ZTEST Electronics Inc.

Unaudited Interim Consolidated Financial Statements

September 30, 2006

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, 2006

	Sept. 30 2006	(Audited) June 30 2006
Assets		
Current Assets		
Cash	**$ 32,490**	$ 213,210
Accounts receivable	**345,313**	360,966
Inventories (Note 3)	**168,798**	159,517
Prepaid expenses and other assets	**31,978**	39,321
Amounts receivable (Note 4)	**-**	120,000
	578,579	893,014
Equipment (Note 5)	**778,936**	817,056
Investments and advances (Note 6)	**4**	4
	$ 1,357,519	$ 1,710,074
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 317,718**	$ 389,354
Dividends payable	**507,774**	486,504
Notes payable and other advances (Note7)	**204,548**	74,898
Current portion of long-term debt (Note 8)	**415,300**	658,740
Preferred shares (Note 10)	**941,673**	941,673
	2,387,013	2,551,169
Long-term debt (Note 8)	**334,751**	396,113
	2,721,764	2,947,282
Deficiency in assets		
Share Capital (Note 10)	**22,204,366**	22,204,366
Contributed surplus	**109,821**	108,228
Equity portion of convertible debentures	**25,463**	27,008
Deficit	**(23,703,895)**	(23,576,810)
	(1,364,245)	(1,237,208)
	$ 1,357,519	$ 1,710,074

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

Approved by the Board:

Signed: *"John Perreault"*

Director

Signed: *"Wojciech Drzazga"*

Director

ZTEST Electronics Inc.

Unaudited Interim Consolidated Statement of Operations and Deficit
For the three month period ended September 30

	2006	2005
Revenue		
Product sales	**$ 608,740**	$ 770,276
Design services	**-**	1,090
Interest and other	**2,256**	370
	610,996	771,376
Expenses		
Cost of product sales and design services	**398,044**	471,380
Selling, general and administrative	**283,891**	254,016
Interest expense - long term (Note 11)	**25,682**	38,767
Dividends on preferred shares	**14,215**	14,215
Interest expense - other (Note 11)	**2,312**	3,440
Foreign exchange	**604**	(3,202)
Amortization of equipment	**6,298**	7,328
	731,026	785,944
Loss from operations	**(120,030)**	(14,208)
Provision for income taxes	**-**	-
Net loss for the period	**(120,030)**	(14,208)
Deficit, beginning of period	**(23,576,810)**	(23,431,412)
Dividends on preferred shares	**(7,055)**	(7,055)
Deficit, end of period	**$ (23,703,895)**	$ (23,452,675)
Net loss per share	**$ (0.0020)**	$ (0.0003)
Weighted average shares outstanding	**61,010,288**	46,134,206

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

		2006		2005
Cash flow from operating activities				
Net loss for the period	$	(120,030)	$	(14,208)
Items not involving cash				
Amortization of capital assets		41,305		38,305
Dividends on preferred shares		14,215		14,215
Stock based compensation		1,593		5,993
Interest accretion		2,685		10,749
Changes in non-cash working capital items:				
Accounts receivable		15,653		(109,197)
Inventories		(9,281)		(15,621)
Prepaid expenses and other assets		7,343		(259)
Accounts payable and accrued liabilities		(71,636)		17,111
		(118,153)		(52,912)
Cash flow from investing activities				
Purchase of capital assets		(3,185)		(15,717)
Cash flow from financing activities				
Net repayment of long-term debt and notes payable		(59,382)		(9,721)
Decrease in cash		(180,720)		(78,350)
Cash, beginning of period		213,210		116,075
Cash, end of period	$	32,490	$	37,725

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	$	25,420		31,298
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, and assembling printed 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, 2006 the Company has a deficit, to date, of $23,703,895 and working capital deficiency of $1,808,434. The Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and its ability to generate positive cash flow from operations.

Basis of consolidation

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, 2006 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, 2006 and June 30, 2006 there were no cash equivalents on hand.

Inventories

Raw materials are valued at the lower of cost and replacement cost. Work in process and finished goods are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method.

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, accounts receivable, amounts receivable, accounts payable and accrued liabilities, dividends payable, and notes payable and other advances 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 that is predicated upon the extent that it is more likely than not that such assets will be realized and losses will be 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 and when collection is reasonably assured.

Earnings (loss) 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 is 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 and warrants. 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 and warrants granted during the period.

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. The fair values attributed to stock that have not yet vested are amortized on a straight-line basis over the vesting period with this amortization being reversed in the event that vesting ceases to be possible. Consideration paid on the exercise of stock options is credited to share capital together with any accumulated contributed surplus.

3. Inventories

	Sept 30 2006	June 30 2006
Raw materials and supplies	**$ 113,956**	$ 109,869
Work in process	**24,095**	13,835
Finished goods	**30,747**	35,813
	$ 168,798	$ 159,517

4. Amounts Receivable

	Sept 30 2006	June 30 2006
Demand promissory note bore interest at 8.0% and was settled through the surrender of the debenture payable (*note 8*) by which it was secured. Monthly interest payments were required.	$ -	$ 120,000

5. Equipment

	Cost	Accumulated Amortization	Sept 30 2006 Net Book Value	June 30 2006 Net Book Value
Computer software	$ 34,269	$ 34,269	$ -	$ -
Computer equipment	267,045	254,256	12,789	13,826
Office equipment and furniture	121,605	104,821	16,784	17,667
Manufacturing equipment	1,636,869	915,175	721,694	756,369
Leasehold improvements	61,003	33,334	27,669	29,194
	$ 2,120,791	$ 1,341,855	$ 778,936	$ 817,056

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 2006	June 30 2006
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 2006		June 30 2006
Prime + 2%	Unsecured	No repayment terms [1]	**$**	**38,942**	$	42,192
6%	Unsecured	On demand		**16,767**		16,767
10%	Unsecured	On demand [2]		**135,000**		-
12%	Unsecured	No repayment terms [1]		**13,839**		15,939
			$	**173,763**	$	74,898

(1) Payable to Officers of the Company and/or their spouses.
(2) Payable to a shareholder that holds in excess of 10% of the issued common shares of the Company. This note was issued in settlement of a debenture that matured (note 8).

8. Long-Term Debt

		Sept 30 2006		June 30 2006
Convertible non-interest bearing debentures with a face value of $142,176 mature December 2006. Convertible, in whole or in part, into units of the Company at the rate of 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 $0.11. [1]	$	**141,566**	$	140,675
Convertible non interest bearing debenture matured December 1, 2005. [2]		**39,600**		39,600
Convertible debenture bearing interest at 10% with a face value of $135,000 matured September 2006. Monthly interest payments were required. This debenture was repaid at maturity through the issuance of a promissory note *(note 7)* [3]		**-**		134,274
Convertible debenture bearing interest at 8% with a face value of $120,000 was repaid September 23, 2006 when a promissory note *(note 4)* issued to the holder became due.		**-**		117,387
Term loan bearing interest at 8.5%, unsecured, and matures June 30, 2009. Blended monthly principal and interest payments of $1,561 are required. [4]		**45,792**		49,450
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 $10,816 are required. [5]		**197,196**		220,906
Term loan bearing interest at 9.5%, secured by specific equipment and matures in April 2009. Blended monthly principal and interest payments of $6,510 are required.		**178,324**		193,379
Term loans bearing interest at 9.5%, are secured by specific equipment and mature in June 2009. Blended monthly principal and interest payments of $5,099 are required.		**147,573**		159,182
		750,051		1,054,853
Less: Current portion		**415,300**		658,740
	$	**334,751**	$	396,113

8. Long-Term Debt - continued

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

2007	$ 415,300
2008	232,902
2009	101,849
	$ 750,051

At the date of issue of a convertible debenture the Company determines the relative amounts to be reported as the liability component and the equity component. The liability portion represents the estimated present value of the associated cash flows determined using an interest rate applicable to non-convertible debt. The equity component, which is included in shareholders' equity, represents the estimated fair value of the conversion right and any share purchase warrants. An amount equal to the equity portion is amortized on a straight-line basis over the term of the debenture. The periodic amortization is called interest accretion and is included as an element of Interest expense – long term. The carrying value of each convertible debenture represents the liability portion plus the cumulative interest accretion. In the event that one of these debentures is converted the amount added to Share capital is equal to the carrying value on the conversion date plus the equity component.

(1) Includes debentures with a face value of $83,326 payable to Officers of the Company and/or their spouses

(2) The debenture has matured but the Company has not yet been able to contact the holder in order to settle the balance due. Until appropriate arrangements can be made the balance payable will remain as an element of the current portion of long term debt.

(3) Payable to a shareholder that holds in excess of 10% of the issued common shares of the Company.

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

(5) Payable to a corporation that is a shareholder of the Company and whose President was a Director of the Company until June 2006.

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:

2007	$ 104,121
2008	106,762
2009	108,648
2010	108,648
2011	45,270
	$ 473,449

10. Share Capital

(a) Authorized

Unlimited Common shares

Unlimited Non voting, non participating Class A special shares redeemable by the Company or the holders, under specific conditions that have not yet been satisfied, 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.

10. Share Capital - continued

(a) Authorized - continued

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 in 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 in 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, 2005	46,048,546	$ 20,447,026
Note payable converted	328,362	41,045
Debentures converted	12,633,380	1,318.212
Private placement	2,000,000	320,000
Less: portion allocated to contributed surplus		(2,717)
Less: transfer fees on the private placement		(19,200)
Common shares September 30, 2006 and June 30, 2006	61,010,288	22,104,366
Class A special shares September 30, 2006 and June 30, 2006	1,193,442	100,000
Balance September 30, 2006 and June 30, 2006		$ 22,204,366
Preferred Shares		
Balance reflected as current liability September 20, 2006 and June 30, 2006		$ 941,673

(c) Details of warrants outstanding are as follows:

Number of Warrants	Price/Warrant	Expiry Date
66,875	$0.10	December 1, 2006
3,719,855	$0.10	December 1, 2006
3,980,400 [1]	$0.10	December 1, 2006
1,250,000 [2]	$0.10	January 24, 2007
1,177,524	$0.155	April 8, 2007
1,613,400	$0.10	November 25, 2007
766,800 [1]	$0.10	November 25, 2007
1,000,000	$0.24	June 29, 2008
13,574,854		

During the period no warrants were issued and 1,350,000 [1] warrants expired.

(1) Held by a shareholder that holds in excess of 10% of the issued common shares of the Company..

(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
100,000 [1][2]	$0.17	November 27, 2006
750,000 [1]	$0.24	February 19, 2007
200,000 [1]	$0.135	April 30, 2007
750,000 [1]	$0.10	December 17, 2007
750,000 [1]	$0.12	December 18, 2008
150,000	$0.12	December 18, 2008

10. Share Capital - continued

(d) Details of options outstanding are as follows: - continued

Common Shares Under Option		Price/Option	Expiry Date
200,000		$0.12	December 22, 2009
800,000	(1)	$0.12	December 22, 2009
50,000		$0.155	July 10, 2010
900,000	(1)	$0.17	June 27, 2011
4,650,000			

(1) Directors and/or Officers of the Company hold these options.
(2) These options expired subsequent to the balance sheet date.

During the period no options were exercised or granted and 800,000 options expired as a consequence of the previous resignation of three of the Company's Directors.

(e) Stock based compensation:

The fair value of stock options and share purchase warrants granted during the current and prior periods have been determined using the Black-Scholes model. The Company has granted options for the purchase of common shares to employees, directors, officers and other service providers. The aggregate number of common shares reserved for issuance under this plan cannot exceed 20% of the aggregate number of common shares of the Company that are issued and outstanding. 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 2006	June 30 2006
Compensation expense related to options	**$ 1,593**	$ 22,018
Compensation expense related to warrants	**$ -**	$ -

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

	Sept 30 2006	June 30 2006
Dividend yield	N/A	NIL
Risk free interest rate	N/A	2.85%-4.51%
Expected stock volatility	N/A	18.72%-40.06%
Expected life	N/A	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 was a Director of the Company until June 2006. Only amounts arising on or before June 30, 2006 are considered related party transactions.

1114377 Ontario Inc. ("1114377")
A shareholder, that is controlled by the spouse of a Director of the Company.

J.T. Risty Limited ("J.T. Risty")
A shareholder that holds in excess of 10% of the issued common shares of the Company.

All 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.

11. Related Party Transactions - continued

Description	Related Party	Sept 30 2006	June 30 2006
Interest expense - long term	Nu-Way	**$ N/A**	$ 41,977
Interest expense - long term	1114377	**$ 1,025**	$ 927
Interest expense - other	1114377	**$ 1,214**	$ 4,868
Interest expense - other	Directors/Officers	**$ 1,281**	$ 6,160
Interest expense – long term	J.T. Risty	**$ 2,626**	$ 13,500
Interest expense – other	J.T. Risty	**$ 777**	$ -

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 2006
Resource related expenditures	$ 4,915,932
Undepreciated capital cost	203,034
Non-capital losses	661,988
Capital losses	1,108,162
Future income tax assets, before valuation allowance	6,889,116
Valuation allowance	(6,889,116)
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	$ 164,542
2008	249,411
2009	861,518
2010	439,852
2014	114,285
2016	3,139
	$ 1,832,747

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. Concentration of Credit Risk

In the period, two of the Company's customers each accounted for over 20% (aggregate 49.1%) of revenue (June 2006 - 41.7%). The loss of either of these customers or significant curtailment of purchases by such customer could have a material adverse affect on the Company's results of operations and financial condition.

14. Segment Disclosure

The Company has one operating segment involving the design, development, and assembly of printed circuit boards and other electronic equipment. All of the Company's assets are located in Canada.

ZTEST Electronics Inc.

Form 51-102F1 - Management's Discussion and Analysis
For The Period Ended September 30, 2006
(Prepared as at November 27, 2006)

General

The following Management Discussion and Analysis has been prepared by the Company's management, without review or comment by the Company's auditors. This document is intended to accompany the unaudited interim consolidated financial statements of the Company as at September 30, 2006 and should only be read in conjunction with those financial statements. Additional information about the Company can be found at www.sedar.com.

Disclosure Controls and Procedures

Management is responsible for the information disclosed in this Management Discussion and Analysis and has in place the appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is, in all material respects, complete and reliable. As of the financial year ended June 30, 2006, an evaluation was carried out under the supervision of, and with the participation of, the Corporation's management, including the Chief Executive Officer and Chief Financial Officer, on the effectiveness of the Corporation's disclosure controls and procedures. As there have been no subsequent changes to these controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as of September 30, 2006 to provide reasonable assurance that material information relating to the Corporation and its consolidated subsidiaries would be made known to them by others within those entities.

Forward-looking Information

This Management's Discussion and Analysis contains forward-looking statements that involve risks and uncertainties, which may cause actual results to differ materially from the statements made. When used in this document, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect" and similar expressions are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to such risks and uncertainties. Many factors could cause our actual results to differ materially from the statements made, including those factors discussed in filings made by us with the Canadian securities regulatory authorities. Should one or more of these risks and uncertainties, such as reduced funding, long sales cycles, currency and interest rate fluctuations, increased competition and general economic and market factors, occur or should assumptions underlying the forward looking financial statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, or expected. We do not intend and do not assume any obligation to update these forward-looking statements. Shareholders are cautioned not to put undue reliance on such forward-looking statements.

The Company

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

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

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

Corporate Performance

The period ended September 30, 2006 was a period during which the Company endured a temporary downturn in assembly volumes. This volume reduction was due, in large part, to the size and timing of the orders being placed by its customers. The reduction is considered to be temporary based upon feedback from customers which is supported by the assembly volumes experienced thus far into the second fiscal quarter. As a result of this drop in volume the Company's total revenues declined by $160,740 or almost 20% in comparison to the revenues realized in the first quarter of the 2006 fiscal year.

If there was absolute correlation between a decline in revenues and the corresponding decline in cost of sales then we would anticipate that the Q1 revenue decline would lead to a reduction of approximately $100,000 in cost of sales. There is not absolute correlation however due to the fact that uncontrollable expenses, such as amortization of equipment, are not affected by assembly volume. This correlation, or the lack thereof, can also be affected by controllable expenses such as labour and this was a contributing factor in this period. Since the decline in volume was believed to be short-term, management opted to retain certain assembly personnel even though they were not being used to their capacity. This decision was made on the basis that the additional cost of retaining them was believed to be less than the cost of training new personnel when the volumes returned to prior levels. The actual reduction realized in cost of sales in comparison to Q1 2006 was $73,336 or 15.6%.

The declines in revenues and cost of sales described above give rise to a decline of $87,404 in gross margins which represents the most significant factor that contributed to an increase in the net loss for the period. The company has reported a net loss of $120,030 for Q1 of 2007 as compared to a net loss of $14,208 in Q1 2006. While the reason for the loss will be discussed in greater detail below suffice it to say that the remainder is due to an increase in the cost of operating a business in today's highly regulated environment.

2007 will be a challenging year for the Company as a significant portion of its debt instruments will mature prior to the fiscal year end. In recognition of this, management has begun speaking with many of its major creditors in an attempt to determine a mutually agreeable way to settle the obligations however no agreements have been reached as yet. Notwithstanding these discussions, the Company has been able to reduce the outstanding loans by over $175,000 during the current period and total liabilities were reduced by $225,518. Since the Company was able to achieve this reduction in debt during a period that operating losses were realized it follows that the operating losses were fully funded through existing assets and that total assets therefore declined by $352,555. While the Company's assets are not depleted it remains evident that deleting the assets at this rate is not a sustainable practice and additional funding will need to be obtained if the operating losses continue.

The following data may provide some insight into the Company's performance and financial position:

	For the fiscal years ended:		
	June 06	June 05	June 04
Total Revenues	2,982,353	3,381,478	2,467,019
Net income (loss) from operations	(116,258)	(123,815)	(368,192)
Per share	(0.002)	(0.003)	(0.011)
Net income (loss) for the period	(117,408)	(127,137)	(368,192)
Per share	(0..002)	(0.003)	(0.011)
Total assets	1,710,074	1,729,081	1,122,999
Total long-term financial liabilities	396,113	2,787,893	3,004,960
Total liabilities	2,947,282	4,418,552	4,677,614
Cash dividends (1) – preferred shares	84,385	113,063	150,104

Corporate Performance - continued

	For the three month periods ended:				
	Sept. 06	June 06	Mar. 06	Dec. 05	Sept. 05
Total Revenues	610,996	720,256	732,511	757,850	771,736
Net income (loss) from operations	(120,030)	(47,044)	(50,863)	(4,143)	(14,208)
Per share	(0.002)	(0.001)	(0.001)	(0.000)	(0.000)
Net income (loss) for the period	(120,030)	(47,044)	(50,863)	(5,293)	(14,208)
Per share	(0.002)	(0.001)	(0.001)	(0.000)	(0.000)
Total assets	1,357,519	1,710,074	1,495,156	1,703,984	1,851,848
Total long-term financial liabilities	334,751	396,113	1,222,460	2,391,435	2,554,689
Total liabilities	2,721,764	2,947,282	2,989,490	3,140,464	4,515,544
Cash dividends [(1)] – preferred shares	21,270	21,038	20,807	21,270	21,270

	For the three month periods ended:				
	June 05	Mar. 05	Dec. 04	Sept. 04	June 04
Total Revenues	710,395	757,113	993,047	920,923	675,915
Net income (loss) from operations	(95,805)	(76,099)	46,829	1,260	(42,943)
Per share	(0.002)	(0.002)	0.001	0.000	(0.001)
Net income (loss) for the period	(99,127)	(76,099)	46,829	1,260	(42,943)
Per share	(0.002)	(0.002)	0.001	0.000	(0.001)
Total assets	1,729,081	1,246,675	992,455	1,092,700	1,122,199
Total long-term financial liabilities	2,727,893	2,579,972	2,672,742	2,986,591	3,004,960
Total liabilities	4,418,552	3,908,196	4,518,884	4,657,753	4,677,614
Cash dividends [(1)] – preferred shares	21,038	21,488	35,269	35,268	35,812

[(1)] Cash dividends are being accrued rather than paid

Results of Operations

Q1 2007 represents the first fiscal quarter since the start of the 2003 fiscal year that a decline in revenues has been attributed to a decline in assembly volumes. The decline was not anticipated, has been determined to be temporary, and can be traced to a delay in orders from certain seasonal clients. These orders have been initiated after the end of Q1 and it is expected that Q2 will reflect more positive results. Although the Company is expecting growth in total revenues for fiscal 2007 it also realizes that there is significant competition from competitors based in China. These competitors can offer lower prices but are unable to compete on the basis of flexibility and timeliness. As a result of these factors some customers have returned after placing orders through these competitors but it is virtually assured that this competition will persist and that growth rates will be modest as a result. Even though revenues have declined in the current period it is noteworthy that approximately 15% of total revenues were derived from customers that placed their initial order with the Company during the past twelve months. This result provides evidence that, even with the challenges posed by this relatively new form of competition, the Company can be successful in soliciting new business. The sales effort will continue to promote the competitive advantages that the Company has while new means by which to minimize the impact of the emerging Chinese market will be sought.

The Company continues to derive virtually all of its revenue from product sales although there was a minor increase in interest revenue attributable to the note receivable that was issued in June 2006 and terminated in September 2006. This note was the vehicle by which the Company caused the early repayment of a interest bearing convertible debenture. The demand for design services has proven to be very limited and no revenues were derived from this source in Q1 2007. The Company will continue to offer product design services to its customers, since it can maintain this capability without incurring incremental costs however, it is no longer anticipated that this will grow into a significant source of revenue.

Results of Operations - continued

The cost of product sales and design services ("cost of sales") for Q1 were $398,044 which is 15.6% lower than the levels experienced in Q1 2006. It should be noted that corresponding revenues declined by 21.1% so gross margins have declined both in value and as a percentage of sales. These results are not indicative of expectations for either the current or future periods and are attributable to the temporary decline in assembly volumes.

The largest elements of cost of sales continue to be the cost of components, the cost of remuneration and the cost of machinery. For Q1 2007 these categories represented 91% of total cost of sales as compared to 89% in Q1 2006. While these elements are always the three largest their relative values change each period based upon product mix and the operating decisions made by management. Component costs were $126,657 in the current quarter representing a 35% decline in comparison to Q1 2006 levels. This suggests that the relative value of turnkey work was less this year than last which would have contributed to the decline in revenues. Remuneration costs for the current period amounted to $198,938 as compared to $187,736 one year ago. It has been documented that, with the exception of the current period, assembly volumes had been on the rise leading to the need for additional personnel. A decision was made to retain these employees during the unexpectedly slow period rather than risk losing them and face the cost of sourcing and training new people when the assembly volumes returned to more expected levels. Amortization expense amounted to $35,007 in the current period as compared to $30,977 for Q1 2006 although the Company incurred $7,227 in additional machinery costs last year with no similar expenditures this year. The machinery costs are a function of the timing and value of equipment purchases and maintenance costs and have little direct correlation with business volumes.

The remaining elements of costs of sales are the stencils, tools and supplies necessary to enable assemblies to be completed and products to be shipped as well as the freight costs incurred to obtain parts and ship completed products. Each of these will continue to be relatively insignificant elements of cost of sales.

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 total SG&A for the current period was $283,891 representing an increase of $29,875 or 11.8% over Q1 2006 levels. The largest individual elements of this category are always employee and consultant compensation and occupancy costs. For the current fiscal year compensation amounted to $164,702 or 58% of the total SG&A while occupancy costs amounted to $71,621 or 25%. The corresponding figures for Q1 2006 were $153,370 or 60% and $68,811 or 27%. As noted in prior periods, the Company has added personnel in accordance with the higher business volumes and the increased sales effort being rendered. These factors plus some increases given to existing personnel account for the $11,332 increase in total remuneration. The Company has no current plans to add new personnel so further increases are not anticipated. It should also be noted that in there is an amount of $1,593 included in the remuneration expense for the current period representing the theoretical value attributed to employee stock options. The comparable amount recorded in Q1 2006 was $5,993 so the actual cash cost of remuneration is actually $15,732 higher in the current period. Occupancy costs have risen by $2,810 or 4% on a year-over-year basis reflecting the increased volume and expense of utilities consumed. 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.

Results of Operations - continued

The remainder of SG&A is comprised of professional fees, regulatory fees and various other costs. Professional fees, which amounted to $20,179 or 7% of SG&A in Q1 2007, are impacted significantly by the amount and nature of financing transactions that the Company undertakes, by the regulatory filings that must be completed, and by the increasing cost of having the annual financial statements audited. There were no significant financing deals undertaken in Q1 2007 however the Company did incur the costs of completing and distributing its year end financial statements and other costs associated with holding its annual general meeting. There were no similar costs incurred in Q1 2006 and accordingly professional fees for that period were much lower at $9,973 or 4% of total SG&A. Regulatory fees, which include fees levied by stock exchanges and by the Company's transfer agent, were $14,680 in the current period or 5% of SG&A as compared to $2,000 and 1% in 2006. This expense is influenced by the same factors as professional fees in the current period so experiencing a comparable increase is expected. All other individual components of SG&A, which aggregated $12,709 or 4% for Q1 2007 and $19,862 or 8% in Q1 2006, are not significant enough to warrant further investigation.

The Company's cost of financing, which is comprised of interest on long-term debt, other interest and dividends on preferred shares decreased by more than 25% in comparison to Q1 2006 levels. This is a continuation of a trend that has existed over the preceding periods and is a reflection of the overall reduction in debt.

Interest on long-term debt in Q1 2007 was $25,682, including $2,685 in accretion, as compared to $38,767 and $10,749 for 2006. Accretion is a non-cash charge required under Canadian generally accepted accounting principles whenever a debt instrument is issued at an interest rate that is considered to be below market rates applicable at the time of issue. As suggested by the significant decline in this type of expense the number and value of this type of debt instrument has declined sharply as a result of the maturation, settlement or their conversion into common shares. The decrease in the cash-cost of long-term interest in the current period is a result of the repayment of these debts in accordance with their repayment terms resulting in a reduction in the amount of interest bearing debt.

Interest on short term items has dropped from $3,440 to $2,312 as a result of the repayment of a number of short term loans. It should be noted however that one new short term note was issued in the current period in settlement of a debenture that matured. Accordingly, it is probable that this interest category will increase in future periods but will be offset by a further reduction in long-term interest.

There has been no change in the number or value of preferred shares outstanding in the past year so the dividend expense is identical in the current period to what it was in Q1 2006. This expense category is unlikely to change dramatically in the next few periods as the shares are due to mature in Q4 2007 and early redemption is unlikely. Notwithstanding this the company is beginning discussions with the holders of the preferred shares in order to find a mutually acceptable means of settling the balance due at maturity along with the dividends that have accrued but have not yet been paid.

Liquidity

At the end of Q1 the Company has reported a working capital deficiency of $1,808,434 which represents an increase of $149,919 since year end when a deficiency of $1,658,515 was reported. The primary contributing factor to this change is the net use of cash in the amount of $118,153 for operating activities which includes the loss from operations and the change in all current assets and accounts payable. Notwithstanding the change for the current period the working capital deficiency can be equated to the current portion of debt instruments which amount to $1,561,521. While management anticipates that it will be successful in negotiating a mutually acceptable settlement of the preferred shares and the loans and debentures that are scheduled to mature within the next twelve months there are no agreements currently in place and therefore liquidity remains a significant concern.

Liquidity - continued

Improved liquidity will come through improved cash flow from operations and the effective management of available cash. The current period represented a setback relative to the trend towards positive cash flows from operations but it is anticipated that this setback, like the decrease in assembly volumes, is temporary. If the net loss for the period is adjusted to eliminate non-cash expenses then we find that operations actually used cash in the amount of $60,232 which compares unfavourably to the positive cash flow from operations realized in each of the past two fiscal years. It is expected that these positive cash flows from operations will return thereby enabling the Company to settle operating liabilities as they come due but it will not provide sufficient cash to deal with the debt instruments. It is likely that new financing, either debt or equity based, will need to occur prior to the maturity of the debentures and/or preferred shares.

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

	Due by Sept. 2007	Due by Sept. 2009	Due by Sept. 2011	Due after Sept. 2011	Total Due
Repurchase of preferred shares	1,365,504	-	-	-	1,365,504
Convertible debentures	181,776	-	-	-	181,776
Other long-term debt	234,134	334,751	-	-	568,885
Operating leases	104,121	215,410	153,918	-	473,449
Total	1,885,535	550,161	153,918	-	2,589,614

Capital Resources

The Company has not entered into any commitments to acquire any equipment however it is likely that the Company will be required to bring in additional equipment in order to continue to grow the business. The Company continues to have access to a credit facility of up to $1,937,926 for use exclusively in relation to the acquisition of equipment. This credit line 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.

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, a corporation that holds more than 10% of the Company's issued common shares, 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. The periods in which the relationship had not yet started or had ceased are marked as N/A:

	2006		2005	
	Sept 30	June 30	Sept 30	June 30
Note payable at prime +2%	51,942	42,192	51,942	55,192
Notes payable at 8.0% (1)	-	-	-	41,045
Note payable at 8.5% (2)	-	-	46,415	45,434
Note payable at 10.0% (4)	135,000	-	N/A	N/A
Notes payable at 12.0%	13,839	15,539	56,639	16,639
2 year debenture at 10.0% (4)	-	134,274	N/A	N/A
Non-interest bearing 3 year debentures (3)	82,969	82,447	80,897	80,375
Term loan at prime + 11% (5)	N/A	220,906	287,474	308,145
Long-term note payable at 8.0% (2)	45,792	49,450	-	-
Long-term note payable at 8.5%	-	-	13,067	15,592

Related Party Transactions - continued

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

	2006		2005	
	Sept 30	June 30	Sept 30	June 30
Interest expense – long term	3,651	56,404	11,804	69,316
Interest expense – other	3,272	11,028	3,185	17,585

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
Share purchase warrants @ $0.10 per share	December 2006	3,980,000
Share purchase warrants @ $0.10 per share	January 2007	1,250,000
Stock options @ $0.24 per share	February 2007	750,000
Stock options @ $0.135 per share	April 2007	200,000
Share purchase warrants @ $0.10 per share	November 2007	766,800
Stock options @ $0.10 per share	December 2007	750,000
Stock options @ $0.12 per share	December 2008	750,000
Stock options @ $0.12 per share	December 2009	800,000
Stock options @ $0.17 per share	June 2011	900,000

(1) During the 2006 fiscal year this loan was settled through the issuance of 328,362 common shares.

(2) Interest at 8.5% accrued on this note monthly and was added to the balance of the note. It was converted to a term loan effective June 30, 2006.

(3) Debentures have a face value of $83,326 but are subject to accretion as described previously. 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.

(4) Debenture has a face value of $135,000 and was issued September 2004. Only the carrying value for the current year is reflected as the holder was not considered a related party prior to the current fiscal year. Upon maturity in September 2005 a 10% demand promissory note was issued in settlement.

(5) The relationship that caused this party to be considered as related ceased in June 2006.

Convertible instruments and other securities

As at September 30, 2006 and June 30, 2006 the Company has the following securities issued and outstanding:

Description	Quantity	Amount
Common shares	61,010,288	$ 21,680,535
Paid in capital of preferred shares		423,831
Class A special shares	1,193,442	100,000
		$ 22,204,366
Series A preferred shares	166,667	160,000
Series C preferred shares	288,858	505,501
Series D preferred shares	328,640	700,003
		1,365,504
Less: amount accounted for as paid in capital		423,831
Liability element of preferred shares		941,673
Less: amount reported as a current liability		(941,673)
Liability element of preferred shares		$ -

Convertible instruments and other securities - continued

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 exercise of options and warrants along with the expiry date associated therewith.

Description	Expiry Date	Number of Common shares
Debentures convertible @ $0.11	December 2006	1,292,511
Share purchase warrants @ $0.10 per share	December 2006	7,767,130
Share purchase warrants @ $0.10 per share	January 2007	1,250,000
Stock options @ $0.24 per share	February 2007	750,000
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
Share purchase warrants @ $0.10 per share	November 2007	2,380,200
Stock options @ $0.10 per share	December 2007	750,000
Share purchase warrants @ $0.155 per share	April 2008	1,177,524
Share purchase warrants @ $0.24 per share	June 2008	1,000,000
Stock options @ $0.12 per share	December 2008	900,000
Stock options @ $0.12 per share	December 2009	1,000,000
Share purchase warrants @ $0.155 per share	July 2010	50,000
Stock options @ $0.17 per share	June 2011	900,000
		20,034,863

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 $0.11	December 2006	1,292,511

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.

Changes in Accounting Policy

The accounting policies followed by the Company are established in accordance with Canadian GAAP and once policies are established they will not, as a matter of policy, be revised unless Canadian GAAP changes. There were no policy changes adopted during the current period or subsequent thereto.