ZTEST Electronics Inc.

Unaudited Interim Consolidated Financial Statements

September 30, 2005

Be advised that these Unaudited Interim Consolidated Financial Statements have been compiled by the Company's management and they have not been examined, in any manner, by the Company's auditors.

ZTEST Electronics Inc.

Unaudited Interim Consolidated Balance Sheet
September 30, 2005

		Sept. 30 2005		(Audited) June 30 2005
Assets				
Current Assets				
Cash	**$**	**37,725**	$	116,075
Accounts receivable		**636,941**		425,183
Inventories (Note 3)		**274,756**		259,135
Prepaid expenses and other assets		**35,627**		35,368
Amounts receivable (Note 4)		**13,067**		17,000
		998,116		852,761
Equipment (Note 5)		**853,728**		876,316
Investments and advances (Note 6)		**4**		4
	$	**1,851,848**	$	1,729,081
Liabilities				
Current liabilities				
Customer deposits	**$**	**165,950**	$	62,437
Accounts payable and accrued liabilities		**429,534**		412,423
Dividends payable		**423,389**		402,119
Notes payable and other advances (Note7)		**173,763**		181,962
Current portion of long-term debt (Note 8)		**632,195**		495,694
Current portion of preferred shares (Note 10)		**136,024**		136,024
		1,960,855		1,690,659
Long-term debt (Note 8)		**1,749,040**		1,922,244
Preferred shares (Note 10)		**805,649**		805,649
		4,515,544		4,418,552
Commitments (Note 9)		**-**		-
Deficiency in assets				
Share Capital (Note 10)		**20,588,071**		20,547,026
Contributed surplus		**89,486**		83,493
Equity portion of convertible debentures		**111,422**		111,422
Deficit		**(23,452,675)**		(23,431,412)
		(2,663,696)		(2,689,471)
	$	**1,851,848**	$	1,729,081

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 three month period ended September 30

		2005		2004
Revenue				
Product sales	$	770,276	$	916,374
Design services		1,090		2,070
Interest and other		370		216
		771,736		918,660
Expenses				
Cost of product sales and design services		471,380		631,872
Selling, general and administrative		254,016		206,590
Interest expense - long term (Note 11)		38,767		26,499
Dividends on preferred shares		14,215		23,570
Interest expense - other (Note 11)		3,440		22,882
Foreign exchange		(3,202)		(2,263)
Amortization of equipment		7,328		8,250
		785,944		917,400
(Loss) income from operations		(14,208)		1,260
Provision for income taxes		-		-
Net (loss) income for the period		(14,208)		1,260
Deficit, beginning of period		(23,431,412)		(23,266,771)
Dividends on preferred shares		(7,055)		(11,698)
Deficit, end of period	$	(23,452,675)	$	(23,277,209)
Net (loss) income per share	$	(0.0003)	$	0.00004
Weighted average shares outstanding		46,134,206		32,731,016

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

Unaudited Interim Consolidated Statement of Cash Flows
For the three month period ended September 30

		2005		2004
Cash flow from operating activities				
Net (loss) income for the period	**$**	**(14,208)**	$	1,260
Items not involving cash				
Amortization of capital assets		**38,305**		22,352
Dividends on preferred shares		**14,215**		23,570
Stock based compensation		**5,993**		-
Interest accretion		**10,749**		7,530
Changes in non-cash working capital items:				
Accounts receivable		**(109,197)**		68,159
Inventories		**(15,621)**		(28,907)
Prepaid expenses and other assets		**(259)**		(8,257)
Customer deposits		**-**		(2,584)
Accounts payable and accrued liabilities		**17,111**		(145,831)
		(52,912)		(47,194)
Cash flow from investing activities				
Purchase of capital assets		**(15,717)**		(3,486)
Cash flow from financing activities				
Repayment of capital lease obligation		**-**		(827)
Net (repayment) proceeds of long-term debt and notes payable		**(9,721)**		69,583
		(9,721)		68,756
Increase (decrease) in cash		**(78,350)**		18,076
Cash, beginning of period		**116,075**		36,088
Cash, end of period	**$**	**37,725**	$	54,164

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	**$**	**31,298**		27,645
Income taxes	**$**	**-**	$	-

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 Canadian 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 September 30, 2005 the Company has a deficit, to date, of $23,452,675.

Basis of presentation

These unaudited interim consolidated financial statements have been compiled by management in compliance with BC Form 51-901F. They have been prepared using the same accounting policies and methods as the audited financial statements as at June 30, 2005 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)

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 September 30, 2005 and June 30, 2005 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.

Equipment

Equipment is 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 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.

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.

2. Significant Accounting Policies - continued

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 correspond 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 year end 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.

Measurement uncertainty

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 year.

Stock based compensation

The Company has in effect a Stock Option Plan. Stock options awarded are accounted for using the fair value-based method. Fair value is calculated using the Black Scholes model with the assumptions described in note 10. Consideration paid on the exercise of stock options is credited to share capital together with any accumulated contributed surplus.

3. Inventories

	Sept 30 2005	June 30 2005
Raw materials and supplies	**$ 197,135**	$ 152,651
Work in process	**30,568**	20,845
Finished goods	**47,053**	85,639
	$ 274,756	$ 259,135

4. Amounts Receivable

	Sept 30 2005	June 30 2005
Demand promissory notes bearing interest at 9.5% per annum with no fixed maturity dates.	**$ 13,067**	$ 17,000

5. Equipment

	Cost	Accumulated Amortization	Sept 30 2005 Net Book Value	June 30 2005 Net Book Value
Computer software	**$ 34,269**	**$ 34,269**	**$ -**	$ -
Computer equipment	**263,563**	**249,204**	**14,359**	15,523
Office equipment and furniture	**119,931**	**100,741**	**19,190**	28,889
Manufacturing equipment	**1,553,937**	**767,527**	**786,410**	796,609
Leasehold improvements	**61,003**	**27,234**	**33,769**	35,295
	$ 2,032,703	**$ 1,178,975**	**$ 853,728**	$ 876,316

6. 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:

	Sept 30 2005	June 30 2005
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

7. Notes Payable and Other Advances

Interest	Security	Terms	Sept 30 2005	June 30 2005
Nil	Unsecured	No repayment terms	**$ 2,000**	$ 2,000
Prime + 2%	Unsecured	No repayment terms [1]	**51,942**	55,192
6%	Unsecured	On demand	**16,767**	16,767
8%	Unsecured	No repayment terms [2]	**-**	45,930
8.5%	Unsecured	No repayment terms [3]	**46,415**	45,424
12%	Unsecured	No repayment terms [4]	**16,639**	16,639
12%	Unsecured	No repayment terms [3]	**40,000**	-
			$ 173,763	$ 181,962

(1) Payable to Officers of the Company and/or their spouses.

(2) Includes $Nil (June 2005-$41,045) payable to Officers of the Company and/or their spouses which was converted into 328,630 common shares of the Company during the period.

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

(4) Includes $16,639 (June 30, 2005-$16,639) payable to Officers of the Company and/or their spouses.

8. Long-Term Debt

	Sept 30 2005	June 30 2005
Convertible non-interest bearing debentures with a face value of $912,202 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 before December 2, 2005 or one unit for each $0.11 converted thereafter. Each unit consists of one common share and one share purchase warrant that entitles the holder to acquire an additional common share for $0.10 if conversion occurs before December 2, 2005 or for $0.11 otherwise. Warrants expire December 1, 2006. (1)(2)	$ **885,613**	$ 879,898
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 that entitles the holder to acquire an additional common share for $0.10 before December 2, 2005. (2)	**221,265**	219,764
Convertible non-interest bearing debentures with a face value of $72,600 mature December 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)	**72,427**	72,175
Convertible non-interest bearing debentures with a face value of $238,020 mature January 2008. Convertible, in whole or in part, into units of the Company at the rate of one unit for each $0.10 converted before January 28, 2007 or one unit for each $0.11 converted thereafter. Each unit consists of one common share and one share purchase warrant that entitles the holder to acquire an additional common share for $0.10 if conversion occurs before January 28, 2007 or for $0.11 otherwise. Warrants expire on January 27, 2008. (2)	**227,083**	225,898
Sub-total	**$ 1,406,388**	$ 1,397,735

8. Long-Term Debt - continued

	Sept 30 2005	June 30 2005
Balance forward	**$ 1,406,388**	$ 1,397,735
Convertible debentures bearing interest at 10% with a face value of $135,000 mature September 2006. 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 $0.10 converted. The holder also received 1,350,000 share purchase warrants, each of which entitles the holder to acquire an additional common share for $0.10 before August 31, 2006.	**131,484**	130,543
Convertible debentures bearing interest at 8% with a face value of $120,000 mature January 2007. Monthly interest payments are required. Convertible, in whole or in part, into units of the Company at the rate of one common share for each $0.06 converted. Each unit consists of one common share and one share purchase warrant that entitles the holder to acquire an additional common share for $0.10 before January 25, 2007.	**113,956**	112,801
Term loan bearing interest at the TD Canada Trust prime lending rate plus 11%, is secured by a general security agreement, and matures June 30, 2008. Blended monthly principal and interest payments of $10,720 are required. (3)	**287,474**	308,145
Note payable bearing interest at 8.5% with no fixed maturity date. Blended monthly principal and interest payments of $947 are required. (4)	**13,067**	15,592
Term loan bearing interest at 9.5%, is secured by specific equipment and matures April 20, 2009. Blended monthly principal and interest payments of $6,510 are required.	**236,464**	250,160
Term loans bearing interest at 9.5%, are secured by specific equipment and mature June 1, 2009. Blended monthly principal and interest payments of $5,099 are required.	**192,402**	202,962
	2,381,235	2,417,938
Less: Current portion	**632,195**	495,694
	$ 1,749,040	$ 1,922,244

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

2006	$ 632,195
2007	1,218,627
2008	442,128
2009	88,285
	$ 2,381,235

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.

(1) Debentures with a face value of $83,326 are payable to Officers of the Company and/or their spouses
(2) Some or all of these debentures are being converted subsequent to the balance sheet date (note 15).
(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. 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:

2006	$ 102,235
2007	104,121
2008	106,762
2009	108,648
2010	108,648
Thereafter	45,270
	$ 575,684

10. 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 7% cumulative dividends payable monthly and must be repurchased May 2007. These shares can be converted by the holder 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 7% cumulative dividends payable monthly and must be repurchased June 2007. These shares can be converted by the holder 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 due to the fact that the cumulative dividends are at least 12 months in arrears.

(b) Issued

	Number of Shares	Amount
Common shares June 30, 2004	32,731,016	$ 19,527,637
Debentures converted	3,376,250	188,426
Preferred shares converted	7,934,000	530.235
Settlement of dividends payable on preferred shares converted	2,007,280	200,728
Common shares June 30, 2005	46,048,546	20,447,026
Note payable converted	328,362	41,045
Common shares September 30, 2005	46,376,908	20,488,071
Class A special shares September 30, 2005 and June 30, 2005	1,193,442	100,000
Balance September 30, 2005		$ 20,588,071

10. Share Capital - continued

(b) Issued - continued

Preferred Shares	
Balance June 30, 2004	$ 1,471,908
Conversion of 143,000 Series C preferred shares	(167,243)
Conversion of 255,000 Series D preferred shares	(362,992)
	941,673
Less: Current portion	(136,024)
Balance September 30, 2005 and June 30, 2005	$ 805,649

(c) Details of warrants outstanding are as follows:

Number of Warrants	Price/Warrant	Expiry Date
238,743 [(1)]	$0.10	February 23, 2006
1,350,000	$0.10	August 30, 2006
66,875	$0.10	December 1, 2006
1,250,000 [(2)]	$0.10	January 24, 2007
1,177,524	$0.155	April 8, 2007
4,083,142		

During the period no warrants expired or were issued.
[(1)] Directors and/or Officers of the company hold these warrants.
[(2)] A Director of one of the Company's subsidiaries holds these warrants.

(d) Details of options outstanding are as follows:

Common Shares Under Option		Price/Option	Expiry Date
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
100,000	(1)	$0.19	June 14, 2010
50,000		$0.155	July 10, 2010
4,840,500			

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

During the period 45,000 [(1)] options expired, no options were exercised, and 50,000 new options were granted.

10. Share Capital - continued

(e) Stock based compensation:

The fair value of stock options and share purchase warrants granted during the period has been determined using the Black-Scholes model. The fair values attributed to stock options that have not yet vested are amortized on a straight-line basis over the vesting period. The compensation amount related to stock options is included in selling, general and administrative expense and the amount related to warrants is included in financing fees for the period. Both are added to contributed surplus.

	Sept 30 2005	June 30 2005
Compensation expense related to options	**$ 1**	$ 24,546
Compensation expense related to warrants	**$ 1**	$ 57,102

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

	Sept 30 2005	June 30 2005
Dividend yield	NIL	NIL
Risk free interest rate	2.60%	3.07%-3.17%
Expected stock volatility	3.02%	52.78%
Expected life	3 years	2-5 years

11. 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.

James Lalonde

A director of Northern Cross Minerals inc., a subsidiary of the Company.

Description	**Related Party**	**Sept 30 2005**	June 30 2005
Interest expense - long term	Nu-Way	**$ 11,488**	$ 66,456
Interest expense - long term	1114377	**$ 316**	$ 1,775
Interest expense - other	1114377	**$ 1,214**	$ 4,204
Interest expense - long term	James Lalonde	**$ -**	$ 1,085
Interest expense - long term	Directors/Officers	**$ -**	$ -
Interest expense - other	Directors/Officers	**$ 1,971**	$ 13,381

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.

12. Income Taxes

Future Income Taxes

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 2005
Resource related expenditures	$ 4,915,932
Undepreciated capital cost	205,108
Non-capital losses	703,220
Capital losses	1,108,162
Future income tax assets, before valuation allowance	6,932,421
Valuation allowance	(6,932,421)
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	
2007	$ 161,622
2008	369,506
2009	861,518
2010	439,852
2014	114,400
	$ 1,946,898

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.

13. 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.

14. Comparative Figures

Certain comparative figures have been reclassified to conform to the current period’s presentation.

15. Subsequent Events

Subsequent to the date of these financial statements the Company received notice from a number of debenture holders of their desire to convert their debentures in accordance with the terms thereof. The following list provides the details of the debentures being converted and the securities received upon conversion which will occur on dates ranging from November 25, 2005 to November 30, 2005.

Face Value Of Debenture	Maturity Date	Number of Common Shares Issued	Number of Warrants Issued	Expiry Date Of Warrants
$ 770,026	December 2006	7,700,255	7,700,255	Nov 30, 2006
222,292	December 2005	2,222,925	2,222,925	Nov 30, 2005
33,000	December 2005	330,000	Nil	N/A
75,075	January 2008	750,750	750,750	Nov 25, 2007
162,945	January 2008	1,629,450	1,629,450	Nov 30, 2007
$ 1,263,338		12,633,380	12,303,380	

General

The following Management Discussion and Analysis has been prepared to accompany the unaudited interim consolidated financial statements of the Company as at September 30, 2005 and should only be read in conjunction with those financial statements. Both the unaudited interim consolidated financial statements as at September 30, 2005 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 that 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 a single business segment involving the design, development, assembly and sale of printed 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 (1)	Director
Cal Haverstock (1)	Director
Donald G. Nurse (2)	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

Since the Company changed its operating philosophy in 2002 management has remained steadfastly focused on growing the business and improving the Company's financial position. While management believes that each fiscal quarter represents another step forward it also realizes that sometimes the initial appearance may be one of falling back. The three month period ended September 30, 2005 ("Q1 2006") represented a period in which the Company experienced a decline in revenues in comparison to the same period one year earlier but it also prepared itself for future growth through the acquisition and installation of new equipment. As outlined later, the decline in revenue is attributable to the lower individual values of the products assembled and is not symbolic of a decline in business volume. In fact, management continues to prepare for current and future increases in business volumes through the acquisition of new equipment and other initiatives. The equipment recently acquired provides the Company with enhanced capacities and capabilities including the fact that it enables the Company to provide its customers with a lead free assembly process when it is required. Management believes the steps undertaken in this fiscal quarter are both constructive and necessary in preparing for sustained future success.

Corporate Performance - continued

As the Company begins its fourth full fiscal year under its revised operating model there are few financial or operating trends evident. There had been a couple of revenue and profitability trends developing however they were interrupted as the Company has not yet been able to reproduce the revenue amounts achieved during the periods ended September 30, 2004 and December 31, 2004. There had also been some trends developing with respect to the Company's financial position but these too were disrupted. While some new patterns are beginning to emerge management believes that they have not been evident for a sufficient number of operating periods to be considered bona fide trends. In fact, the only trends currently evident from the Company's operating results are the ones where annual revenues are increasing and annual profitability is improving. Management expects these trends to continue and the revenues realized in the recently concluded quarter are consistent with this expectation.

Some financial trends, or the lack thereof, become evident upon review of the following selected financial data:

	For the fiscal years ended:		
	June 05	June 04	June 03
Total Revenues	3,381,478	2,467,019	1,892,850
Net income (loss) from operations	(123,815)	(368,192)	(740,914)
Per share	(0.003)	(0.011)	(0.023)
Net income (loss) for the period	(127,137)	(368,192)	(539,855)
Per share	(0.003)	(0.011)	(0.017)
Total assets	1,729,081	1,122,999	909,464
Total long-term financial liabilities	2,727,893	3,004,960	1,799,300
Total liabilities	4,418,552	4,677,614	4,225,449
Cash dividends* – preferred shares	113,063	150,104	153,092

	For the three month periods ended:				
	Sept. 05	June 05	Mar. 05	Dec. 04	Sept.04
Total Revenues	771,736	710,395	757,113	993,047	920,923
Net income (loss) from operations	(14,208)	(95,805)	(76,099)	46,829	1,260
Per share	(0.000)	(0.002)	(0.002)	0.001	0.000
Net income (loss) for the period	(14,080)	(99,127)	(76,099)	46,829	1,260
Per share	(0.000)	(0.002)	(0.002)	0.001	0.000
Total assets	1,851,848	1,729,081	1,246,675	992,455	1,092,700
Total long-term financial liabilities	2,554,689	2,727,893	2,579,972	2,672,742	2,986,591
Total liabilities	4,515,544	4,418,552	3,908,196	4,518,884	4,657,753
Cash dividends* – preferred shares	35,268	21,038	21,488	35,269	35,268

	For the three month periods ended:			
	June 04	Mar. 04	Dec. 03	Sept.03
Total Revenues	675,915	743,029	570,836	485,131
Net income (loss) from operations	(42,943)	(64,727)	(93,988)	(166,534)
Per share	(0.001)	(0.003)	(0.003)	(0.005)
Net income (loss) for the period	(42,943)	(64,727)	(93,988)	(166,534)
Per share	(0.001)	(0.003)	(0.003)	(0.005)
Total assets	1,122,199	987,857	971,463	853,782
Total long-term financial liabilities	3,004,960	2,709,696	2,836,297	1,675,919
Total liabilities	4,677,614	4,572,383	4,528,964	4,348,482
Cash dividends* – preferred shares	35,812	37,964	38,106	38,492

* Cash dividends are being accrued rather than paid

Results of Operations

As evident from the preceding chart, the total revenues from Q1 2006 exceeded total revenues from Q4 2005. This is another departure from previous trends as during the 2003 and 2004 fiscal years the total revenues realized in the first quarter were the lowest of any of the fiscal quarters and they were also lower than the fourth quarter of the preceding fiscal year. This trend was actually broken during the 2005 fiscal year when Q1 revenues were higher than revenues for each of Q3, Q4 and Q4 of 2004. Based on the results prior to 2004 it was believed that the seasonal nature of the industry segment in which the Company operates triggered a decline in new sales orders during the summer months which then translated into lower than average production volumes in the first fiscal quarter. The Q1 results for each of 2006 and 2005 may suggest that these seasonal tendencies are changing.

For the three months ended September 30, 2005 the Company has reported total revenue of $771,736 with virtually all revenue, as usual, being derived from product sales. For the corresponding period one year earlier the Company had reported total revenue of $920,923 meaning that the Company is reporting a 16.2% decline in the current year. This represents the first time in 12 fiscal quarters that total revenue has not exceeded the total revenue for the corresponding quarter one year earlier. While the disruption of a positive trend is certainly not perceived as a favourable outcome management believes that it does not necessarily signal a truly negative result either. For example this revenue amount of $771,736 is the third highest quarterly total that the Company has reported since it began to streamline its operations during the 2002 fiscal year. Furthermore, these revenues are within management's expectations and are believed to set the stage for total revenue in 2006 to exceed 2005 levels even though the two highest revenue quarters to date each occurred during 2005. At this time it is anticipated that total revenue for the second quarter of 2006 will exceed the Q1 amounts but will still lag behind the results of Q2 2005. Management had cautioned that the approximately 80% growth rate experienced through the first two quarters of 2005 as compared to the same period in 2004 was likely not sustainable. At the same time management also stated their belief that the operating volume achieved in that period was sustainable and could actually be improved upon. Management now believes that the results of Q1 2006 represent the first step towards supporting that assertion.

For the past three years the Company's revenue growth has been attributable to increased business volume and a change in product mix. In this context "product mix" refers to the volume of the Company's business that involves assembly work only as compared to the volume that combines product assembly with component procurement, a combination known in the industry as "turnkey" work. Revenues from product procurement are calculated on a cost-plus basis and therefore this revenue stream is affected by both the volume of components procured and the relative cost of the components procured. These factors enable the revenues from this source to increase during periods of declining volume and decrease during periods of increasing volume. Accordingly, it is difficult to accurately measure the relative volumes of each revenue stream so any references to product mix are a reflection of management's opinions as opposed to amounts to be supported statistically. . In the most recent fiscal quarters management has represented that the rate of change in product mix is slowing and that this will lead to more modest overall revenue growth rates. In arriving at this opinion management has considered all of the factors discussed herein. It should also be noted that comparisons of this nature are naturally more volatile when made over a smaller time frame. This means that it is more probable that fluctuations in revenue attributable to product mix issues will occur in individual fiscal quarters and that they are less likely to occur when comparing the aggregate results of multiple fiscal quarters.

There are a number of factors, including product mix, which can impact on the cost of product sales both in terms of the total value and as a percentage of sales. The cost of product sales for the three month period ended September 30, 2005 is $471,380 representing 61.2% of corresponding revenues. The comparable totals for Q1 of 2005 were $631,872 and 68.8% meaning that gross margins have increased as a percentage of revenues but have declined in overall value.

Results of Operations - continued

When we look a little closer at the major elements of cost of product sales we start to get a clearer picture of what has taken place. For example the cost of direct labour for Q1 2006 was approximately $188,000 and component costs were approximately $197,000. These figures compare to approximately $192,000 and $348,000 respectively for Q1 2005. While there is no absolute correlation between these figures and the total revenue for each period this comparison does allow us to conclude that a larger proportion of revenues in Q1 2005 were attributable to product procurement without a dramatic difference in assembly volumes. This then suggests that the assemblies completed in Q1 2005 utilized components that were procured by the Company on behalf of its customers and had higher average unit costs.

Aside from labour and component costs there are three other general elements that the Company includes in the cost of product sales. These are the costs associated with owning and/or maintaining the production equipment, the cost of freight as well as the cost of supplies and other items consumed in the production process. Total equipment related costs declined in Q1 2006 to $38,000 from $64,000 for Q1 2005. While part of this difference may be attributable to the timing of maintenance expenditures it is also reflective of the recent acquisition of three pieces of equipment resulting in an increase in amortization costs but a decrease in both lease costs and maintenance. The cost of items consumed in the production process rose from approximately $25,000 in Q1 2005 to approximately $43,000 in the current period. Once again this variance can be attributed to the timing of certain recurring expenditures. The final element, freight, is incidental given that it was approximately $7,000 for Q1 2005 and declined to approximately $5,000 for Q1 2006 and this variance has not been investigated.

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 recently concluded fiscal quarter was no exception as compensation amounted to $153,370 or 60.4% while occupancy costs amounted to $67,519 or 26.6%. The corresponding figures for the first quarter of 2005 were $126,963 or 55.4% and $60,055 or 29.1%. Included in the current period compensation figures is $5,993 in stock based compensation for which there was no comparative value recorded in Q1 2005. This represents a theoretical value that Canadian generally accepted accounting principles ("GAAP") requires be attributed to employee and consultant stock options that were either granted during the current period or granted but did not fully vest during prior periods. Even without this stock option value the total compensation expense was higher in Q1 2006 than for Q1 2005 which is reflective of the greater number of sales and administrative personnel the Company requires in order to continue to grow the operations as well as the compensation increases granted to existing personnel. Occupancy costs also rose in Q1 2006 which is a reflection of a 4.5% increase in base rent for the operating facility plus higher utility, realty tax and building maintenance costs. The Company has a lease on its operating facility that continues through February 2011 with only one remaining increase in base rent that will occur February 2008 so these costs, barring any 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 and regulatory fees are transaction based fees and the amount recorded in any given period is reflective of the transactions that have occurred or the amounts accrued on account of annual expenditures such as the cost of the annual financial statement audit. Professional fees for Q1 2006 are approximately $10,000 as compared to approximately $4,000 for Q1 2005. There has been little difference in the actual transactions undertaken and accordingly the primary reason for this disparity is the refinement of the periodic accruals that history now shows were not as reliable in Q1 2005 as they otherwise might have been. The regulatory fees and other costs are reasonably consistent in value for the periods being compared.

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, has been on a declining trend and at an aggregate of $49,262 for Q1 2006 compared to $61,079 for Q1 2005 this trend appears to be continuing. There has been a significant change in the make-up of the total financing costs over recent periods however as interest on long term debts has increased while other interest and dividends have declined. The decline in dividends from approximately $25,000 to approximately $14,000 is the direct result of certain preferred shares having been converted to common shares in January 2005 causing the associated dividends to cease. The reduction in other interest from approximately $23,000 for Q1 2005 to approximately $3,000 in the current period is attributable to the fact that the Company has been able to either pay down or repay certain interest bearing amounts. Aside from cash generated from operations the source of funds for repaying or paying down these interest bearing amounts has been the proceeds of debenture financings. The Company has also financed its recent equipment acquisitions through the use of long term debt financing and the resulting increase in borrowing has triggered a rise in associated interest costs. Accordingly, interest on long term debt rose to approximately $39,000 in the current period as compared to $26,000 in Q1 2005. As noted in previous periods, interest on long term debt includes an amount referred to as accretion. Accretion is a theoretical interest charge required in accordance with Canadian GAAP on account of low interest and/or non-interest bearing debts. Accretion in the current period was approximately $11,000 as compared to approximately $8,000 in Q1 2005.

Liquidity

The Company expects it business volumes and resulting revenue to continue to grow. While growth is a positive result it can also put a strain on an organization's cash flow since the payments that must be made to suppliers, employees and other parties often exceed the cash being collected from customers at that particular point in time. Historically this cash shortfall has been funded through short term and long term borrowing however the Company's cash position allowed for a net repayment of approximately $10,000 in the current period. While the Company is nearing a point where the cash from operations is expected to be sufficient to fund ongoing operations it is still anticipated that additional borrowing will be required to finance capital expenditures and possibly to replace other maturing debt.

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

	Due by Sept 2006	Due by Sept 2008	Due by Sept 2010	Due after Sept 2010	Total Due
Repurchase of preferred shares	160,000	1,205,505	-	-	1,365,505
Convertible debentures [1]	429,882	1,270,222	-	-	1,700,104
Other long-term debt	207,019	434,103	88,285	-	729,407
Operating leases	102,235	210,883	217,296	45,270	575,684
Total	899,136	3,120,713	305,581	45,270	4,370,700

(1) These figures are the face values of the underlying debentures and are therefore different from the amounts reported in the interim financial statements. The company received notice from the holders that debentures having a face value of $1,263,338, of which $255,292 is due by Sept 2006, will be converted on dates ranging from November 25, 2005 to November 30, 2005.

Capital Resources

The Company has not entered into any commitments to acquire any equipment however it is generally acknowledged that the Company will be required to bring in additional equipment in order to continue to grow the business. The Company has access to a credit facility that can be used up to the maximum of 88% of the pre-tax amount of any equipment purchases. Each amount borrowed under this facility will become repayable over a 48 month term and will bear interest at the rate of 9.5% per annum. No portion of this facility was utilized during the current period thereby leaving a maximum of $1,937,926 available to finance future equipment purchases if the need arises.

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 the related parties defined above:

	2005		2004	
	Sept 30	June 30	Sept 30	June 30
Note payable at prime +2%	51,942	55,192	57,692	57,692
Notes payable at 8.0%	-	41,045	44,545	46,545
Note payable at 8.5% (1)	46,415	45,424	42,645	41,744
Note payable at 10.0%	-	-	10,922	10,922
Notes payable at 12.0%	56,639	16,639	33,639	33,639
Note payable at 16.0%	-	-	12,080	12,080
Non-interest bearing 3 year debentures (2)	80,897	80,375	78,826	78,304
Non-interest bearing 2 year debenture (2, 3)	-	-	5,842	5,822
Term loan at prime + 11% (4)	287,474	308,145	363,145	363,145
Long-term note payable at 8.5%	13,067	15,592	22,868	25,186

(1) Interest at 8.5% continues to accrue on this note monthly and is added to the balance of the note
(2) This debenture is subject to accretion and accordingly it is carried on the balance sheet at an amount less than its face value and is adjusted each period by the amount of accretion that is recorded.
(3) This debenture was converted into 59,375 common shares of the Company in January 2005.
(4) As at June 30, 2005 the interest rate was reduced to prime + 11% from prime + 14.3%.

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

	2005		2004	
	Sept 30	June 30	Sept 30	June 30
Interest expense – long term	11,804	69,316	16,910	12,061
Interest expense – other	3,185	17,585	4,967	110,207

Related Party Transactions - continued

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 @ $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
Share purchase warrants @ $0.10 per share	January 2007	1,250,000
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
Stock options @ $0.19 per share	June 2010	100,000

In addition to the options and warrants noted above there were 45,000 stock options held by Officers and/or Directors of the Company that expired in August 2005

Convertible instruments and other securities

As at September 30, 2005 the Company has the following securities issued and outstanding:

Description	Quantity	Amount
Common shares	46,048,546	$ 20,023,194
Paid in capital of preferred shares		423,832
Class A special shares	1,193,442	100,000
		$ 20,547,026
Notes payable converted	328,632	41,045
Share capital as at September 30, 2005		$ 20,588,071

The Company has received notice from the holders of debentures with a face value of $1,263,338 that they will be converted into common shares and, where applicable, share purchase warrants. These conversions are scheduled to occur on dates ranging from November 25, 2005 to November 30, 2005.

Series A preferred shares	166,667	$ 160,000
Series C preferred shares	288,858	505,502
Series D preferred shares	328,640	700,003
		$ 1,365,505
Less: amount accounted for as paid in capital		423,832
Liability element of preferred shares		$ 941,673

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
Debentures convertible at $0.10	December 2005	12,070,943 (1)
Stock options @ $0.89 per share	January 2006	290,500
Share purchase warrants @ $0.10 per share	February 2006	238,743
Share purchase warrants @ $0.10 per share	August 2006	1,350,000
Balance forward to next page		13,950,186

Convertible instruments and other securities - continued

Balance forward from previous page		13,950,186
Debentures convertible at $0.10	September 2006	1,350,000
Stock options @ $0.17 per share	November 2006	100,000
Share purchase warrants @ $0.10 per share	December 2006	66,875
Debentures convertible @ $0.10	January 2007	2,380,200 (2)
Debentures convertible @ $0.06	January 2007	2,000,000
Share purchase warrants @ $0.10 per share	January 2007	1,250,000
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	288,858
Series D preferred shares	June 2007	328,640
Stock options @ $0.10 per share	December 2007	900,000
Share purchase warrants @ $0.155 per share	April 2008	1,177,524
Stock options @ $0.12per share	December 2008	1,100,000
Stock options @ $0.12per share	December 2009	1,200,000
Stock options @ $0.19 per share	June 2010	100,000
Common shares reserved as at September 30, 2005		27,292,283

(1) 10,253,180 of these shares are scheduled to be issued between November 25, 2005 and November 30, 2005 upon completion of the conversion of debentures with a face value of $1,025,318.
(2) 2,380,200 of these shares are scheduled to be issued between November 25, 2005 and November 30, 2005 upon completion of the conversion of debentures with a face value of $238,020.

In the event that certain convertible debentures are converted in accordance with the chart above then the holder 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	9,122,018
Share purchase warrants at $0.10	January 2007	2,000,000
Share purchase warrants at $0.10	January 2008	2,380,200
Common shares reserved as at September 30, 2005		15,725,143

In the event that certain debentures, which may be converted at $0.10 until a specified date are not converted by that date then the holder will become entitled to convert them at $0.11 until maturity. After giving effect to the debenture conversion scheduled to occur on dates ranging from November 25, 2005 to November 30, 2005, the impact of the change in conversion rates on the number of shares reserved for issuance would be as follows:

Total reserved shares noted above		27,292,283
Debentures convertible at $0.10	December 2005	(1,421,763)
Debentures convertible at $0.11	December 2006	1,292,512
		27,163,032

Total reserved shares noted above		15,725,143
Share purchase warrants at $0.10	December 2006	(1,421,763)
Share purchase warrants at $0.11	December 2006	1,292,512
		15,595,892

While some of the stock options, share purchase warrants, and convertible debentures are held by related parties the Company has no ability to cause any of the items noted above to be converted and/or exercised.