ZTEST Electronics Inc.

Unaudited Interim Consolidated Financial Statements

March 31, 2007

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
March 31, 2007

	Mar. 31 2007	(Audited) June 30 2006
Assets		
Current Assets		
Cash	**$ 56,489**	$ 213,210
Accounts receivable	**542,498**	360,966
Inventories (Note 3)	**197,386**	159,517
Prepaid expenses and other assets	**32,161**	39,321
Amounts receivable (Note 4)	**-**	120,000
	828,534	893,014
Equipment (Note 5)	**658,476**	817,056
Investments and advances (Note 6)	**4**	4
	$ 1,487,014	$ 1,710,074
Liabilities		
Current liabilities		
Customer deposits and deferred revenue	**$ 92**	$ -
Accounts payable and accrued liabilities	**432,579**	389,354
Dividends payable (Note 9)	**277,486**	486,504
Notes payable and other advances (Note 7)	**285,070**	74,898
Current portion of long-term debt (Note 8)	**340,540**	658,740
Current portion of preferred shares (Note 10)	**941,673**	941,673
	2,277,440	2,551,169
Long-term debt (Note 8)	**405,839**	396,113
	2,683,279	2,947,282
Deficiency in assets		
Share capital (Note 10)	**22,204,366**	22,204,366
Contributed surplus (Note 9)	**171,776**	108,228
Equity portion of convertible debentures	**25,463**	27,008
Deficit	**(23,597,870)**	(23,576,810)
	(1,196,265)	(1,237,208)
	$ 1,487,014	$ 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 March 31

	Three months ended 2007	Three months ended 2006	Nine months ended 2007	Nine months ended 2006
Revenue				
Product sales	**$ 931,847**	$ 730,407	**$ 2,476,687**	$ 2,257,580
Design services	**-**	-	**-**	1,890
Interest and other	**2,138**	2,104	**4,394**	2,627
	933,985	732,511	**2,481,081**	2,262,097
Expenses				
Cost of product sales and design services	**549,244**	500,626	**1,484,517**	1,387,914
Selling, general and administrative	**305,873**	230,416	**919,747**	770,609
Interest expense - long term (Note 11)	**20,216**	28,495	**63,839**	101,979
Dividends on preferred shares	**14,370**	13,906	**42,799**	42,336
Interest expense - other (Note 11)	**5,409**	2,579	**13,160**	9,427
Foreign exchange	**11**	234	**2,275**	(2,791)
Amortization of equipment	**4,570**	7,118	**57,350**	21,387
	899,693	783,374	**2,583,687**	2,331,311
Income (loss) from operations	**34,292**	(50,863)	**(102,606)**	(69,214)
Gain on settlement of obligations (Note 9)	**8,384**	-	**108,094**	-
Loss from disposal of equipment	**-**	-	**(5,307)**	(1,150)
Income (loss) before income taxes	**42,676**	(50,863)	**181**	(70,364)
Provision for income taxes	-	-	-	-
Net income (loss) for the period	**42,676**	(50,863)	**181**	(70,364)
Deficit, beginning of period	**(23,633,415)**	(23,465,023)	**(23,576,810)**	(23,431,412)
Dividends on preferred shares	**(7,131)**	(6,901)	**(21,241)**	(21,011)
Deficit, end of period	**$ (23,597,870)**	$ (23,522,787)	**$ (23,597,870)**	$ (23,522,787)
Net income (loss) per share	**$ 0.0007**	$ (0.0009)	**$ 0.0000**	$ (0.0014)
Weighted average shares outstanding	**61,010,288**	59,010,288	**61,010,288**	51,934,676

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

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

	Three months ended 2007	Three months ended 2006	Nine months ended 2007	Nine months ended 2006
Cash flow from operating activities				
Net income (loss) for the period	$ **42,676**	$ (50,863)	$ **181**	$ (70,364)
Items not involving cash				
Gain on settlement of obligations	**(8,383)**	-	**(108,093)**	-
Loss on sale of equipment	**-**	-	**5,307**	1,150
Amortization of equipment	**39,628**	38,404	**162,473**	115,078
Stock option compensation	**3,967**	(90)	**14,061**	11,669
Dividends on preferred shares	**14,370**	13,906	**42,799**	42,336
Interest added to balance of note payable	**-**	1,001	**-**	2,983
Interest accretion	**-**	2,922	**3,295**	21,700
Changes in non-cash working capital items:				
Accounts receivable	**(150,652)**	35,647	**(181,532)**	86,005
Inventories	**(41,439)**	91,407	**(37,869)**	111,177
Prepaid expenses and other assets	**-**	79	**7,160**	3,390
Amounts receivable	**-**	-	**-**	13,067
Customer deposits and deferred revenue	**(1,563)**	(43,077)	**92**	10,509
Accounts payable and accrued liabilities	**76,480**	(24,049)	**43,225**	(81,801)
	(24,916)	113,385	**(48,901)**	266,899
Cash flow from investing activities				
Purchase of equipment	**(2,147)**	(12,341)	**(9,201)**	(29,732)
Cash flow from financing activities				
Net proceeds (repayment) of long-term debt and notes payable	**1,418**	(55,422)	**(98,619)**	(158,261)
(Decrease) increase in cash	**(25,645)**	45,622	**(156,721)**	78,906
Cash, beginning of period	**82,134**	149,359	**213,210**	116,075
Cash, end of period	$ **56,489**	$ 194,981	$ **56,489**	$ 194,981

Supplemental Disclosure of Cash Flow Information

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

	Three months ended 2007	Three months ended 2006	Nine months ended 2007	Nine months ended 2006
Cash paid for interest	$ **25,735**	27,220	$ **74,048**	$ 87,013
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 March 31, 2007 the Company has a deficit, to date, of $23,597,870 and working capital deficiency of $1,448,906. 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 March 31, 2007 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

	Mar. 31 2007	June 30 2006
Raw materials	**$ 146,862**	$ 109,869
Work in process	**15,324**	13,835
Finished goods	**35,200**	35,813
	$ 197,386	$ 159,517

4. Amounts Receivable

	Mar. 31 2007	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	Mar. 31 2007 Net Book Value	June 30 2006 Net Book Value
Computer equipment	$ 156,984	$ 145,906	$ 11,078	$ 13,826
Office equipment and furniture	70,287	54,420	15,867	17,667
Manufacturing equipment	1,570,069	963,156	606,913	756,369
Leasehold improvements	61,003	36,385	24,618	29,194
	$ 1,858,343	$ 1,199,867	$ 658,476	$ 817,056

During the current nine-month 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:

	Mar. 31 2007	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	Mar. 31 2007	June 30 2006
Prime + 2%	Unsecured	No repayment terms [1]	**32,442**	42,192
6%	Unsecured	On demand	**-**	16,767
10%	Unsecured	On demand [2]	**135,000**	-
12%	Unsecured	No repayment terms	**25,000**	-
12%	Unsecured	No repayment terms [3]	**52,989**	-
12%	Unsecured	No repayment terms [1]	**39,639**	15,939
			$ 285,070	$ 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

	Mar. 31 2007	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]	**131,982**	-
Term loan bearing interest at 9.5%, unsecured, and matures March 2012 Blended monthly principal and interest payments of $2,505 are required.	**119,252**	**-**
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]	**38,240**	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 $10,922 are required. [5]	**146,664**	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.	**147,124**	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.	**123,517**	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
	746,379	1,054,853
Less: Current portion	**340,540**	658,740
	$ 405,839	$ 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:

2008	$ 340,540
2009	236,730
2010	87,608
2011	52,937
2012	28,564
thereafter	-
	$ 746,379

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:

2008	$ 104,498
2009	108,648
2010	108,648
2011	99,594
2012 and thereafter	-
	$ 421,388

Settlement of Obligations

(a) During the current nine-month 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 December 31, 2006, 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

(a) 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 all necessary regulatory approvals, if any, are obtained. Since 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 2007 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

(b) On January 31, 2007 the Company negotiated the settlement of a note payable with a face value of $16,767 for a single cash payment of $8,384 plus all interest accrued to date. As a result of this settlement the Company has recognized a gain in the amount of $8,383.

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 March 31, 2007 and June 30, 2006	61,010,288	$ 22,104,366
Class A special shares March 31, 2007 and June 30, 2006	1,193,442	100,000
Balance March 31, 2007 and June 30, 2006		$ 22,204,366
Preferred Shares		
Balance reflected as current liability March 31, 2007 and June 30, 2006		$ 941,673

(c) Details of warrants outstanding are as follows:

Number of Warrants	Price/Warrant	Expiry Date
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
4,557,724		

During the period no warrants were issued and 10,367,130 warrants expired including 6,580,400 held by related parties. An additional 1,177,524 warrants expired subsequent to the balance sheet date.

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

(d) Details of options outstanding are as follows:

Common Shares Under Option		Price/Option	Expiry Date
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
3,800,000			

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

During the period no options were exercised or granted and 1,650,000 options held by Directors and former Directors expired. An additional 200.000 options held by Directors and/or officers of the Company expired subsequent to the balance sheet date.

(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.

	Mar. 31 2007	June 30 2006
Compensation expense related to options	**$ 14,061**	$ 22,018
Compensation expense related to warrants	**$ -**	$ -

10. Share Capital - continued

(e) Stock based compensation:

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

	Mar. 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 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.

Description	**Related Party**	**Mar. 31 2007**	June 30 2006
Interest expense - long term	Nu-Way	**$ N/A**	$ 41,977
Interest expense - long term	1114377	**$ 2,839**	$ 927
Interest expense - other	1114377	**$ 1,599**	$ 4,868
Interest expense - long term	Directors/Officers	**$ 2,163**	$ -
Interest expense - other	Directors/Officers	**$ 3,433**	$ 6,160
Interest expense – long term	J.T. Risty	**$ 2,626**	$ 13,500
Interest expense – other	J.T. Risty	**$ 7,508**	$ -

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	$ -

12. Income Taxes – continued

Future Income Taxes

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 48.2%) 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 March 31, 2007
(Prepared as at May 28, 2007)

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 March 31, 2007 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 March 31, 2007 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.

Internal Control Over Financial Reporting

Multilateral Instrument 52-109 requires a reporting issuer to submit an annual certificate relating to the design of internal control over financial reporting. Internal control over financial reporting is a process designed by management to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles. As part of this process, management, including the Chief Executive Officer and the Chief Financial Officer, has evaluated the design of the internal control over financial reporting at June 30, 2006 and based on this evaluation, management has concluded that the design of internal control over financial reporting was effective as of June 30, 2006.

Changes in Internal Control Over Financial Reporting

Under the provisions of MI 52-109, a reporting issuer is also required to disclose in their MD&A any change in internal control over financial reporting during the most recent fiscal quarter that has materially effected, or is reasonably likely to materially affect internal control over financial reporting. Management has determined that there have been no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting.

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 March 31, 2007 ("Q3-2007") the Company reported total revenues of $933,985, again realizing the higher than average amounts that were also reported in Q2-2007. These revenues, which are 27.5% higher than those reported in Q3-2006, reflect an increase in assembly volume and in turnkey business, continuing a trend that began very late in Q2-2007. The Company reported revenues in Q2-2007 that were 23% higher than the comparable period one year earlier but that increase was due, in large part, to customers having deferred orders that had been expected to be completed in Q1-2007. Although this catch-up was occurring management also detected an increase in the amount of turnkey work that was being requested by its customers and this continued throughout Q3-2007. Thanks to the recovery in Q2-2007 and the strong showing in Q3-2007, total revenues for the nine-month period ended March 31, 2007 are 9.7% higher than reported for the nine-month period ended March 31, 2006. The Company is hopeful that this momentum will carry through the final quarter and that the final results for 2007 will reflect an increase in comparison to 2006 levels.

The most encouraging result that the Company is reporting for Q3-2007 is that it realized net income from operations in the amount of $34,292. This would have been the second consecutive fiscal quarter in which a positive income figure was reported had it not been for a one-time amortization adjustment of $40,096 that was recorded in Q2-2007. This adjustment reduced income such that a loss from operations of $16,868 was reported in Q2 rather than net income of $23,228. Management has stated previously that with favourable assembly volumes and lower financing costs it was anticipated that operating results would improve. The results of the current and immediately preceding fiscal quarters each appear to support that statement.

The positive results reported for the current period have not been sufficient to offset the losses from operations reported in the two preceding fiscal quarters. As a result the Company is reporting a net loss from operations of $102,606 for the first nine months of 2007. This figure includes the one-time amortization charge of $40,096 recorded in Q2-2007 and had this not been recorded then the loss from operations would have been $62,510. For the nine-month period ended March 31, 2006 the Company reported a loss from operations of $69,214.

During the period the Company continued its efforts to negotiate settlements to obligations that are at or nearing maturity. As a result of these efforts that Company was able to reach a deal with a creditor that resulted in a promissory note in the amount of $16,767 being settled for a one-time payment of $8,383 plus all interest accrued up to the settlement date. This resulted in the recognition of a gain on debt settlement in the amount of $8,384 for the current period which increased the net income for the period to $42,676. The gain realized in the current period also raises the total gains from debt settlement realized thus far in 2007 to $108,094 and more are anticipated in the final quarter. There were no similar gains reported during fiscal 2006.

Corporate Performance - continued

As a result of the gains realized on debt settlement the Company is reporting net income for the nine-month period ended March 31, 2007 of $181. While it is certainly acknowledged that a result that is essentially break even is nothing to get overjoyed with it is certainly a step in the right direction and something that the Company is striving to build upon.

Management continues to interpret its recent results as being encouraging. Operating volumes and results appear to be improving, creditors seem willing to reach mutually beneficial settlements, and both the deficiency in assets and the working capital deficiency have been reduced since the end of the 2006 fiscal year. While the Company still has some financial obstacles to overcome management believes that these factors indicate that the Company is progressing towards its goals of sustained profitability and a more stable financial outlook.

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:				
	Mar. 07	Dec. 06	Sept. 06	June 06	Mar. 06
Total Revenues	933,985	936,100	610,996	720,256	732,511
Net income (loss) from operations	34,292	(16,868)	(120,030)	(47,044)	(50,863)
Per share	0.001	(0.000)	(0.002)	(0.001)	(0.001)
Net income (loss) for the period	42,676	77,535	(120,030)	(47,044)	(50,863)
Per share	0.001	0.001	(0.000)	(0.001)	(0.001)
Total assets	1,487,014	1,358,050	1,357,519	1,710,074	1,495,156
Total long-term financial liabilities	405,839	484,179	334,751	396,113	1,222,460
Total liabilities	2,683,279	2,593,827	2,721,764	2,947,282	2,989,490
Cash dividends (1) – preferred shares	21,501	21,269	21,270	21,038	20,807

	For the three month periods ended:				
	Dec. 05	Sept, 05	June 05	Mar. 05	Dec. 04
Total Revenues	757,850	771,736	710,395	757,113	993,047
Net income (loss) from operations	(4,143)	(14,208)	(95,805)	(76,099)	46,829
Per share	(0.000)	(0.000)	(0.002)	(0.002)	0.001
Net income (loss) for the period	(5,293)	(14,208)	(99,127)	(76,099)	46,829
Per share	(0.000)	(0.000)	(0.002)	(0.002)	0.001
Total assets	1,703,984	1,851,848	1,729,081	1,246,675	992,455
Total long-term financial liabilities	2,391,435	2,554,689	2,727,893	2,579,972	2,672,742
Total liabilities	3,140,464	4,515,544	4,418,552	3,908,196	4,518,884
Cash dividends (1) – preferred shares	21,270	21,270	21,038	21,488	35,269

(1) Cash dividends are being accrued rather than paid

Results of Operations

Q3-2007 has, just like Q2-2007, provided significant signs of encouragement for the Company as revenues and assembly volumes 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 represent the third highest quarterly revenue total that the Company has realized since it began focusing it operations on the assembly of printed circuit boards. The only periods with higher revenues were the fiscal quarters ended December 2004 and December 2006 which were $993,047 and $936,100 respectively. In addition, the net income from operations is the second best quarterly result ranking only behind December 2004. Management is also pleased to see the amount of revenue growth coming from returning customers as sales to customers that had not previously ordered in this fiscal year accounted for less than 1% of the total. The Company continues to try to expand its client base but management recognizes that the ideal way to grow is to generate more business from existing clients. While these results are not overwhelming in any manner they certainly seem to indicate that the operations are improving.

The cost of product sales and design services for Q3-2007 were $549,244 or 9.7% more than reported in Q3-2006. Since revenues have increased by 27.5% in the same time frame it would follow that gross margins have improved substantially. The gross margin for the current period was $382,603 or 41.1% of sales as compared to $229,781 and 31.5% of sales for Q3-2006. The improvement is also evident if we consider the results for the nine-month periods ended March 31 where margins rose to $992,170 (40.1%) from $869,666 (38.5%).

As per usual the largest elements of cost of sales are the cost of components, remuneration and the cost of machinery. Traditionally, these expense categories account for 90-93% of the total cost of sales and this period has been no exception as they represent more than 92% of the total. While their relative values fluctuate in accordance with the product mix they, in aggregate, do tend to remain consistent relative to all other costs of sales. Component costs were $215,349 in the current quarter which is 7.7% higher than the $199,950 reported for Q3-2006. This increase supports the assertion that revenue from turnkey business is increasing however the fact that it is lower than the overall growth in revenues also supports that assembly revenues are on the rise. Remuneration costs for the current period amounted to $238,780 as compared to $226,082 one year ago, representing a 5.6% increase. These results show that remuneration has not kept pace with the rate of revenue growth which suggests that the efficiency measures that the Company has introduced have been effective. Equipment costs, which incorporate amortization and repairs and maintenance, amounted to $40,188 in the current period as compared to $32,791 for Q3-2006. These costs are generally a function of the timing and value of equipment purchases and the new equipment that the Company has acquired in recent periods has caused amortization expense to rise.

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 $305,873 representing an increase of $75,457 or 32.7% over Q3-2006 levels. The majority of this increase is attributable to the cost of remuneration which has risen $71,459 to $206,694. 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 $3,967 included in the remuneration expense for the current period representing the theoretical value attributed to employee stock options. The comparable amount recorded in Q3-2006 was a recovery of $90 due to certain options expiring so $4,057 of the increase is attributable to non-cash expenses. Occupancy costs have risen by $2,613 or 3.8% in comparison to Q3-2006, which is considered to be well within the limits of both expectation and reasonableness. 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 $14,153 or 4.6% of SG&A in Q3-2007, 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 Q3-2007 so the increase of $5,589 in comparison to Q3-2006 is attributed to the generally higher governance costs that public companies face. Regulatory fees, which include fees levied by stock exchanges and by the Company's transfer agent, were $5,938 in the current period or 1.9% of SG&A as compared to $5,471 and 2.4% in 2006. This expense is influenced by the same factors as professional fees but isn't subject to the same inflationary pressures. All other individual components of SG&A, which aggregated $7,510 or 2.5% for Q3-2007 and $12,181 or 5.3% in Q3-2006, 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 11% in comparison to Q3-2006 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 Q3-2007 was $20,216, as compared to $28,495 for 2006. The decrease is a reflection of the fact that long-term debt has declined by 29.3% over this same time frame and even though not all debt instruments were interest-bearing this remains as the reason why this expense category has declined. It is probable that the Company will issue additional debt instruments in settlement of obligations that are coming due and if this occurs it is probable that this expense category would begin to rise again.

Interest on short term items has increased from $2,579 to $5,409 as a result of the increase in short term borrowing. The Company found it necessary to obtain short-term bridge financing to fund its short-term investment in accounts receivable and inventory. It is anticipated that these short-term notes will be repaid, at least in part, before the end of the fiscal year.

There has been no change in the number or value of preferred shares outstanding in the past year so the dividend expense is virtually identical in the current period to what it was in Q3-2006. This expense category is unlikely to change significantly until the remaining shares mature in Q4 2007.

Liquidity

As at March 31, 2007 the Company has reported a working capital deficiency of $1,448,906, which is virtually unchanged from the balance at the beginning of the fiscal quarter. Although the deficiency did not change significantly its individual components did. Total current assets increased by $166,446 as accounts receivable rose by $150,652, inventory rose by $41,439 and cash declined by $25,645. This increase in current assets was more than offset by an increase of $167,792 in current liabilities thereby keeping the deficiency practically the same. The increase in current liabilities is primarily attributable to an increase of $76,480 in accounts payable, an increase of $21,501 in dividends payable and a net increase of $62,883 in notes payable. The deferral of certain deliveries by customers contributed to the rise in accounts receivable and inventory which in turn necessitated some short term borrowing. While it is anticipated that these factors will be remedied in the near future there will be no significant reduction in the working capital deficiency until the Company becomes consistently profitable and has successfully settled or renegotiated its debt instruments.

Liquidity - continued

In addition to satisfying the cost of operations the Company must also address the payment or other settlement of the following amounts:

	Due by Mar. 2008	Due by Mar. 2010	Due by Mar. 2012	Due after Mar. 2012	Total Due
Repurchase of preferred shares	1,365,504	-	-	-	1,365,504
Debentures	39,600	-	-	-	39,600
Other long-term debt	300,940	324,338	81,501	-	706,779
Operating leases	104,498	217,296	99,594	-	421,388
Total	1,818,542	541,634	181,095	-	2,533,271

The Company has taken steps to settle $700,003 of the amount due for the repurchase of preferred shares. During the preceding fiscal quarter the Company entered into a two part agreement with the holder of the Series D preferred shares ("Holder") whereby the principal amount due, plus all accrued but unpaid dividends will, under certain conditions, be settled. The consideration due the Holder is 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. The first part of the agreement was completed December 31, 2006 and the second part is scheduled to take place June 1, 2007. The impact of the second part of this transaction has not been reflected in the chart above as all conditions that may be necessary in order to allow it to proceed have not yet been satisfied. Had it been reflected then the amount due for the repurchase of shares would have been reduced by $383,339.

The first part of the settlement agreement required the Company to assign a promissory note valued at $123,861 in settlement of $273,058, representing 100% of the dividends accrued in favour of, but otherwise unpaid to, the Holder as at December 31, 2006. This transaction resulted in the recognition of a gain of $99,710 and an amount of $49,487 being added to Contributed surplus. The second part, provided it occurs as scheduled, will require the Company to assign a promissory note in the amount of $326,139 in settlement of the $700,003 redemption value plus the additional dividends accrued in the amount of $20,939. 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 possible 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.

Related Party Transactions - continued

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:

	Mar 31 2007	June 30 2006	Mar 31 2006	June 30 2005
Note payable at prime +2%	32,442	42,192	45,442	55,192
Notes payable at 8.0%	-	-	-	41,045
Note payable at 8.5%	-	-	48,417	45,434
Note payable at 10.0% (1)	135,000	-	N/A	N/A
Notes payable at 12.0%	92,628	15,539	16,639	16,639
2 year debenture at 10.0% (1)	-	134,274	133,344	N/A
Non-interest bearing 3 year debentures (2)	-	82,447	81,930	80,375
Term loan at prime + 11% (3)	N/A	220,906	243,903	308,145
Long-term note payable at 8.0% (2)	77,352	-	-	-
Long-term note payable at 8.0%	38,240	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:

	Mar 31 2007	June 30 2006	Mar 31 2006	June 30 2005
Interest expense – long term	7,628	56,404	33,304	69,316
Interest expense – other	12,540	11,028	8,670	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	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. 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 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 March 31, 2007 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

Convertible Instruments and Other Securities - continued

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
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 @ $0.24 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 options @ $0.155 per share	July 2010	50,000
Stock options @ $0.17 per share	June 2011	900,000
		7,180,200

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.

Financial Instruments

The Company's financial instruments are short-term in nature and do not expose the Company to any significant currency, interest rate, or credit risk. Accordingly their carrying values approximate their fair values and there are no deferred or unrecognized gains or losses attributable to changes in these fair values.

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 new policies or policy changes adopted during the current period or subsequent thereto.