ZTEST Electronics Inc.

Unaudited Interim Consolidated Financial Statements

December 31, 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
December 31, 2006

		Dec. 31 2006		(Audited) June 30 2006
Assets				
Current Assets				
Cash	**$**	**82,134**	$	213,210
Accounts receivable		**391,846**		360,966
Inventories (Note 3)		**155,947**		159,517
Prepaid expenses and other assets		**32,161**		39,321
Amounts receivable (Note 4)		**-**		120,000
		662,088		893,014
Equipment (Note 5)		**695,958**		817,056
Investments and advances (Note 6)		**4**		4
	$	**1,358,050**	$	1,710,074
Liabilities				
Current liabilities				
Customer deposits and deferred revenue	**$**	**1,655**	$	-
Accounts payable and accrued liabilities		**356,099**		389,354
Dividends payable (Note 9)		**255,985**		486,504
Notes payable and other advances (Note 7)		**222,187**		74,898
Current portion of long-term debt (Note 8)		**332,049**		658,740
Current portion of preferred shares (Note 10)		**941,673**		941,673
		2,109,648		2,551,169
Long-term debt (Note 8)		**484,179**		396,113
		2,593,827		2,947,282
Deficiency in assets				
Share capital (Note 10)		**22,204,366**		22,204,366
Contributed surplus (Note 9)		**167,809**		108,228
Equity portion of convertible debentures		**25,463**		27,008
Deficit		**(23,633,415)**		(23,576,810)
		(1,235,777)		(1,237,208)
	$	**1,358,050**	$	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 periods ended December 31

	Three months ended		Six months ended	
	2006	2005	**2006**	2005
Revenue				
Product sales	**$ 936,100**	$ 756,897	**$ 1,544,840**	$ 1,527,173
Design services	**-**	800	**-**	1,890
Interest and other	**-**	153	**2,256**	523
	936,100	757,850	**1,547,096**	1,529,586
Expenses				
Cost of product sales and design services	**537,229**	415,908	**935,273**	887,288
Selling, general and administrative	**329,983**	286,177	**613,874**	540,193
Interest expense - long term (Note 11)	**17,961**	34,717	**43,623**	73,484
Dividends on preferred shares	**14,214**	14,215	**28,429**	28,430
Interest expense - other (Note 11)	**5,439**	3,408	**7,751**	6,848
Foreign exchange	**1,660**	177	**2,264**	(3,025)
Amortization of equipment	**46,482**	7,391	**52,780**	14,719
	952,968	761,993	**1,683,994**	1,547,937
Income (loss) from operations	**(16,868)**	(4,143)	**(136,898)**	(18,351)
Gain on settlement of obligations (Note 9)	**99,710**	-	**99,710**	-
Loss from disposal of equipment	**(5,307)**	(1,150)	**(5,307)-**	(1,150)
Income (loss) before income taxes	**77,535**	(5,293)	**(42,495)**	(19,501)
Provision for income taxes	-	-		-
Net income (loss) for the period	**77,535**	(5,293)	**(42,495)**	(19,501)
Deficit, beginning of period	**(23,703,895)**	(23,452,675)	**(23,576,810)**	(23,431,412)
Dividends on preferred shares	**(7,055)**	(7,055)	**(14,110)**	(14,110)
Deficit, end of period	**$ (23,633,415)**	$ (23,465,023)	**$ (23,633,415)**	$ (23,465,023)
Net income (loss) per share	**$ 0.0013**	$ (0.0001)	**$ (0.0006)**	$ (0.0004)
Weighted average shares outstanding	**61,010,288**	48,473,780	**61,010,288**	50,813,355

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

ZTEST Electronics Inc.

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

	Three months ended **2006**	Three months ended 2005	Six months ended **2006**	Six months ended 2005
Cash flow from operating activities				
Net income (loss) for the period	**$ 77,535**	$ (5,293)	**$ (42,495)**	$ (19,501)
Items not involving cash				
Gain on settlement of obligations	**(99,710)**	-	**(99,710)**	-
Loss on sale of equipment	**5,307**	1,150	**5,307**	1,150
Amortization of equipment	**81,540**	38,369	**122,845**	76,674
Stock option compensation	**8,501**	5,766	**10,094**	11,759
Dividends on preferred shares	**14,214**	14,215	**28,429**	28,430
Interest added to balance of note payable	**-**	1,002	**-**	1,982
Interest accretion	**610**	8,029	**3,295**	18,778
Changes in non-cash working capital items:				
Accounts receivable	**(46,533)**	159,555	**(30,880)**	50,358
Inventories	**12,851**	35,391	**3,570**	19,770
Prepaid expenses and other assets	**(183)**	3,570	**7,160**	3,311
Amounts receivable	**-**	13,067	**-**	13,067
Customer deposits and deferred revenue	**1,655**	53,586	**1,655**	53,586
Accounts payable and accrued liabilities	**38,381**	(122,961)	**(33,255)**	(105,850)
	94,168	205,446	**(23,985)**	153,514
Cash flow from investing activities				
Purchase of equipment	**(3,869)**	(1,674)	**(7,054)**	(17,391)
Cash flow from financing activities				
Net (repayment) proceeds of long-term debt and notes payable	**(40,655)**	(92,128)	**(100,037)**	(102,839)
Increase (decrease) in cash	**49,644**	111,634	**(131,076)**	33,284
Cash, beginning of period	**32,490**	37,725	**213,210**	116,075
Cash, end of period	**$ 82,134**	$ 149,359	**$ 82,134**	$ 149,359

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	**$ 22,893**	29,169	**$ 48,313**	$ 59,793
Cash paid for 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 December 31, 2006 the Company has a deficit, to date, of $23,633,415 and working capital deficiency of $1,447,560. The Company's continuance as a going concern is dependent upon its ability to generate positive cash flow from operations or obtain adequate financing.

Basis of presentation

These unaudited interim consolidated financial statements have been compiled by management 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 December 31, 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 used in the year of acquisition:

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 amounts of cash, accounts receivable, amounts receivable, accounts payable and accrued liabilities, dividends payable, and notes payable and other advances approximate their fair values 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 per share

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

Foreign exchange

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

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. Consideration paid on the exercise of stock options is credited to share capital together with any accumulated contributed surplus.

3. Inventories

	Dec 31 2006	June 30 2006
Raw materials	**$ 110,926**	$ 109,869
Work in process	**26,036**	13,835
Finished goods	**18,985**	35,813
	$ 155,947	$ 159,517

4. Amounts Receivable

	Dec 31 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

			Dec31 2006	June 30 2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	$ 156,984	$ 144,832	$ 12,152	$ 13,826
Office equipment and furniture	68,141	53,509	14,632	17,667
Manufacturing equipment	1,570,069	927,038	643,031	756,369
Leasehold improvements	61,003	34,860	26,143	29,194
	$ 1,856,197	$ 1,160,239	$ 695,958	$ 817,056

During the period the Company reduced to $Nil the net book value of certain equipment that had been previously removed from service. As a result of this write-down there was a one-time charge to depreciation in the amount of $40,096.

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:

	Dec 31 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	Dec 31 2006	June 30 2006
Prime + 2%	Unsecured	No repayment terms [1]	**35,692**	42,192
6%	Unsecured	On demand	**16,767**	16,767
10%	Unsecured	On demand [2]	**135,000**	-
12%	Unsecured	No repayment terms [3]	**22,989**	-
12%	Unsecured	No repayment terms [1]	**11,739**	15,939
			$ 222,187	$ 74,898

(1) Payable to Officers of the Company and/or their spouses.
(2) Payable to a company that holds in excess of 10% of the issued common shares of the Company. (Note 8)
(3) Payable to a corporate shareholder that is controlled by the spouse of a Director of the Company

8. Long-Term Debt

	Dec 31 2006	June 30 2006
Non interest bearing debenture matured December 1, 2005. [2]	**$ 39,600**	**$** 39,600
Convertible non-interest bearing debentures with a face value of $142,176 matured December 2006. [1]	**-**	140,675
Term loans bearing interest at 8.0%, unsecured, and mature November 30, 2010. Blended monthly principal and interest payments of $3,471 are required. [1]	**139,653**	-
Term loan bearing interest at 9.5%, unsecured, and matures March 2012 Blended monthly principal and interest payments of $2,505 are required. (Note 9)	**123,861**	**-**
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]	**42,056**	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]	**172,463**	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.	**162,908**	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.	**135,687**	159,182
Convertible debenture bearing interest at 10% with a face value of $135,000 matured September 2006 and was settled through issuance of a promissory note (Note 7). Monthly interest payments were required. [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
	816,228	1,054,853
Less: Current portion	**332,049**	658,740
	$ 484,179	$ 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	$ 332,049
2008	262,207
2009	124,608
2010	62,073
2011	27,895
thereafter	7,396
	$ 816,228

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 that were settled through the issuance of a term loan. As at the balance sheet date a balance of $81,848 remains payable under this term loan.

(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 corporate shareholder that is controlled by the spouse of a Director of the Company.

(5) Payable to a corporate shareholder 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	107,894
2009	108,648
2010	108,648
2011	18,108
	$ 447,419

Settlement of Obligations

During the period the Company entered into a two-part agreement with the holder of the Series D convertible preferred shares (the "stakeholder"). The first part, which was completed during the period, required the Company to assign a $123,861 unsecured promissory note payable by Permatech Electronics Corporation in settlement of dividends payable in the amount of $273,058. The promissory note bears interest at 9.5% and is repayable over a sixty three month period. The difference between the carrying value of the dividends payable and the face value of the term loan resulted in the recognition of a gain in the amount of $99,710 plus an increase in contributed surplus in the amount of $49,487.

9. Commitments - continued

Settlement of Obligations - continued

The final part of this agreement requires the Company to assign a $326,139 unsecured promissory note payable by Permatech Electronics Corporation in settlement of the $700,003 otherwise due for the mandatory redemption of the Series D preferred shares plus the remaining accrued and unpaid dividends thereon in the amount of $20,406. The promissory note bears interest at 9.5% and is repayable over a fifty eight month period. In addition, the stakeholder will surrender 500,000 common shares of the Company for cancellation, representing 100% of the common shares that it holds. The stakeholder has also agreed to combine this new promissory note with the balance of the promissory note assigned in the first part, to create a 6.5% 55-month term loan that will be secured by a general security agreement covering all of the assets of Permatech Electronics Corporation. This part of the agreement will be completed provided that certain conditions are satisfied and that all necessary regulatory approvals, if any, are obtained. Since all of these conditions have not yet been satisfied and the regulatory approvals cannot yet be either obtained or shown not to be necessary this element of the agreement has not been accounted for in these financial statements. Provided this transaction proceeds then in June 2006 the following amounts will be recorded:

Dividends payable	$ 20,942
Current portion of preferred shares	467,820
Paid in capital included in share capital	232,183
Carrying value of amounts settled	720,945
Promissory note assigned	326,139
Excess carrying value of amounts settled	$ 394,806
Gain on settlement of obligations	$ 263,853
Contributed surplus	130,953
Excess carrying value of amounts settled	$ 394,806

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

Series B 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 (Note 9).

[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.

10. Share Capital - continued

(b) Issued

	Number of Shares	Amount
Common shares December 31, 2006 and June 30, 2006	61,010,288	$ 22,104,366
Class A special shares December 31, 2006 and June 30, 2006	1,193,442	100,000
Balance December 31, 2006 and June 30, 2006		$ 22,204,366
Preferred Shares		
Balance reflected as current liability December 31, 2006 and June 30, 2006		$ 941,673

(c) Details of warrants outstanding are as follows:

Number of Warrants	Price/Warrant	Expiry Date
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
5,807,724		

During the period no warrants were issued and 9,117,130 warrants expired including 5,330,400 [(1)] held by a related party.

(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 which expired subsequent to the balance sheet date

(d) Details of options outstanding are as follows:

Common Shares Under Option	Price/Option	Expiry Date
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
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
4,550,000		

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

During the period no options were exercised or granted and 900,000 options held by Directors and former Directors expired. An additional 750.000 options held by Directors and/or officers of the Company expired subsequent to the balance sheet date.

10. Share Capital - continued

(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.

		Dec 31 2006		June 30 2006
Compensation expense related to options	**$**	**10,094**	$	22,018
Compensation expense related to warrants	**$**	**-**	$	-

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

	Dec 31 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 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.

Description	**Related Party**		**Dec 31 2006**		June 30 2006
Interest expense - long term	Nu-Way	**$**	**N/A**	$	41,977
Interest expense - long term	1114377	**$**	**1,972**	$	927
Interest expense - other	1114377	**$**	**632**	$	4,868
Interest expense - long term	Directors/Officers	**$**	**556**	$	-
Interest expense - other	Directors/Officers	**$**	**2,433**	$	6,160
Interest expense – long term	J.T. Risty	**$**	**2,626**	$	13,500
Interest expense – other	J.T. Risty	**$**	**4,179**	$	-

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 44.6%) 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.

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 December 31, 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 December 31, 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

During the fiscal quarter ended December 31, 2006 the Company realized some revenue growth and achieved a reversal of the temporary downturn in assembly volumes that had been experienced in the immediately preceding quarter. The volume reduction experienced in Q1 2007 was attributed to the size and timing of the orders being placed by the Company's customers. It was reported as being temporary in nature as the Company fully anticipated receiving the orders albeit at a time later than originally anticipated. The results for the current period reflect that a significant portion of this timing issue has corrected itself since total revenues are $178,250 or 23% higher than the revenues reported for Q2 2006. This increase realized in the current period was also sufficient to offset the 20% reduction experienced in Q1 2007 and, in fact, the cumulative figures for the six months ended December 2006 are 1% higher than for the same period one year earlier.

This increase in revenues is not entirely attributable to the timing issue referred to above however as the Company is also experiencing an increase in the revenue derived from turnkey projects, being the projects where the Company offers component procurement services in addition to product assembly. This represents a deviation from a trend that has seen revenues from this source generally declining since the 2005 fiscal year. It is too early to determine whether this deviation represents the start of a new trend or is an anomaly however the Company continues to promote this as a cost effective alternative for its customers.

During the current period the Company completed a comprehensive review of all of its equipment. This was done in order to ensure that the carrying value of each item was reflective of its value-in-use in accordance with the Company's current operational model. Previously, the Company had carried and continued to amortize certain equipment that has been retained in order to allow it to service products that it had manufactured in prior years, when circuit board assembly was not the primary operational focus. Since the Company has not experienced any tangible need to reactivate this equipment it was decided that, despite retaining it, its carrying value should be reduced to $NIL. This has resulted in an additional amortization expense of $40,096 in the current period. The Company also discarded certain equipment that had no salvage value resulting in a loss on disposal of $5,307.

During the period the Company also concluded discussions with the holder of the series D preferred shares that are scheduled to mature June 1, 2007. The redemption price for these shares is $700,003 and, as at the redemption date, there would have been $294,001 in dividends earned on these shares that had been accrued and not yet paid. Both the Company and the holder were desirous of reaching an agreement as to how this obligation could be settled and, although regulatory approval for early settlement could not be obtained, an agreement in principle has been reached. This agreement, which is based upon the completion of two distinct transactions, contemplates the settlement of these obligations aggregating $994,004 for total consideration of $450,000. The first transaction was completed December 31, 2006 and resulted in the recognition of a gain on settlement of $99,710 and an increase of $49,487 in contributed surplus, an element of shareholders' equity.

The Company has reported a net loss from operations for Q2 2007 of $16,868. This figure includes the amortization adjustment of $40,096 described above and had this not been recognized then there would have been a net income from operations of $23,228. This normalized figure is more directly comparable to the net loss from operations of $4,143 reported in Q2 2006. The other items described in the preceding paragraph have resulted in the recognition of a net income for the period of $77,535 which compares very favourably to the net loss of $5,293 reported for Q2 2006. Despite these encouraging results for the current fiscal quarter and the net gain that was realized the company has not yet recouped the losses that were realized in the first fiscal quarter.

Management is encouraged with the recent operating results and the willingness of its creditors, as demonstrated by the holder of the series D shares, to negotiate manageable settlements. These factors give cause for cautious optimism as the Company continues to strive for sustained profitability and a more stable financial outlook.

Corporate Performance - continued

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

	For the three month periods ended:				
	Dec. 06	Sept. 06	June 06	Mar. 06	Dec. 05
Total Revenues	936,100	610,996	720,256	732,511	757,850
Net income (loss) from operations	(16,868)	(120,030)	(47,044)	(50,863)	(4,143)
Per share	(0.000)	(0.002)	(0.001)	(0.001)	(0.000)
Net income (loss) for the period	77,535	(120,030)	(47,044)	(50,863)	(5,293)
Per share	0.001	(0.002)	(0.001)	(0.001)	(0.000)
Total assets	1,358,050	1,357,519	1,710,074	1,495,156	1,703,984
Total long-term financial liabilities	484,179	334,751	396,113	1,222,460	2,391,435
Total liabilities	2,593,827	2,721,764	2,947,282	2,989,490	3,140,464
Cash dividends [(1)] – preferred shares	21,269	21,270	21,038	20,807	21,270

	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	(14,208)	(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 [(1)] – preferred shares	21,270	21,038	21,488	35,269	35,268

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

Results of Operations

Q2 2007 has provided significant signs of encouragement for the Company as revenues were strong, turnkey projects are increasing, and the majority of revenues for the period were derived from returning customers. Total revenues for the current period are the highest that the Company has realized since the December 2004 period and preliminary results for Q3 suggest that revenues will continue at or near this level, at least in the short term. During the current period the revenues generated were approximately 95% from returning customers. Management recognizes that the key to being successful in a competitive market is to retain your existing customers and to then go out and seek new ones. The fact that revenues are growing as a result of orders from the existing client base is believed to be an endorsement of the Company's ability to deliver quality products in a timely manner. These criteria are critical to the continued retention of existing customers and being able to promote to new clientele. Approximately 5% of revenue for the current period, and 9% on a year-to-date basis has come from customers that are considered new because they placed their initial orders within the last year. As the Company continues to perform well it is believed that growth will occur even with the emerging competition from the Asian market.

Results of Operations - continued

The cost of product sales and design services ("cost of sales") for Q2 were $537,229 or 57.4% of revenues as compared to $415,908 and 54.9% of revenues in Q2 2006. This increase of $121,321 in cost of sales comes when revenues from product sales and design services have increased by $178,403 to result in a gross margin of $57,082.

The largest elements of cost of sales continue to be the cost of components, the cost of remuneration and the cost of machinery. For Q2 2007 these categories once again represented 91% of total cost of sales, just as they did in Q1 2007, while they aggregated 92% in Q2 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 $157,029 in the current quarter which is 52% higher than the $102,893 reported for Q2 2006 and supports that turnkey volumes are increasing. It is noteworthy however that material costs recorded in the December 2004 fiscal quarter, the last time that revenues exceeded $900,000, were $347,906 so turnkey volumes still have not returned to the levels enjoyed previously. Remuneration costs for the current period amounted to $287,252 as compared to $247,057 one year ago representing a 16% increase. An increase of this magnitude are both expected and considered acceptable given that revenues increased by 24%. The difference in these growth rates is attributable to the proportionate increase in turnkey work and to efficiencies realized. Amortization expense and repairs and maintenance amounted to $44,634 in the current period as compared to $31,869 for Q2 2006. These costs are a function of the timing and value of equipment purchases and maintenance costs and have little direct correlation with business volumes. The Company has acquired new equipment in previous periods which has added to the amortization expense and also incurred higher than usual maintenance costs in the current period.

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 $329,983 representing an increase of $43,806 or 15% over Q2 2006 levels. Much of this increase is attributable to a bad debt incurred in the current period amounting to $21,694. The Company has no history of incurring bad debts and there is no expectation that this is anything other than an isolated incident. The largest individual elements of this category are always employee and consultant compensation and occupancy costs. For the current fiscal year compensation amounted to $195,969 or 59% of the total SG&A while occupancy costs amounted to $73,481 or 22%. The corresponding figures for Q2 2006 were $164,460 or 57% and $69,467 or 24%. The cost of personnel continues to rise as the Company adds people to keep up with the increased operating volumes and increases are given to existing employees based upon market conditions. It should also be noted that in there is an amount of $8,501 included in the remuneration expense for the current period representing the theoretical value attributed to employee stock options. The comparable amount recorded in Q2 2006 was $5,766 so $2,735 of the increase is attributable to non-cash expenses. Occupancy costs have risen by $4,014 or 6% on a year-over-year basis primarily as a consequence of 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 $10,788 or 3% of SG&A in Q2 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 transactions of this nature undertaken in Q2 2007. In Q2 2006 the Company dealt with the conversion of a number of debentures and accordingly professional fees for that period were much higher at $21,857 or 8% of total SG&A. Regulatory fees, which include fees levied by stock exchanges and by the Company's transfer agent, were $1,835 in the current period or 1% of SG&A as compared to $5,838 and 2% in 2006. This expense is influenced by the same factors as professional fees in the current period so experiencing a comparable decrease is expected. All other individual components of SG&A, which aggregated $26,216 or 8% for Q2 2007 and $24,555 or 9% in Q2 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 Q2 2007 was $17,961, including $610 in accretion, as compared to $34,717 and $8,029 for 2006. All of the debentures giving rise to interest accretion have been either converted or have matured so no further interest accretion expense is anticipated. The decrease in the interest on long-term debt is a reflection of the general trend towards lower debt balances although it should be noted that additional debt instruments are likely to be issued as a means of addressing other maturing obligations

Interest on short term items has increased from $3,408 to $5,439 as a result of the increase in short term borrowing. The company issued a promissory note in settlement of a debenture payable and this note is the prime reason why this interest category is on the rise.

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 Q2 2006. This expense category is unlikely to change significantly until the shares mature in Q4 2007.

Liquidity

As at December 31, 2006 the Company has reported a working capital deficiency of $1,447,560 which represents an improvement of $360,874 in the current period and $210,955 on a year-to-date basis. In recent periods one of the primary contributors to the change in the working capital deficiency was the amount of cash generated by or used in operations. The current period is no exception to this trend as operations generated positive cash flow of $94,168 during the quarter. Other major factors were the elimination of dividends payable in the amount of $273,058 and replacing it with a term debt of which only $19,105 is due in the next 12 months. This transaction therefore resulted in a $253,953 reduction in current liabilities and a corresponding improvement in the working capital deficiency. While the operations are generating positive cash flow such that the amounts generated allow the Company to meet supplier demands and to make scheduled loan payments it is the negotiated settlement of the Company's other obligations that pose the greatest difficulty for the Company over the next few months.

Liquidity - continued

Improved liquidity will come through improved cash flow from operations, negotiated settlement of obligations as they become due, and the effective management of available cash. With the exception of Q1 2007 the Company has reflected a trend towards positive cash flow from operations. Since the determination of cash flow from operations incorporates the changes in working capital elements such as accounts receivable and accounts payable it means that the Company is being successful in meeting the obligations that are arising from operations. Although this is clearly beneficial, the positive cash flow from operations is not sufficient to repay the debt instruments as they become due. 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 satisfying the cost of operations the Company must also address the payment or other settlement of the following amounts:

	Due by Dec. 2007	Due by Dec. 2009	Due by Dec. 2011	Due after Dec. 2011	Total Due
Repurchase of preferred shares	1,365,504	-	-	-	1,365,504
Debentures	39,600	-	-	-	39,600
Other long-term debt	292,449	386,815	89,968	7,396	776,628
Operating leases	104,121	216,542	126,756	-	447,419
Total	1,801,674	603,357	216,724	7,396	2,629,151

During the current period the Company entered into a two part agreement with the holder of the Series D preferred shares ("Holder"). These shares have a redemption value of $700,003 which will become due on June 1, 2007. These shares have also been entitled to a dividend at the rate of 7% per annum which has been accruing but has not been paid. The aggregate value of the dividends earned over the life of the shares was $294,001 bringing the total obligation to $994,004 that would be payable to Holder at the time of maturity. The consideration that the Holder accepted, under certain conditions, in settlement of this liability was the assignment of two promissory notes otherwise payable by the subsidiary, Permatech Electronics Corporation, to the parent company ZTEST Electronics Inc. in the aggregate amount of $450,000.

At the time that the preferred shares were issued, Canadian GAAP required that the proceeds of &700,003 be split so that $232,183 was added to share capital while $467,820 was reported as a liability. The dividends attributed to the liability portion of the proceeds were accounted for as an expense while the remaining dividends were charged directly to equity. The $544,004 difference between the carrying value of the obligations and the value of the promissory notes assigned will be pro-rated with an amount taken into income based upon the combination of the liability portion of the proceeds and the corresponding dividends while an amount will be added to contributed surplus based upon the portion of the proceeds that were added to share capital and the dividends charged to equity.

The first part of the agreement resulted in the settlement December 31, 2006 of the $273,058 in dividends that had been accrued to that date, through the assignment of a promissory note in the amount of $123,861. This resulted in the recognition of a gain of $99,710 and $49,487 being added to Contributed surplus. The second part will be completed, subject to meeting certain conditions, on June 1, 2007 and will require the assignment of a $326,139 promissory note in settlement of obligations carried at $720,942. This will result in the recognition of a gain in the amount of $263,853 plus the addition of $130,953 to Contributed surplus.

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	
	Dec 30	June 30	Dec 30	June 30
Note payable at prime +2%	35,692	42,192	48,692	55,192
Notes payable at 8.0%	-	-	-	41,045
Note payable at 8.5%	-	-	47,416	45,434
Note payable at 10.0% (1)	135,000	-	N/A	N/A
Notes payable at 12.0%	34,728	15,539	16,639	16,639
2 year debenture at 10.0% (1)	-	134,274	132,424	N/A
Non-interest bearing 3 year debentures (2)	-	82,447	81,420	80,375
Term loan at prime + 11% (3)	N/A	220,906	266,004	308,145
Long-term note payable at 8.0% (2)	81,848	-	-	-
Long-term note payable at 8.0%	42,056	49,450	-	-
Long-term note payable at 8.5%	-	-	10,486	15,592

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

	2006		2005	
	Dec. 31	June 30	Dec. 31	June 30
Interest expense – long term	5,154	56,404	22,755	69,316
Interest expense – other	7,244	11,028	6,335	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
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) Debenture had a face value of $135,000 and was issued September 2004 however the holder was not considered a related party until November 2005 so any balances existing prior to this date are not shown. Upon maturity in September 2006 a 10% demand promissory note was issued in settlement.

(2) Debentures have a face value of $83,326 but were subject to accretion as described previously. They were carried on the balance sheet at an amount less than their face value and were adjusted each period by the amount of accretion recorded. They were settled during the current period through the issuance of an 8% term loan.

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

Convertible instruments and other securities

As at December 31, 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 [(1)]	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		$ -

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
Stock options @ $0.135 per share	April 2007	200,000
Series C preferred shares	May 2007	168,500
Series D preferred shares [(1)]	June 2007	200,000
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
Stock options @ $0.155 per share	July 2010	50,000
Stock options @ $0.17 per share	June 2011	900,000
		8,726,224

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.

(1) The Company has an agreement in principle with the holder of these shares that, if completed, will result in their redemption and eliminate the possibility of conversion.

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.