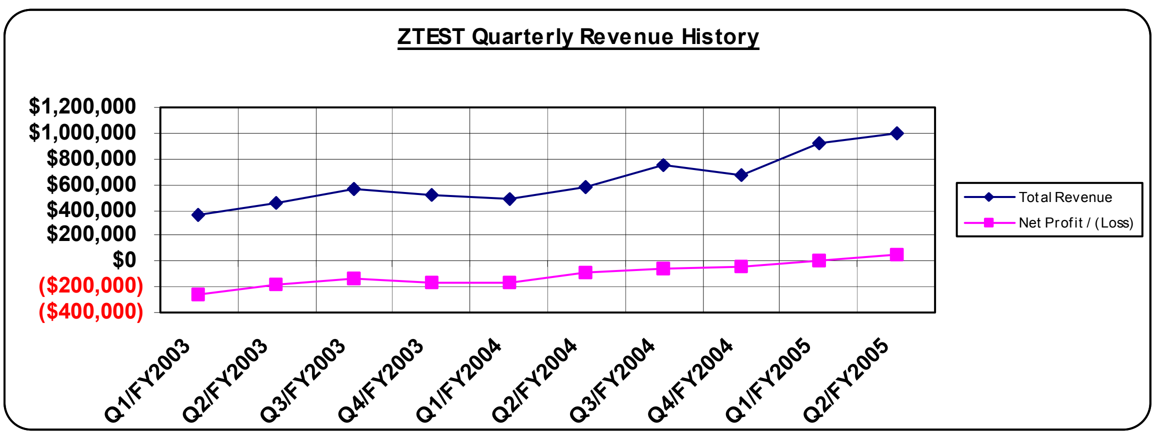
February 28, 2005

Dear Shareholder,

Please find enclosed your copy of the unaudited interim consolidated financial statements of ZTEST Electronics Inc. for the second quarter of the 2005 fiscal year. These financial statements serve to support Management's assertion that the Company is on the verge of sustained profitability. For the six-month period ended December 31, 2004 the Company has reported total revenues of $1,916,331 representing an 81% increase when compared to the same period one year earlier. Furthermore, revenues for the three-month period ended December 31, 2004 were 73% higher than the revenues realized during the corresponding period one year earlier. As the following chart demonstrates, this represents the sixth consecutive fiscal quarter for which the reported net income (loss) reflected an improvement over the immediately preceding quarter and the ninth consecutive fiscal quarter in which the Company has reported growth in comparison to the same period in the prior year.



The Company continues to receive very strong support from its stakeholders whose actions are clearly demonstrating their belief that the business policies employed by Management will provide positive return for them in the future. I would like to take this opportunity to express Management's appreciation for this support, which most recently provided the Company with additional working capital while simultaneously alleviating some of the long-term debt in the form of preferred shares. Without the continued support of these stakeholders it would be extremely difficult for the Company to achieve its objectives of financial stability and sustainable return on investment.

Management remains focused on delivering excellent service to customers that require fast turn around for low and medium quantity complex board assembly while simultaneously targeting larger volume production without sacrificing the quality that the Company has become renowned for. In order to achieve this goal Management is in the process of negotiating access to financing that, when finalized, would enable the Company to pursue the strategic acquisition of technologically advanced manufacturing equipment. The financing being negotiated is sufficient to enable the Company to double its production capacity in its existing ISO 9001-2000 certified facility. It is anticipated that this financing arrangement will be finalized in the immediate future and accordingly, as a first step, orders have been placed for 2 new machines having an aggregate value of US$161,000.

We thank you for your support and patience and look forward to having the opportunity to discuss our financial results with you again in the near future.

Yours very truly,

Signed: *"Wojciech Drzazga"*

W. Ted Drzazga - C.E.O.

ZTEST Electronics Inc.

Unaudited Interim Consolidated Financial Statements

December 31, 2004

Unaudited Interim Consolidated Balance Sheet
December 31, 2004

		Dec. 31 2004		(Audited) June 30 2004
Assets				
Current Assets				
Cash	**$**	**87,566**	$	36,088
Accounts receivable		**339,228**		486,410
Inventories (Note 4)		**115,675**		126,344
Prepaid expenses and other assets		**42,695**		45,508
Amounts receivable (Note 5)		**17,000**		-
		602,164		694,350
Capital assets (Note 6)		**390,287**		428,645
Investments and advances (Note 7)		**4**		4
	$	**992,455**	$	1,122,999
Liabilities				
Current liabilities				
Customer deposits	**$**	**-**	$	2,584
Accounts payable and accrued liabilities		**452,721**		754,947
Dividends payable		**560,321**		489,784
Current portion of long-term debt (Note 9)		**452,185**		109,594
Current portion of lease obligation (Note 10)		**320**		1,971
Notes payable and other advances (Note 8)		**380,595**		313,774
		1,846,142		1,672,654
Long-term debt (Note 9)		**1,200,834**		1,533,052
Preferred shares (Note 12)		**1,471,908**		1,471,908
		4,518,884		4,677,614
Commitments (Note 11)		**-**		-
Deficiency in assets				
Share Capital (Note 12)		**19,627,637**		19,627,637
Contributed surplus (Note 12)		**5,338**		1,845
Equity portion of convertible debentures (Note 9)		**82,674**		82,674
Deficit		**(23,242,078)**		(23,266,771)
		(3,526,429)		(3,554,615)
	$	**992,455**	$	1,122,999

The accompanying notes are an integral part of these interim financial statements

Approved by the Board:

Signed: *"John Perreault"*
Director

Signed: *"Wojciech Drzazga"*
Director

Unaudited Interim Consolidated Statement of Operations and Deficit
For the periods ended December 31

	Three months ended 2004	Three months ended 2003	Six months ended 2004	Six months ended 2003
Revenue				
Product sales	**$ 993,047**	$ 562,236	**$ 1,908,999**	$ 1,039,820
Interest and other	**611**	5,782	**3,512**	7,544
Design services	**1,750**	6,477	**3,820**	13,712
	995,408	574,495	**1,916,331**	1,061,076
Expenses				
Cost of product sales and design services	**630,562**	363,098	**1,262,434**	731,904
Selling, general and administrative	**245,023**	201,010	**451,613**	387,209
Interest expense - long term (Note 14)	**26,451**	24,565	**52,950**	59,616
Dividends on preferred shares	**23,571**	26,053	**47,141**	52,364
Interest expense - other (Note 14)	**14,605**	26,295	**37,487**	52,903
Amortization of capital assets	**8,367**	9,978	**16,617**	20,238
	948,579	651,119	**1,868,242**	1,304,234
Income (loss) from operations	**46,829**	(76,624)	**48,089**	(243,158)
Provision for income taxes	-	-		-
Net income (loss) for the period	**46,829**	(76,624)	**48,089**	(243,158)
Deficit, beginning of period	**(23,277,209)**	(23,029,587)	**(23,266,771)**	(22,850,872)
Dividends on preferred shares	**(11,698)**	(12,053)	**(23,396)**	(24,234)
Deficit, end of period	**$(23,242,078)**	$(23,118,264)	**$(23,242,078)**	$(23,118,264)
Net income (loss) per share	**$ 0.00143**	$ (0.0024)	**$ 0.00147**	$ (0.0076)
Weighted average shares outstanding	**32,731,016**	31,952,551	**32,731,016**	31,895,433

The accompanying notes are an integral part of these interim financial statements

Unaudited Interim Consolidated Statement of Cash Flows
For the periods ended December 31

	Three months ended		Six months ended	
	2004	2003	**2004**	2003
Cash flow from operating activities				
Net income (loss) for the period	**$ 46,829**	$ (76,624)	**$ 48,089**	$ (243,158)
Items not involving cash				
Amortization of capital assets	**21,386**	25,268	**42,738**	49,327
Stock option compensation	**3,493**	115	**3,493**	115
Dividends on preferred shares	**23,571**	26,053	**47,141**	52,364
Interest added to balance of note payable	**920**	-	**1,821**	-
Interest accretion	**7,530**	-	**15,060**	-
Changes in non-cash working capital items:				
Accounts receivable	**79,023**	(42,604)	**147,182**	5,622
Inventories	**39,576**	(27,527)	**10,669**	(30,571)
Prepaid expenses and other assets	**(5,444)**	(6,543)	**2,813**	(8,841)
Amounts receivable	**-**	-	**-**	-
Customer deposits	**-**	4,904	**(2,584)**	4,151
Accounts payable and accrued liabilities	**(156,395)**	279	**(302,226)**	88,041
	60,489	(96,679)	**14,196**	(82,950)
Cash flow from investing activities				
Purchase of capital assets	**(894)**	(2,061)	**(4,380)**	(18,013)
Cash flow from financing activities				
Repayment of capital lease obligation	**(824)**	(780)	**(1,651)**	(1,741)
Net (repayment) proceeds of long-term debt and notes payable	**(25,369)**	171,024	**43,313**	169,517
	(26,193)	170,244	**41,662**	167,776
Increase in cash	**33,402**	71,504	**51,478**	66,813
Cash, beginning of period	**54,164**	3,535	**36,088**	8,226
Cash, end of period	**$ 87,566**	$ 75,039	**$ 87,566**	$ 75,039

Supplemental Disclosure of Cash Flow Information

During the period the Company had cash flows arising from interest and income taxes paid as follows:

Cash paid for interest	**$ 34,445**	37,573	**$ 62,090**	$ 80,877
Income taxes	**$ -**	$ -	**$ -**	$ -

The accompanying notes are an integral part of these interim financial statements

1. Business of the Company

ZTEST Electronics Inc. ("the Company") amalgamated under the laws of Ontario and carries on business, designing, developing, manufacturing and selling circuit boards and other electronic equipment. The Company's shares trade on the TSX Venture Exchange under the symbol "ZTE".

2. Significant Accounting Policies

Going concern basis of presentation

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. This assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. As at December 31, 2004 the Company has a deficit, to date, of $23,242,078.

Basis of presentation

These unaudited interim consolidated financial statements have been compiled by management. They have been prepared using the same accounting policies and methods as the audited financial statements as at June 30, 2004 and should be read in conjunction with those statements.

These unaudited interim consolidated financial statements have been prepared using the consolidation method and accordingly include the following subsidiaries' assets and liabilities as well as the revenues and expenses arising, subsequent to the date of acquisition:

Permatech Electronics Corporation	-	100%	owned
Northern Cross Minerals Inc.	-	66.7%	owned (inactive)

During the period the Company elected to foreclose on a loan receivable form Northern Cross and exercised its rights under a GSA covering all of the assets of that company. The only assets of Northern Cross are options/rights to various mining properties. The company intends to keep the options/rights in good standing until a sale can be facilitated.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with maturity at the date of purchase of three months or less. At December 31, 2004 there were no cash equivalents on hand.

Inventories

Inventories are valued at the lower of cost and replacement cost. Cost is determined on the first-in, first-out basis.

Capital assets

Capital assets are stated at cost. Amortization is provided over the related assets' estimated useful lives using the following methods and annual rates with one-half of the rates noted below are used in the year of acquisition:

Computer software	-	100%	declining balance
Computer equipment	-	30%	declining balance
Office equipment and furniture	-	20%	declining balance
Manufacturing equipment	-	20%	declining balance
Leasehold improvements	-	10 yrs	straight line

Investments

Investments in entities over which the Company has significant influence but not control are accounted for under the equity method of accounting. Investments in entities over which the Company has neither significant influence nor control are accounted for under the cost method. The Company currently has investments in three inactive corporations and holds preference shares of another. The carrying value of each of these investments has been written down to their estimated net realizable value of $1 and any further recoveries, should any arise, will be accounted for on a cash basis.

2. Significant Accounting Policies - continued

Financial instruments

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximates their fair value due to the short-term maturities of these instruments.

Future income taxes

The Company accounts for income taxes using the asset and liability method of accounting. Under this method, future income tax assets and future income tax liabilities are recorded based on temporary differences between the financial reporting basis of the Company's assets and liabilities and their corresponding tax basis. The future benefits of income tax assets, including unused tax losses, are recognized subject to a valuation allowance, to the extent that it is more likely than not that such losses will be ultimately utilized. These future income tax assets and liabilities are measured using substantially enacted tax rates and laws that are expected to apply when the tax assets or liabilities are to be settled or realized.

Revenue recognition

Revenue is recorded when the product is delivered and/or the service is completed which corresponds with the transfer of title.

Earnings per share

Basic earnings (loss) per share are calculated using the weighted average number of common shares outstanding throughout the period. Diluted earnings (loss) per share are computed using the treasury stock method. Stock options and warrants outstanding are not included in the computation of diluted earnings (loss) per share if their inclusion would be anti-dilutive.

Foreign exchange

As at the transaction date all asset, liability, revenue, and expense amounts denominated in foreign currencies are translated into Canadian dollars using the exchange rate in effect as at that date. At the balance sheet date all monetary assets and liabilities are translated into Canadian dollars using the exchange rate in effect as at that date. The resulting foreign exchange gains and losses are included in income of the current period.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Black-Scholes option valuation model used by the Company to determine fair values was developed for use in estimating the fair value of freely traded options. This model requires the input of highly subjective assumptions including future stock price volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing model does not necessarily provide a reliable single measure of the fair value of the Company's stock options granted during the period.

Stock based compensation

The Company has in effect a Stock Option Plan. Stock options awarded to non-employees on or after July 1, 2002 are accounted for using the fair value-based method. Stock options awarded to employees on or after July 1, 2003 are accounted for using the fair value-based method as described in note 12. For stock options awarded to employees prior to July 1, 2003, pro forma disclosure of net earnings (loss), pro forma basic earnings (loss) per share and pro forma diluted earnings (loss) per share were provided as if these awards were accounted for using the fair value-based method. Fair value is calculated using the Black-Scholes model with the assumptions described in note 12. Consideration paid on the exercise of stock options is credited to share capital.

3. Change in Accounting Policies

Stock-based compensation plans

Effective July 1, 2003, the Company prospectively adopted the fair value-based method for stock-based compensation in accordance with the recommendations of Section 3870 "Stock-Based Compensation and Other Stock-Based Payments", issued by the CICA. Previously, no compensation expense was recognized for stock options granted to employees. Under the new policy, compensation expense for employee stock options is accounted for using the fair value-based method as described in note 2. The contributed surplus arising during the year ended June 30, 2004 as a result of the change in accounting policy was $1,730.

4. Inventories

	Dec 31 2004	June 30 2004
Raw materials and supplies	**$ 87,768**	$ 83,646
Work in process	**27,906**	41,320
Finished goods	**-**	1,378
	$ 115,674	$ 126,344

5. Amounts Receivable

	Dec 31 2004	June 30 2004
Demand promissory notes bearing interest at 10% per annum with no fixed maturity dates.	**$ 17,000**	$ -
Less: Current portion	**17,000**	-
	$ -	$ -

6. Capital Assets

	Cost	**Accumulated Amortization**	**Dec31 2004 Net Book Value**	June 30 2004 Net Book Value
Computer software	**$ 34,269**	**$ 34,269**	**$ -**	$ -
Computer equipment	**259,201**	**244,917**	**14,284**	15,793
Office equipment and furniture	**118,333**	**97,409**	**20,924**	19,530
Manufacturing equipment	**983,166**	**666,431**	**316,735**	351,928
Leasehold improvements	**61,003**	**22,659**	**38,344**	41,394
	$ 1,455,972	**$ 1,065,685**	**$ 390,287**	$ 428,645

7. Investments and Advances

The Company holds various securities in the following entities, each of which has been written down to its net realizable value as they are no longer operational nor do they possess any tangible security to be acted upon:

	Dec 31 2004	June 30 2004
Dion Entertainment Corp.		
2,153,973 common shares and a debenture having a face value of $3,574,522 which is in default.	**$ 1**	$ 1
Nexsys Commtech International Inc.		
5,480,314 common shares and 1,830,000 preferred shares representing a 43% voting interest. The Company also holds 4,750,000 warrants and has granted an option on 400,000 shares of Nexsys to a creditor.	**-**	-
Uniqrypt.Com Inc.		
1,900,500 common shares representing a 10.0% investment and a convertible debenture having a face value of $318,000, which is in default.	**1**	1
Med-Minder Enterprises Inc.		
100,000 shares representing a 2.4% investment and a $120,000 amount receivable for which the Company provided notice of intent to convert but never received the requisite shares.	**1**	1
Chessen Group Inc.		
1,705,871 Class A Preference shares.	**1**	1
	$ 4	$ 4

8. Notes Payable and Other Advances

Interest	Security	Terms	Dec 31 2004	June 30 2004
Nil	Unsecured	No repayment terms	**$ 2,000**	$ 2,000
Prime + 2%	Unsecured	No repayment terms (1)	**57,692**	57,692
6%	Unsecured	On demand	**16,767**	16,767
8%	Unsecured	No repayment terms (2)	**45,930**	96,430
8.5%	Unsecured	No repayment terms (3)	**43,565**	41,744
10%	Unsecured	No repayment terms (4)	**145,922**	10,922
12%	Unsecured	No repayment terms (5)	**44,139**	52,639
12%	Unsecured	No repayment terms (3)	**-**	8,500
14%	Unsecured	No repayment terms	**15,000**	15,000
16%	Unsecured	No repayment terms (1)	**9,580**	12,080
			$ 380,595	$ 313,774

(1) Payable to Officers of the Company and/or their spouses.
(2) Includes $44,545 payable to Officers of the Company and/or their spouses.
(3) Payable to a company controlled by the spouse of a Director of the Company.
(5) Includes $10,922 payable to Officers of the Company and/or their spouses.
(5) Includes $25,139 payable to Officers of the Company and/or their spouses.

9. Long-Term Debt

	Dec 31 2004	June 30 2004
Convertible debenture bearing interest at 8% matures January 2005. Monthly interest payments are required. Convertible, in whole or in part, into common shares of the Company at the rate of one common share for each $0.05 converted. The holder also received 2,000,000 share purchase warrants which expired during the year ended June 30, 2004.	$ **100,000**	$ 100,000
Convertible non-interest bearing debentures with a face value of $918,889 mature December 2006. Convertible, in whole or in part, into units of the Company at the rate of one unit for each $0.10 converted on or before December 1, 2005 or one unit for each $0.11 converted thereafter. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to acquire an additional common share on or before December 1, 2006 for $0.10 if conversion occurs on or before December 1, 2005 or for $0.11 otherwise. (1)	**875,022**	863,507
Convertible non-interest bearing debentures with a face value of $222,292 mature December 2005. Convertible, in whole or in part, into units of the Company at the rate of one unit for each $0.10 converted. Each unit consists of one common share and one share purchase warrant which entitles the holder to acquire an additional common share for $0.10 on or before December 1, 2005.	**216,812**	213,810
Convertible non-interest bearing debentures with a face value of $78,538 mature December 1, 2005. Convertible, in whole or in part, into common shares of the Company at the rate of one common share for each $0.10 converted. (2)	**77,542**	76,998
Term loan bearing interest at the TD Canada Trust prime rate plus 14.3%, is secured by a general security agreement, and matures June 30, 2008. Monthly payments of interest only are required until July 2005 when blended monthly principal and interest payments of $13,138 are required. (3)	**363,145**	363,145
Note payable bears interest at 8.5% with no fixed maturity date. Blended monthly payments of $947 are required. (4)	**20,498**	25,186
	1,653,019	1,642,646
Less: Current portion	**452,185**	109,594
	$ 1,200,834	$ 1,533,052

(1) Includes debentures with a face value of $90,013 payable to Officers of the Company and/or their spouses.

(2) Includes debentures with a face value of $5,938 payable to Officers of the Company and/or their spouses.

(3) Payable to a corporation that is a shareholder of the Company and whose President is a Director of the Company.

(4) Payable to a company controlled by the spouse of a Director of the Company.

9. Long-Term Debt - continued

The liability component of the convertible debt is calculated by present valuing the cash flows at an interest rate applicable to non-convertible debt. The equity value of the convertible debt is comprised of the fair value of the conversion options and the warrants. The carrying value for each component is recognized on a pro rata basis based on their relative fair values. The equity portion of the convertible debt is accreted over its term to the full face value by charges to interest expense. The components of the convertible debentures issued during the 2004 fiscal year are as follows:

	Dec 31 2004	June 30 2004
Convertible debentures at face value	$ 1,219,719	$ 1,219,719
Equity portion of convertible debt	(82,674)	(82,674)
Equity accretion	32,331	17,270
	$ 1,169,376	$ 1,154,315

The future minimum principal repayments for each twelve month period subsequent to the balance sheet date are as follows:

2005	$ 452,185
2006	995,010
2007	130,987
2008	74,837
	$ 1,653,019

10. Obligation Under Capital Lease

	Dec 31 2004	June 30 2004
Capital lease bearing interest at 9.8%, matures January 2005. Blended monthly payments of $289 are required.	$ **320**	$ 1,971
Less: Current portion	**320**	1,971
	$ -	$ -

11. Commitments

Operating leases
Minimum payments due under operating leases for premises and office equipment that are required to be made in each twelve month period subsequent to the balance sheet date are approximately as follows:

2005	$ 105,394
2006	103,367
2007	104,121
2008	107,893
2009	108,648
Thereafter	126,756
	$ 656,179

12. Share Capital

(a) Authorized

Unlimited Common shares

Unlimited Non-voting, non participating Class A special shares redeemable by the Company or the holders on a one for one basis for common shares of Northern Cross Minerals Inc.

Unlimited Preferred shares in one or more series of which the following four series have been authorized to date:

Series A redeemable, voting (1) shares were to be repurchased on May 21, 2004. Negotiations as to a means of settlement are ongoing.

Series B non voting shares may no longer be issued. All previously issued shares in this series have been converted into common shares.

Series C redeemable, voting (1) shares bear cumulative monthly dividends payable at a rate of 7% per annum and all outstanding shares must be repurchased on May 1, 2007. These shares can be converted into common shares of the Company at a rate of 1 common share for each 1.7143 Series C shares until May 2007.

Series D redeemable, voting (1) shares bear cumulative monthly dividends payable at a rate of 7% per annum and all outstanding shares must be repurchased on June 1, 2007. These shares can be converted into common shares of the Company at a rate of 1 common share for each 1.6432 Series D shares until June 2007.

(1) All preferred shares carry the right to vote at the meeting of common shareholders in the event that the cumulative dividends are at least 12 months in arrears. As at the balance sheet date, the dividends on Series A, Series C, and Series D shares were all at least 12 months in arrears.

(b) Issued

	Number of Shares	**Amount**
Common shares June 30, 2003	31,832,210	$ 19,434,887
Historical rounding errors corrected by transfer agent	1,427	-
Debentures converted by Officers and/or their spouses	739,879	77,000
Settlement of accounts payable to Directors	157,500	15,750
Common shares June 30, 2004 and, December 31, 2004	32,731,016	19,527,637
Class A special shares June 30, 2004 and, December 31, 2004	1,193,442	100,000
Balance June 30, 2004 and, December 31, 2004		$ 19,627,637
First Preferred Shares		
Balance June 30, 2004 and, December 31, 2004	-	$ 1,471,908

(c) Details of warrants outstanding are as follows:

Number of Warrants	Price/Warrant	Expiry Date
238,743	$0.10	February 23, 2006
238,743		

During the period 100,000 warrants expired and no new warrants were issued. The 238,743 warrants outstanding are all held by Officers of the Company and/or their spouses.

12. Share Capital - continued

(d) Details of options outstanding are as follows:

Common Under Option		Price/Option	Shares Expiry Date
60,000		$0.21	April 1, 2005
150,000		$2.35	June 19, 2005
45,000	(1)	$2.35	August 16, 2005
260,500	(1)	$0.89	January 23, 2006
30,000		$0.89	January 23, 2006
100,000	(1)	$0.17	November 27, 2006
900,000	(1)	$0.24	February 19, 2007
200,000	(1)	$0.135	April 30, 2007
900,000	(1)	$0.10	December 17, 2007
950,000	(1)	$0.12	December 18, 2008
150,000		$0.12	December 18, 2008
200,000		$0.12	December 22, 2009
1,000,000	(1)	$0.12	December 22, 2009
4,945,500			

(1) Directors and/or Officers of the Company hold these options.

During the period 150,000 options held by Directors and/or Officers expired, no options were exercised, and 1,200,000 new options were granted.

(e) Stock based compensation:

The fair value of stock options granted during the prior has been determined using the Black-Scholes model for pricing options. The amount was included in selling, general and administrative expense for the period and as contributed surplus.

	Dec 31 2004	June 30 2004
Compensation expense recognized	**$ 3,493**	$ 1,845

The following weighted average assumptions were used to calculate the fair value of the options:

Dividend yield	NIL	NIL
Risk free interest rate	3.17%	2.60%
Expected stock volatility	3.13%	3.02%
Expected life	3 years	3 years

(f) Pro forma stock option disclosure:

The fair value of stock options issued after July 1, 2002 and before June 30, 2003 has been estimated at $NIL using the Black-Scholes model for pricing options. As a result there are no changes to reported earnings as a result of the fair valuing of stock options. The following assumptions were used:

Dividend yield	NIL
Risk free interest rate	2.79%
Expected stock volatility	4.25%
Expected life	1 year

13. Income Taxes

Future Income Taxes

As at the year end date, the approximate tax effect of each type of temporary difference that gives rise to the Company's future income tax assets (liabilities) is as follows:

	June 30 2004
Other	$ 4,473,956
Undepreciated capital cost	174,477
Non-capital losses	757,138
Capital losses	1,046,133
Future income tax assets, before valuation allowance	6,451,704
Valuation allowance	(6,451,704)
Net future tax assets	$ -

The timing of the utilization of the future tax assets is undeterminable. Consequently, a full valuation allowance has been provided against the future value of these assets.

Tax Loss Carry-Forwards

The potential income tax benefits resulting from the application of income tax losses have not been recognized in the financial statements. The following losses include 100% of the respective losses of the subsidiary companies and will expire at the end of the taxation years as follows:

Year	
2005	$ 213,025
2006	32,617
2007	177,355
2008	381,579
2009	861,518
2010	439,852
2014	114,400
	$ 2,220,346

The full realization of these losses carried forward is subject to the result of audits by Canada Revenue Agency.

In addition, expenses in the amount of approximately $13,610,000 have been recorded in the accounts but have not yet been claimed for income tax purposes and capital losses of approximately $6,136,000 are available indefinitely.

14. Related Party Transactions

The following related parties had transactions with the Company during the period or outstanding balances at the end of the period.

Nu-Way Offerings Limited ("Nu-Way")

A shareholder, whose President is a Director of the Company.

1114377 Ontario Inc. ("1114377")

A shareholder, that is controlled by the spouse of a Director of the Company.

Description	Related Party	Dec 31 2004	June 30 2004
Interest expense - other	Nu-Way	**$ -**	$ 97,997
Interest expense - long term	Nu-way	**$ 32,774**	$ -
Interest expense - long term	1114377	**$ 996**	$ 5,959
Interest expense - other	1114377	**$ 2,335**	$ 61
Interest expense - long term	Directors/Officers	**$ -**	$ 6,102
Interest expense - other	Directors/Officers	**$ 7,630**	$ 12,149

Revenues, expenses and period end balances with the related parties are at exchange amounts established and agreed to by the related parties. All transactions with related parties are in the normal course of operations and have been carried out on the same terms as those accorded to unrelated parties.

15. Segment Disclosure

The Company has one operating segment, being the designing, developing, manufacturing and selling of electronic equipment. All of the Company's assets are located in Canada.

16. Subsequent Events

Subsequent to the balance sheet date the following transactions have been completed:

The holders of 143,000 Series C preferred shares and 255,000 Series D preferred shares converted their shares and all associated dividends that had been previously accrued but unpaid into 9,941,280 common shares based upon the conversion rate of 1 common share for each $0.10 converted. As an element of this conversion the former preferred shareholders also subscribed for new debentures having a face value of $238,020. The unsecured debentures are non-interest bearing, mature in January 2008 and are convertible into units of the Company at the rate of 1 unit for each $0.10 converted if conversion occurs in the first two years or 1 unit for each $0.11 if conversion occurs thereafter. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire an additional common share at an amount equal to the conversion price. the share purchase warrants will expire on the earlier of 2 years after the conversion date or 3 years from the date of issuance of the debenture.

The Company finalized a debenture offering whereby an unsecured debenture with a face value of $135,000 was issued. The debenture bears interest at 10% per annum, matures September 9, 2006 and is convertible into common shares of the Company at the rate of one common share for each $0.10 converted. The holder also received 1,350,000 share purchase warrants which entitle the holder to purchase one additional common share at a price of $0.10 until August 30, 2006.

The Company finalized a debenture offering whereby an unsecured debenture with a face value of $195,000 was issued. The debenture bears interest at 8% per annum, matures January 24, 2007 and is convertible into units of the Company at the rate of one unit for each $0.06 converted. Each unit consists of one common share and one share purchase warrant entitling the holder to purchase one additional common share at a price of $0.10 until January 24, 2007.

A debenture valued at $100,000 that was scheduled to mature in January 2005 was converted in accordance with the terms of the debenture resulting in the issuance of 2,000,000 common shares.

General

The following Management Discussion and Analysis has been prepared to accompany the unaudited interim consolidated financial statements of the Company as at December 31, 2004 and should only be read in conjunction with those financial statements. Both the unaudited interim consolidated financial statements as at December 31, 2004 and this document have been prepared by the Company's management without review or comment from the Company's auditors. Additional information about the Company can be found at www.sedar.com.

Forward-looking Information

This document contains certain information which is forward-looking in nature and is reflective of the expectations of management in accordance with information available as at the date of this document. This forward-looking information incorporates known and unknown risks, uncertainties and other factors, including fluctuations in interest rates and exchange rates, that may cause the Company's actual results to differ materially from any future results of operations, financial position or other achievements expressed in or implied by such forward-looking information and accordingly no undue reliance should be placed thereon.

The Company

The Company operates through a single business segment that carries on business designing, developing, manufacturing and selling circuit boards and other electronic equipment. The management of the Company is comprised of the following individuals:

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

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

Corporate Performance

The three month period ended December 31, 2004 represents a period in which the Company continued a number of positive trends. This was the second consecutive fiscal quarter in which the Company reported a net income from operations and the sixth consecutive quarter whereby the reported income or loss from operations represents an improvement over the immediately preceding fiscal quarter. This period also represents the ninth consecutive fiscal quarter for which total revenues exceeded the amounts reported for the corresponding fiscal quarter one year earlier. The Company also experienced an overall reduction in liabilities just as it did in the preceding quarter.

While achieving and enhancing the Company's profitability is certainly desirable management remains focused on achieving overall financial stability and recognizes that profitability is only one element of that objective. As at December 31, 2004 the Company is reporting a working capital deficiency of $1,243,978 and a deficiency in assets of $3,526,429. The Company's profitability contributed to a minor improvement in the deficiency in assets however the working capital deficiency is actually $254,733 greater than at the end of the preceding quarter. The Company generated positive cash flows from operations while simultaneously reducing accounts payable and reporting a net repayment of notes payable and long-term debt. These positive results were offset by an increase of $319,010 in the current portion of long-term debt which accounts for the decline in working capital.

Corporate Performance - continued

Some financial trends become evident upon review of the following selected financial data:

	For the fiscal years ended:		
	June 04	June 03	June 02
Total Revenues	2,482,343	1,892,850	1,520,991
Net income (loss) from operations	(368,192)	(740,914)	(2,080,580)
Per share	(0.011)	(0.023)	(0.076)
Net income (loss) for the period	(368,192)	(539,855)	(2,084,599)
Per share	(0.011)	(0.017)	(0.076)
Total assets	1,122,999	909,464	1,617,976
Total long-term financial liabilities	3,004,960	1,799,300	3,166,364
Total liabilities	4,677,614	4,225,449	4,358,252
Cash dividends* – preferred shares	150,104	153,092	173,805

	For the three month periods ended:				
	Dec. 04	Sept. 04	June 04	Mar. 04	Dec. 03
Total Revenues	993,047	920,923	675,915	754,352	574,495
Net income (loss) from operations	46,829	1,260	(42,943)	(64,727)	(93,988)
Per share	0.001	0.000	(0.001)	(0.003)	(0.003)
Net income (loss) for the period	46,829	1,260	(42,943)	(64,727)	(93,988)
Per share	0.001	0.000	(0.001)	(0.003)	(0.003)
Total assets	992,455	1,092,700	1,122,199	987,857	971,463
Total long-term financial liabilities	2,672,742	2,986,591	3,004,960	2,709,696	2,836,297
Total liabilities	4,518,884	4,657,753	4,677,614	4,572,383	4,528,964
Cash dividends* – preferred shares	35,269	35,268	35,812	37,694	38,106

	For the three month periods ended:			
	Sept. 03	June 03	Mar. 03	Dec. 02
Total Revenues	486,581	510,752	569,069	459,311
Net income (loss) from operations	(166,534)	(170,854)	(131,082)	(179,707)
Per share	(0.005)	(0.005)	(0.004)	(0.006)
Net income (loss) for the period	(166,534)	30,205	(131,082)	(179,707)
Per share	(0.005)	0.001	(0.004)	(0.006)
Total assets	853,782	909,464	1,677,609	1,651,727
Total long-term financial liabilities	1,675,919	1,799,300	2,294,411	3,182,590
Total liabilities	4,348,482	4,225,449	5,012,489	4,855,343
Cash dividends* – preferred shares	38,492	37,588	38,521	38,491

* Cash dividends are being accrued rather than paid

Results of Operations

As predicted the total revenues realized in the second quarter of 2005 were greater than reported in the preceding quarter thereby maintaining the trend that has existed now for 3 years. This trend is for revenues to rise from the first quarter to the second, then again from second to third before a seasonal downturn starts causing a decline from the third quarter into the fourth. Following the end of the first quarter management had predicted modest revenue growth in the second quarter and the growth rate of 7.8% is certainly that when compared to the rates of 18% realized in 2004 and 29% realized in 2003.

In the prior two fiscal years the total revenues reported after the second quarter have ultimately represented 42.95% (2002/2003) and 42.74% (2003/2004) of the total annual revenues. Total revenues to December 31, 2004 are $1,916,331, representing an 81% increase over amounts reported one year earlier, and if this can be relied upon to predict total revenues for the fiscal year then $4,000,000 appears to be an achievable result.

Results of Operations - continued

Revenue from product sales and design services represent 99.9% of total revenues in the current quarter, up from 98.8% in the second quarter of 2004 and from the 99.7% rate realized in the first quarter of 2005. Interest and other revenue have been steadily declining in both gross value and relative value and this trend is expected to continue. The Company continues to realize revenue growth from the combination of increased business volume and a change in product mix although the product mix is starting to stabilize to some degree. The Company also continues to reposition itself in the marketplace so that it is now competing more frequently with the mid-sized companies in the industry rather than those that specialize in short-run orders. This repositioning should result in the average order size increasing and is expected to also increase the type of services the Company provides. As an example design services are generally offered by the mid-size and larger competitors and are a service for which the Company has previously demonstrated expertise. This is expected to be a more significant aspect of the Company's business as this repositioning becomes more firmly entrenched.

The cost of product sales and design services ("cost of sales") for the three months ended December 31, 2004 is 73.7% higher than the figures for the same period one year earlier which is fairly closely correlated with an increase of 74.9% in the corresponding revenues and further supports the assertion that product mix is starting to stabilize. The gross margin as a percentage of corresponding revenues is 36.6% in the current fiscal quarter as compared to 36.2% for the second quarter of 2004 and 31.2% for the first quarter of 2005.

Management anticipates that there will be a requirement to obtain additional equipment in the near future in order to continue its efforts to compete with the mid-sized companies in the market place. This additional equipment, if it is acquired, will result in an increase in the Company's production capacity but will also add to the Company's overhead and financing costs. As no commitments have currently been made to acquire any specific equipment it is not practical to attempt to predict the true impact that the resulting benefits and costs will have on future operations.

Selling, general and administrative expenses ("SG&A) encompass all costs other than those directly attributable to the production process or the cost of financing the operations. The largest individual elements of this category are always employee and consultant compensation and occupancy costs. The current fiscal quarter was no exception as compensation amounted to $144,510 or 59.1% while occupancy costs amounted to $65,772 or 26.9%. It was noted during the 2003 fiscal year that staffing levels had reached an absolute minimum and that future increases would be necessary in order to support the Company's expanding operations. The increase in the current period is in keeping with this trend as the Company has found it necessary to provide pay increases to existing employees and to hire additional personnel in order to keep up with the increased workload associated with increased business volumes. Occupancy costs continued to be very stable in comparison to both the prior year and the immediately preceding quarter. The Company has a lease on its operating facility that continues through February 2011 so these costs, subject to significant fluctuation in utility rates or other unforeseen events, will remain both consistent and predictable for quite some time.

The remainder of SG&A is comprised of professional fees, regulatory fees and other costs. Professional fees are impacted significantly by the amount and nature of financing that the Company is working on and by the regulatory filings that must be completed. In the second quarter of 2004 the Company was dealing with the impending maturity of a convertible debenture and was also working on some new financing arrangements which closed after the end of the period. This is the major reason the Company incurred professional fees in the amount of $13,449 during the current fiscal quarter. Regulatory fees, which include fees levied by exchanges and by the Company's transfer agent, were $6,428 for the current fiscal quarter and are reflective of the volume of filings, press releases and shareholder activities during the period. With the closing of a number of transactions shortly after the balance sheet date it is expected that these costs will be much higher in the third quarter of 2005. Other SG&A costs aggregated $14,863 in the current period with no individual elements warranting further investigation.

Results of Operations - continued

The Company's cost of financing, which is comprised of interest on long-term debt, other interest, and dividends on preferred shares, continues to decline. The total for the current fiscal quarter was $64,627 including $7,530 of interest accretion arising from the accounting treatment required under Canadian GAAP for the debentures issued during the 2004 fiscal year. In comparison the cost of financing reported in the second quarter of 2004 was $76,913 with no interest accretion. With the financing transactions completed after the balance sheet date it is expected that these costs will decline further in the third quarter of 2005.

Liquidity

The Company has been in a growth phase for more than two fiscal years and anticipates that this growth will continue. Historically this growth has meant that the Company has had to fund its operating cash flow deficiencies through a series of short term and long term debts. While it is widely recognized that negative cash flows often arise during periods of growth the recently concluded fiscal quarter saw revenue growth correspond with positive cash flow from operations, the repayment of $23,000 in short term notes, and $2,370 in long-term debt. This represents only the second fiscal quarter out of the last ten where there have been net repayments of debt and accordingly this positive result should not be interpreted to mean that no additional borrowing will be completed in the future in order to fund cash shortfalls.

In addition to meeting working capital requirements the Company must also address the payment or other settlement of the following amounts:

	Due by Dec 2005	Due by Dec 2007	Due by Dec 2009	Due after Dec 2009	Total Due
Repurchase of preferred shares	160,000	1,998,905	-	-	2,158,905
Convertible debentures*	400,830	918,889	-	-	1,319,719
Other long-term debt	57,831	250,974	74,838	-	383,643
Obligation under capital lease	320	-	-	-	320
Operating leases	105,394	207,488	216,541	126,756	656,179
Total	724,375	3,376,256	291,379	126,756	4,518,766

* These figures are based upon the face value of the underlying debentures and are different from the amounts reported in the interim financial statements.

Capital Resources

The Company has not entered into a formal commitment to acquire any capital assets although it is negotiating the potential acquisition of two new machines at an aggregate value of US$161,000. These machines, when acquired, will increase the Company's manufacturing capacity, enhance manufacturing capabilities and enable it to service customers that require a lead-free process.

The Company is also in the process of negotiating a credit facility of up to $2,400,000 with an arm's length party with the proceeds to be used exclusively to finance up to 90% of the purchase price of new equipment. It is anticipated that, if the negotiations proceed as expected, the machinery noted above will be acquired under this facility.

Related Party Transactions

The Company has participated in a number of transactions with related parties and consequently reports many amounts as being due to related parties. These transactions involve 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 director of a subsidiary Company. 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/from the related parties defined above:

	2004		2003	
	Dec 30	June 30	Dec 30	June 30
Note payable at prime +2%	57,692	57,692	57,692	57,692
Notes payable at 8.0%	41,045	46,545	54,545	62,045
Note payable at 8.5% (1)	43,565	41,744	39,173	38,345
Note payable at 10.0%	10,922	10,922	10,922	-
Notes payable at 12.0%	16,639	33,639	-	-
Note payable at 16.0%	9,580	12,080	10,220	7,013
Revolving loan payable at 33.0% (2)	-	-	231,215	225,047

The following additional balances are due to/from the related parties defined above:

	2004		2003	
	Dec 31	June 30	Dec 31	June 30
Debentures payable at 10.5%	-	-	49,500	49,500
Debentures payable at 8.0%	-	-	108,750	108,750
Non-interest bearing 3 year debentures (3)	79,348	78,304	-	-
Non-interest bearing 2 year debenture (3)	5,862	5,822	-	-
Term loan at prime + 14.3% (2)	363,145	363,145	-	-
Long-term note payable at 8.5%	20,498	25,186	30,000	30,000

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

	2004		2003	
	Dec 31	June 30	Dec 31	June 30
Revenue – other	-	-	-	17,361
Interest expense – long term	33,770	12,061	6,216	41,703
Interest expense – other	9,965	110,207	49,999	47,666
Consulting fees	-	-	-	8,100

(1) Interest at 8.5% continues to accrue on this note monthly and is added to the balance of the note
(2) The revolving loan was replaced by a term loan, which requires payment as to interest only for the first year, as at June 30, 2004.
(3) These debentures held by related parties have a face value of $83,326 and $5,938 and are subject to accretion therefore they are carried on the balance sheet at an amount less than their face value and are adjusted each period by the amount of accretion that is recorded.

The following stock options and share purchase warrants 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 @ $2.35 per share	August 2005	45,000
Stock options @ $0.89 per share	January 2006	260,500
Share purchase warrants @ $0.10 per share	February 2006	238,743
Stock options @ $0.17 per share	November 2006	100,000
Stock options @ $0.24 per share	February 2007	900,000
Stock options @ $0.135 per share	April 2007	200,000
Stock options @ $0.10 per share	December 2007	900,000
Stock options @ $0.12 per share	December 2008	950,000
Stock options @ $0.12 per share	December 2009	1,000,000

In addition to the options and warrants noted above there were 100,000 share purchase warrants held by an Officer of the Company that expired in August 2004 and 150,000 stock options held by Officers and/or Directors of the Company that expired in November 2004

Convertible instruments and other securities

As at December 31, 2004 the company has the following securities issued and outstanding:

Description	Quantity	Amount
Common shares	32,731,016	$ 18,840,643
Paid in capital of preferred shares		686,994
Class A special shares	1,193,442	100,000
Reported as at December 31, 2004		$ 19,627,637
Series C and D shares and dividends converted [1]	9,941,280	730,964
Debenture converted [3]	2,000,000	100,000
Share capital as at the date of this document		$ 20,458,601
Series A preferred shares	166,667	160,000
Series C preferred shares [1]	431,858	755,751
Series D preferred shares [1]	583,640	1,243,151
		2,158,902
Less: amount accounted for as paid in capital		686,994
Liability element of preferred shares at December 31, 2004		$ 1,471,908
Series C and D shares converted [1]		(530,236)
Liability element of preferred shares as at the date of this document		$ 941,672

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

Description	Expiry Date	Number of Common shares
Debenture convertible at $0.05	January 2005 [3]	2,000,000
Stock options @ $0.21 per share	April 2005	60,000
Stock options @ $2.35 per share	June 2005	150,000
Stock options @ $2.35 per share	August 2005	45,000
Debentures convertible at $0.10	December 2005	12,197,193
Stock options @ $0.89 per share	January 2006	290,500
Share purchase warrants @ $0.10 per share	February 2006	238,743
Stock options @ $0.17 per share	November 2006	100,000
Stock options @ $0.24 per share	February 2007	900,000
Stock options @ $0.135 per share	April 2007	200,000
Series C preferred shares	May 2007	440,851
Series D preferred shares	June 2007	756,544
Stock options @ $0.10 per share	December 2007	900,000
Stock options @ $0.12 per share	December 2008	1,100,000
Stock options @ $0.12 per share	December 2009	1,200,000
Shares reserved as at December 31, 2004		20,578,831
Debentures convertible at $0.10	January 2007 [2]	2,380,200
Debenture convertible at $0.05	January 2005 [3]	(2,000,000)
Debenture convertible at $0.10	September 2006 [4]	1,350,000
Debenture convertible at $0.06	January 2007 [5]	3,250,000
Shares reserved as at the date of this document		25,559,031

Convertible instruments and other securities - continued

In the event that certain convertible debentures are converted then the holders will also receive share purchase warrants that are exercisable as follows:

Share purchase warrants at $0.10	December 2005	2,222,925
Share purchase warrants at $0.10	December 2006	9,188,893
Shares reserved for warrants as at December 31, 2004		11,411,818
Share purchase warrants at $0.10 (2)	January 2008	2,380,200
Share purchase warrants at $0.10 (4)	August 2006	1,350,000
Share purchase warrants at $0.10 (5)	January 2007	3,250,000
Shares reserved for warrants as at the date of this document		18,392,018

In the event that certain debentures, which may be converted at $0.10 until December 2005, are not converted by that date then the holder will become entitled to convert them at $0.11 until December 2006. In the event that this occurs then the following items noted above will be cancelled and replaced as follows:

Total reserved shares noted above		20,578,831
Debentures convertible at $0.10	December 2005	(9,188,893)
Debentures convertible at $0.11	December 2006	8,353,539
		19,743,477
Total reserved shares noted above		11,411,818
Share purchase warrants at $0.10	December 2006	(9,188,893)
Share purchase warrants at $0.11	December 2006	8,353,539
		10,576,464

(1) Subsequent to the balance sheet date the holders of 143,000 Series C preferred shares with a paid up capital of $250,250 and 255,000 Series D preferred shares with a paid up capital of $543,150 opted to convert their shares and $200,728 in dividends that had been accrued but not yet paid, into common shares. The conversion occurred at a rate of 1 common share for each $0.10 converted and resulted in the issuance of 9,941,280 common shares. As a portion of the paid up capital of the preference shares had previously been accounted for as paid in capital and therefore added to the carrying value of share capital this issuance has resulted in an increase of $730,964 in share capital. It has also caused a reduction of $200,728 in dividends payable and $530,236 in the liability element of preferred shares.

(2) As an element of the conversion described in (1) the preferred shareholders subscribed for new debentures having a face value of $238,020. These non-interest bearing unsecured debentures mature January 2008 and are convertible into units of the Company at the rate of one unit for every $0.10 converted if converted within the first two years or one unit for every $0.11 converted thereafter. Each unit consists of one common share and one share purchase warrant entitling the holder to purchase one common share at a price equal to the conversion price. The warrants expire on the earlier of two years from the date of conversion or three years from the date the debenture was issued.

(3) This debenture was converted subsequent to the balance sheet date in accordance with the terms of the debenture and the number of shares reserved for future issuance should be reduced accordingly.

(4) Subsequent to the balance sheet date the Company issued a $135,000 debenture. The 10% unsecured debenture is convertible into common shares at the rate of 1 common share for each $0.10 converted. The holder also received 1,350,000 share purchase warrants to acquire common shares at $0.10 until August 30, 2006.

(5) Subsequent to the balance sheet date the Company issued a $195,000 debenture. The 8% unsecured debenture is convertible into units at the rate of 1 unit for each $0.06 converted. The units consist of one common share and one share purchase warrant that entitles the holder to acquire an additional common share for $0.10 until January 24, 2007.

General

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K. Michael Guerreiro(2)	Director
Donald G. Nurse(1)	Director
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Total liabilities	4,677,614	4,225,449	4,358,252
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Net income (loss) for the period	46,829	1,260	(42,943)	(64,727)	(93,988)
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Net income (loss) from operations	(166,534)	(170,854)	(131,082)	(179,707)
Per share	(0.005)	(0.005)	(0.004)	(0.006)
Net income (loss) for the period	(166,534)	30,205	(131,082)	(179,707)
Per share	(0.005)	0.001	(0.004)	(0.006)
Total assets	853,782	909,464	1,677,609	1,651,727
Total long-term financial liabilities	1,675,919	1,799,300	2,294,411	3,182,590
Total liabilities	4,348,482	4,225,449	5,012,489	4,855,343
Cash dividends* – preferred shares	38,492	37,588	38,521	38,491

* Cash dividends are being accrued rather than paid

Results of Operations

As predicted the total revenues realized in the second quarter of 2005 were greater than reported in the preceding quarter thereby maintaining the trend that has existed now for 3 years. This trend is for revenues to rise from the first quarter to the second, then again from second to third before a seasonal downturn starts causing a decline from the third quarter into the fourth. Following the end of the first quarter management had predicted modest revenue growth in the second quarter and the growth rate of 7.8% is certainly that when compared to the rates of 18% realized in 2004 and 29% realized in 2003.

In the prior two fiscal years the total revenues reported after the second quarter have ultimately represented 42.95% (2002/2003) and 42.74% (2003/2004) of the total annual revenues. Total revenues to December 31, 2004 are $1,916,331, representing an 81% increase over amounts reported one year earlier, and if this can be relied upon to predict total revenues for the fiscal year then $4,000,000 appears to be an achievable result.

Results of Operations - continued

Revenue from product sales and design services represent 99.9% of total revenues in the current quarter, up from 98.8% in the second quarter of 2004 and from the 99.7% rate realized in the first quarter of 2005. Interest and other revenue have been steadily declining in both gross value and relative value and this trend is expected to continue. The Company continues to realize revenue growth from the combination of increased business volume and a change in product mix although the product mix is starting to stabilize to some degree. The Company also continues to reposition itself in the marketplace so that it is now competing more frequently with the mid-sized companies in the industry rather than those that specialize in short-run orders. This repositioning should result in the average order size increasing and is expected to also increase the type of services the Company provides. As an example design services are generally offered by the mid-size and larger competitors and are a service for which the Company has previously demonstrated expertise. This is expected to be a more significant aspect of the Company's business as this repositioning becomes more firmly entrenched.

The cost of product sales and design services ("cost of sales") for the three months ended December 31, 2004 is 73.7% higher than the figures for the same period one year earlier which is fairly closely correlated with an increase of 74.9% in the corresponding revenues and further supports the assertion that product mix is starting to stabilize. The gross margin as a percentage of corresponding revenues is 36.6% in the current fiscal quarter as compared to 36.2% for the second quarter of 2004 and 31.2% for the first quarter of 2005.

Management anticipates that there will be a requirement to obtain additional equipment in the near future in order to continue its efforts to compete with the mid-sized companies in the market place. This additional equipment, if it is acquired, will result in an increase in the Company's production capacity but will also add to the Company's overhead and financing costs. As no commitments have currently been made to acquire any specific equipment it is not practical to attempt to predict the true impact that the resulting benefits and costs will have on future operations.

Selling, general and administrative expenses ("SG&A) encompass all costs other than those directly attributable to the production process or the cost of financing the operations. The largest individual elements of this category are always employee and consultant compensation and occupancy costs. The current fiscal quarter was no exception as compensation amounted to $144,510 or 59.1% while occupancy costs amounted to $65,772 or 26.9%. It was noted during the 2003 fiscal year that staffing levels had reached an absolute minimum and that future increases would be necessary in order to support the Company's expanding operations. The increase in the current period is in keeping with this trend as the Company has found it necessary to provide pay increases to existing employees and to hire additional personnel in order to keep up with the increased workload associated with increased business volumes. Occupancy costs continued to be very stable in comparison to both the prior year and the immediately preceding quarter. The Company has a lease on its operating facility that continues through February 2011 so these costs, subject to significant fluctuation in utility rates or other unforeseen events, will remain both consistent and predictable for quite some time.

The remainder of SG&A is comprised of professional fees, regulatory fees and other costs. Professional fees are impacted significantly by the amount and nature of financing that the Company is working on and by the regulatory filings that must be completed. In the second quarter of 2004 the Company was dealing with the impending maturity of a convertible debenture and was also working on some new financing arrangements which closed after the end of the period. This is the major reason the Company incurred professional fees in the amount of $13,449 during the current fiscal quarter. Regulatory fees, which include fees levied by exchanges and by the Company's transfer agent, were $6,428 for the current fiscal quarter and are reflective of the volume of filings, press releases and shareholder activities during the period. With the closing of a number of transactions shortly after the balance sheet date it is expected that these costs will be much higher in the third quarter of 2005. Other SG&A costs aggregated $14,863 in the current period with no individual elements warranting further investigation.

Results of Operations - continued

The Company's cost of financing, which is comprised of interest on long-term debt, other interest, and dividends on preferred shares, continues to decline. The total for the current fiscal quarter was $64,627 including $7,530 of interest accretion arising from the accounting treatment required under Canadian GAAP for the debentures issued during the 2004 fiscal year. In comparison the cost of financing reported in the second quarter of 2004 was $76,913 with no interest accretion. With the financing transactions completed after the balance sheet date it is expected that these costs will decline further in the third quarter of 2005.

Liquidity

The Company has been in a growth phase for more than two fiscal years and anticipates that this growth will continue. Historically this growth has meant that the Company has had to fund its operating cash flow deficiencies through a series of short term and long term debts. While it is widely recognized that negative cash flows often arise during periods of growth the recently concluded fiscal quarter saw revenue growth correspond with positive cash flow from operations, the repayment of $23,000 in short term notes, and $2,370 in long-term debt. This represents only the second fiscal quarter out of the last ten where there have been net repayments of debt and accordingly this positive result should not be interpreted to mean that no additional borrowing will be completed in the future in order to fund cash shortfalls.

In addition to meeting working capital requirements the Company must also address the payment or other settlement of the following amounts:

	Due by Dec 2005	Due by Dec 2007	Due by Dec 2009	Due after Dec 2009	Total Due
Repurchase of preferred shares	160,000	1,998,905	-	-	2,158,905
Convertible debentures*	400,830	918,889	-	-	1,319,719
Other long-term debt	57,831	250,974	74,838	-	383,643
Obligation under capital lease	320	-	-	-	320
Operating leases	105,394	207,488	216,541	126,756	656,179
Total	724,375	3,376,256	291,379	126,756	4,518,766

* These figures are based upon the face value of the underlying debentures and are different from the amounts reported in the interim financial statements.

Capital Resources

The Company has not entered into a formal commitment to acquire any capital assets although it is negotiating the potential acquisition of two new machines at an aggregate value of US$161,000. These machines, when acquired, will increase the Company's manufacturing capacity, enhance manufacturing capabilities and enable it to service customers that require a lead-free process.

The Company is also in the process of negotiating a credit facility of up to $2,400,000 with an arm's length party with the proceeds to be used exclusively to finance up to 90% of the purchase price of new equipment. It is anticipated that, if the negotiations proceed as expected, the machinery noted above will be acquired under this facility.

Related Party Transactions

The Company has participated in a number of transactions with related parties and consequently reports many amounts as being due to related parties. These transactions involve 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 director of a subsidiary Company. 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/from the related parties defined above:

	2004		2003	
	Dec 30	June 30	Dec 30	June 30
Note payable at prime +2%	57,692	57,692	57,692	57,692
Notes payable at 8.0%	41,045	46,545	54,545	62,045
Note payable at 8.5% (1)	43,565	41,744	39,173	38,345
Note payable at 10.0%	10,922	10,922	10,922	-
Notes payable at 12.0%	16,639	33,639	-	-
Note payable at 16.0%	9,580	12,080	10,220	7,013
Revolving loan payable at 33.0% (2)	-	-	231,215	225,047

The following additional balances are due to/from the related parties defined above:

	2004		2003	
	Dec 31	June 30	Dec 31	June 30
Debentures payable at 10.5%	-	-	49,500	49,500
Debentures payable at 8.0%	-	-	108,750	108,750
Non-interest bearing 3 year debentures (3)	79,348	78,304	-	-
Non-interest bearing 2 year debenture (3)	5,862	5,822	-	-
Term loan at prime + 14.3% (2)	363,145	363,145	-	-
Long-term note payable at 8.5%	20,498	25,186	30,000	30,000

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

	2004		2003	
	Dec 31	June 30	Dec 31	June 30
Revenue – other	-	-	-	17,361
Interest expense – long term	33,770	12,061	6,216	41,703
Interest expense – other	9,965	110,207	49,999	47,666
Consulting fees	-	-	-	8,100

(1) Interest at 8.5% continues to accrue on this note monthly and is added to the balance of the note

(2) The revolving loan was replaced by a term loan, which requires payment as to interest only for the first year, as at June 30, 2004.

(3) These debentures held by related parties have a face value of $83,326 and $5,938 and are subject to accretion therefore they are carried on the balance sheet at an amount less than their face value and are adjusted each period by the amount of accretion that is recorded.

The following stock options and share purchase warrants 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 @ $2.35 per share	August 2005	45,000
Stock options @ $0.89 per share	January 2006	260,500
Share purchase warrants @ $0.10 per share	February 2006	238,743
Stock options @ $0.17 per share	November 2006	100,000
Stock options @ $0.24 per share	February 2007	900,000
Stock options @ $0.135 per share	April 2007	200,000
Stock options @ $0.10 per share	December 2007	900,000
Stock options @ $0.12 per share	December 2008	950,000
Stock options @ $0.12 per share	December 2009	1,000,000

In addition to the options and warrants noted above there were 100,000 share purchase warrants held by an Officer of the Company that expired in August 2004 and 150,000 stock options held by Officers and/or Directors of the Company that expired in November 2004

Convertible instruments and other securities

As at December 31, 2004 the company has the following securities issued and outstanding:

Description	Quantity	Amount
Common shares	32,731,016	$ 18,840,643
Paid in capital of preferred shares		686,994
Class A special shares	1,193,442	100,000
Reported as at December 31, 2004		$ 19,627,637
Series C and D shares and dividends converted (1)	9,941,280	730,964
Debenture converted (3)	2,000,000	100,000
Share capital as at the date of this document		$ 20,458,601
Series A preferred shares	166,667	160,000
Series C preferred shares (1)	431,858	755,751
Series D preferred shares (1)	583,640	1,243,151
		2,158,902
Less: amount accounted for as paid in capital		686,994
Liability element of preferred shares at December 31, 2004		$ 1,471,908
Series C and D shares converted (1)		(530,236)
Liability element of preferred shares as at the date of this document		$ 941,672

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

Description	Expiry Date	Number of Common shares
Debenture convertible at $0.05	January 2005 (3)	2,000,000
Stock options @ $0.21 per share	April 2005	60,000
Stock options @ $2.35 per share	June 2005	150,000
Stock options @ $2.35 per share	August 2005	45,000
Debentures convertible at $0.10	December 2005	12,197,193
Stock options @ $0.89 per share	January 2006	290,500
Share purchase warrants @ $0.10 per share	February 2006	238,743
Stock options @ $0.17 per share	November 2006	100,000
Stock options @ $0.24 per share	February 2007	900,000
Stock options @ $0.135 per share	April 2007	200,000
Series C preferred shares	May 2007	440,851
Series D preferred shares	June 2007	756,544
Stock options @ $0.10 per share	December 2007	900,000
Stock options @ $0.12 per share	December 2008	1,100,000
Stock options @ $0.12 per share	December 2009	1,200,000
Shares reserved as at December 31, 2004		20,578,831
Debentures convertible at $0.10	January 2007 (2)	2,380,200
Debenture convertible at $0.05	January 2005 (3)	(2,000,000)
Debenture convertible at $0.10	September 2006 (4)	1,350,000
Debenture convertible at $0.06	January 2007 (5)	3,250,000
Shares reserved as at the date of this document		25,559,031

Convertible instruments and other securities - continued

In the event that certain convertible debentures are converted then the holders will also receive share purchase warrants that are exercisable as follows:

Share purchase warrants at $0.10	December 2005	2,222,925
Share purchase warrants at $0.10	December 2006	9,188,893
Shares reserved for warrants as at December 31, 2004		11,411,818
Share purchase warrants at $0.10 (2)	January 2008	2,380,200
Share purchase warrants at $0.10 (4)	August 2006	1,350,000
Share purchase warrants at $0.10 (5)	January 2007	3,250,000
Shares reserved for warrants as at the date of this document		18,392,018

In the event that certain debentures, which may be converted at $0.10 until December 2005, are not converted by that date then the holder will become entitled to convert them at $0.11 until December 2006. In the event that this occurs then the following items noted above will be cancelled and replaced as follows:

Total reserved shares noted above		20,578,831
Debentures convertible at $0.10	December 2005	(9,188,893)
Debentures convertible at $0.11	December 2006	8,353,539
		19,743,477

Total reserved shares noted above		11,411,818
Share purchase warrants at $0.10	December 2006	(9,188,893)
Share purchase warrants at $0.11	December 2006	8,353,539
		10,576,464

(1) Subsequent to the balance sheet date the holders of 143,000 Series C preferred shares with a paid up capital of $250,250 and 255,000 Series D preferred shares with a paid up capital of $543,150 opted to convert their shares and $200,728 in dividends that had been accrued but not yet paid, into common shares. The conversion occurred at a rate of 1 common share for each $0.10 converted and resulted in the issuance of 9,941,280 common shares. As a portion of the paid up capital of the preference shares had previously been accounted for as paid in capital and therefore added to the carrying value of share capital this issuance has resulted in an increase of $730,964 in share capital. It has also caused a reduction of $200,728 in dividends payable and $530,236 in the liability element of preferred shares.

(2) As an element of the conversion described in (1) the preferred shareholders subscribed for new debentures having a face value of $238,020. These non-interest bearing unsecured debentures mature January 2008 and are convertible into units of the Company at the rate of one unit for every $0.10 converted if converted within the first two years or one unit for every $0.11 converted thereafter. Each unit consists of one common share and one share purchase warrant entitling the holder to purchase one common share at a price equal to the conversion price. The warrants expire on the earlier of two years from the date of conversion or three years from the date the debenture was issued.

(3) This debenture was converted subsequent to the balance sheet date in accordance with the terms of the debenture and the number of shares reserved for future issuance should be reduced accordingly.

(4) Subsequent to the balance sheet date the Company issued a $135,000 debenture. The 10% unsecured debenture is convertible into common shares at the rate of 1 common share for each $0.10 converted. The holder also received 1,350,000 share purchase warrants to acquire common shares at $0.10 until August 30, 2006.

(5) Subsequent to the balance sheet date the Company issued a $195,000 debenture. The 8% unsecured debenture is convertible into units at the rate of 1 unit for each $0.06 converted. The units consist of one common share and one share purchase warrant that entitles the holder to acquire an additional common share for $0.10 until January 24, 2007.