are continuously changing. Recently, corporate tax rates in Canada have been on the decrease. There is no assurance that rates will continue to decrease in Canada or that Canada's tax system will remain competitive internationally.

Environmental matters

To date, environmental laws and regulations have not had a material affect on the Company's operations or financial condition. Management is not aware of any environmental liability facing the company at this time. The Company has the ISO 14001 environmental certification for its Canadian operations, and operates to the same standards in Mexico.

Dependence on key personnel

Loss of certain members of the executive team or key technical leaders of the company could have a disruptive effect on the implementation of the Company's business strategy and the efficient running of day-to-day operations until their replacement is found. Recruiting personnel is time consuming and expensive and the competition for professionals is intense. The Company may be unable to retain its key employees or attract, assimilate, retain or train other necessary qualified employees, which may restrict its growth potential.

Additional Information

Additional information relating to the Company can be found on the SEDAR website at www.sedar.com. Our company web site www.pacificinsight.com also contains further information and descriptions of our product lines, the Company history, and contact information.