ZTEST Electronics Inc.

Unaudited Interim Consolidated Financial Statements

September 30, 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
September 30, 2007

	Sept. 30 2007	(Audited) June 30 2007
Assets		
Current Assets		
Cash	**$ 67,812**	$ 115,504
Accounts receivable	**497,427**	451,188
Inventories (Note 4)	**270,410**	241,467
Prepaid expenses and other assets	**32,162**	33,436
	867,811	841,595
Equipment (Note 5)	**595,530**	627,553
	$ 1,463,341	$ 1,469,148
Liabilities		
Current liabilities		
Customer deposits and deferred revenue	**$ 12,289**	$ 5,129
Accounts payable and accrued liabilities	**484,509**	487,552
Dividends payable	**268,201**	268,201
Notes payable and other advances (Note 6)	**146,381**	156,731
Current portion of long-term debt (Note 7)	**383,392**	388,421
Preferred shares (Note 9)	**473,855**	473,855
	1,768,627	1,779,889
Long-term debt (Note 7)	**667,504**	744,523
	2,436,131	2,524,412
Deficiency in assets		
Share Capital (Note 9)	**21,956,332**	21,956,332
Contributed surplus	**307,611**	305,417
Equity portion of convertible debentures	**25,463**	25,463
Deficit	**(23,262,196)**	(23,342,476)
	(972,790)	(1,055,264)
	$ 1,463,341	$ 1,469,148

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

Approved by the Board:

Signed: *"John Perreault"* — Director

Signed: *"Wojciech Drzazga"* — Director

ZTEST Electronics Inc.

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

	2007	2006
Revenue		
Product sales	**$ 1,083,614**	$ 608,740
Interest and other	**11**	2,256
	1,083,625	610,996
Expenses		
Cost of product sales and design services	**651,968**	398,044
Selling, general and administrative	**321,960**	283,891
Interest expense - long term (Note 10)	**22,399**	25,682
Interest expense - other (Note 10)	**5,539**	2,312
Dividends on preferred shares	**-**	14,215
(Gain) loss on foreign exchange	**(2,037)**	604
Amortization of equipment	**3,516**	6,298
	1,003,345	731,026
Income (loss) from operations	**80,280**	(120,030)
Provision for income taxes	**-**	-
Net income (loss) for the period	**80,280**	(120,030)
Deficit, beginning of period	**(23,342,476)**	(23,576,810)
Dividends on preferred shares	**-**	(7,055)
Deficit, end of period	**$ (23,262,196)**	$ (23,703,895)
Net income (loss) per share	**$ 0.0013**	$ (0.0020)
Weighted average shares outstanding	**60,351,804**	61,010,288

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

ZTEST Electronics Inc.

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

		2007		2006
Cash flow from operating activities				
Net income (loss) for the period	**$**	**80,280**	$	(120,030)
Items not involving cash				
Amortization of capital assets		**32,023**		41,305
Stock based compensation		**2,194**		1,593
Dividends on preferred shares		**-**		14,215
Interest accretion		**-**		2,685
Changes in non-cash working capital items:				
Accounts receivable		**(46,239)**		15,653
Inventories		**(26,943)**		(9,281)
Prepaid expenses and other assets		**1,274**		7,343
Accounts payable and accrued liabilities		**(3,043)**		(71,636)
Customer deposits and deferred revenue		**7,160**		-
		44,706		(118,153)
Cash flow from investing activities				
Purchase of equipment		**-**		(3,185)
Cash flow from financing activities				
Net repayment of long-term debt and notes payable		**(92,398)**		(59,382)
Decrease in cash		**(47,692)**		(180,720)
Cash, beginning of period		**115,504**		213,210
Cash, end of period	**$**	**67,812**	$	37,725

Supplemental Disclosure of Cash Flow Information

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

Cash paid for interest	**$**	**27,886**		31,298
Income taxes	**$**	**-**	$	-

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

1. Business of the Company

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

2. Significant Accounting Policies

Going concern basis of presentation

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. This assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. As at September 30, 2007 the Company has a deficit, to date, of $23,262,196 and working capital deficiency of $900,816. The Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and its ability to generate positive cash flow from operations.

Basis of consolidation

These unaudited interim consolidated financial statements have been compiled by management in compliance with BC Form 51-901F. They have been prepared using the same accounting policies and methods as the audited financial statements as at June 30, 2007 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)

Adoption of new accounting standards

Effective July 1, 2007 the Company adopted the new accounting standards for Financial Instruments, Equity, and Comprehensive Income as required in accordance with Canadian generally accepted accounting principles. These standards introduce new requirements for the recognition, measurement and disclosure of financial instruments, establish the concept of comprehensive income and the rules for reporting it, and introduce new rules for the reporting of equity and the changes therein.

There were no adjustments required as a result of the adoption of these new standards. Furthermore, the Company's comprehensive income for the current period is equal to its net income and there is no balance to be reported as Accumulated other comprehensive income.

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.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with maturity at the date of purchase of three months or less. At September 30, 2007 and June 30, 2007 there were no cash equivalents on hand.

2. Significant Accounting Policies - continued

Inventories

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

Equipment

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

Computer 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 four 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 $NIL and any further recoveries, should any arise, will be accounted for on a cash basis.

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 each income tax asset, including unused tax losses, is recognized subject to a valuation allowance that is predicated upon the extent that it is more likely than not that such assets will be realized and losses will be utilized. These future income tax assets and liabilities are measured using substantially enacted tax rates and laws that are expected to apply when the tax assets or liabilities are to be settled or realized.

Revenue recognition

Revenue is recorded when the product is delivered and/or the service is completed which correspond with the transfer of title and when collection is reasonably assured.

Earnings (loss) per share

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

Foreign exchange

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

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.

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

3. Financial instruments

Fair Values:

The carrying amount of cash, accounts receivable, customer deposits and deferred revenue, accounts payable and accrued liabilities, dividends payable, and notes payable and other advances approximates their fair value due to the short-term maturities of these instruments.

Credit risk and concentration of credit risk:

The Company is subject to credit risk however, in an effort to mitigate this, it actively manages and monitors its receivables and obtains pre-payments where warranted. Bad debt experience has not been significant.

During the current period, one of the Company's customers accounted for over 20% (23.4%) of revenue (June 2007 – two customers aggregating 42.9%). The loss of this customer or significant curtailment of purchases by such customer could have a material adverse affect on the Company's results of operations and financial condition.

Foreign exchange/Currency risk:

The Company purchases some inventory components in US dollars and earns most of its revenues in Canadian dollars. As a result it is subject to risk due to the fluctuations in the exchange rates between the two currencies and it does not actively manage this risk. During the current period the Company reported a net gain on foreign exchange of $2,037 (Sept. 2006 – loss of $604).

Interest rate risk:

The Company has certain borrowings that are subject to interest rates that float in accordance with the prime lending rate of its financial institution. This may have an impact on the income and/or cash flows of future periods.

4. Inventories

	Sept 30 2007	June 30 2007
Raw materials and supplies	**$ 195,312**	$ 167,348
Work in process	**29,433**	24,526
Finished goods	**45,665**	49,593
	$ 270,410	$ 241,467

5. Equipment

Sept 30, 2007	Cost	Accumulated Amortization	Net Book Value
Computer equipment	**$ 158,072**	**$ 147,927**	**$ 10,145**
Office equipment and furniture	**70,287**	**56,279**	**14,008**
Manufacturing equipment	**1,578,773**	**1,020,963**	**549,809**
Leasehold improvements	**61,003**	**39,435**	**21,568**
	$ 1,868,135	**$ 1,272,605**	**$ 595,530**

June 30, 2006	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 158,072	$ 147,104	$ 10,968
Office equipment and furniture	70,287	55,542	14,745
Manufacturing equipment	1,578,773	1,000,026	578,747
Leasehold improvements	61,003	37,910	23,093
	$ 1,868,135	$ 1,240,582	$ 627,553

6. Notes Payable and Other Advances

Interest	Security	Terms	Sept 30 2007	June 30 2007
Prime + 2%	Unsecured	No repayment terms [1]	$ **25,942**	$ 29,192
12%	Unsecured	No repayment terms [1]	**80,439**	72,539
12%	Unsecured	No repayment terms [2]	**40,000**	30,000
12%	Unsecured	No repayment terms	**-**	25,000
			$ **146,381**	$ 156,731

(1) Payable to Officers of the Company and/or their spouses.
(2) Payable to a corporate shareholder that is controlled by the spouse of a Director of the Company.

7. Long-Term Debt

	Sept 30 2007	June 30 2007
Non interest bearing debenture matured December 2005. [1]	$ **39,600**	$ 39,600
Term loans bearing interest at 8.0%, unsecured, and mature November 2010. Blended monthly principal and interest payments of $3,471 are required. [2]	**116,175**	124,157
Term loan bearing interest at the TD Canada Trust prime lending rate plus 11%, is secured by a general security agreement, and matures June 2008. Blended monthly principal and interest payments of $10,922 are required.	**91,683**	119,754
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.	**114,413**	130,962
Term loan bearing interest at 8.5%, unsecured, and matures June 2009. Blended monthly principal and interest payments of $1,561 are required. [3]	**30,360**	34,342
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.	**98,295**	111,054
Term loans bearing interest at 8.0%, unsecured, and mature May 2011. Blended monthly principal and interest payments of $3,296 are required.	**125,320**	132,605
Term loan bearing interest at 6.0%, secured by a general security agreement covering the assets of Permatech, matures December 2011. Blended principal and interest payments of $4,000 are required each month until May 2008, then $10,000 per month until May 2009, then $11,265 per month until maturity.	**435,050**	440,470
	1,050,896	1,132,944
Less: Current portion	**383,392**	388,421
	$ **667,504**	$ 744,523

(1) The debenture has matured but the Company has not been able to contact the holder in order to settle the balance due. The balance payable remains as an element of the current portion of long term debt.
(2) Includes $68.087 (June 30, 2006 - $72,766) payable to Officers of the Company and/or their spouses.
(3) Payable to a corporate shareholder that is controlled by the spouse of a Director of the Company.

7. Long-Term Debt - continued

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

2008	$ 383,392
2009	275,880
2010	196,754
2011	161,410
2012	33,460
	$ 1,050,896

8. 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	$ 106,762
2009	108,648
2010	108,648
2011	45,270
	$ 369,328

9. 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. The following four series have been authorized to date:

Series A redeemable, voting [1] shares were to be repurchased May 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 were to be repurchased May 2007. Negotiations as to a means of settlement are ongoing.

Series D redeemable, voting [1] shares were to be repurchased June 2007. Negotiations as to a means of settlement are ongoing.

[1] All preferred shares carry the right to vote at the meeting of common shareholders due to the fact that the cumulative dividends are at least 12 months in arrears.

(b) Issued

	Number of Shares	Amount
Common shares September 30, 2007 and June 30, 2007	60,351,804	22,104,366
Class A special shares September 30, 2007 and June 30, 2007	1,193,442	100,000
Balance September 30, 2007 and June 30, 2007		$ 22,204,366

Preferred Shares:

	Current	Other	Total
Balance September 30, 2007 and June 30, 2007	$ 473,855	$ -	$ 473,855

9. Share Capital - continued

(c) Details of warrants outstanding are as follows:

Number of Warrants	Price/Warrant	Expiry Date
1,613,400	$0.10	November 25, 2007
766,800 [(1)]	$0.10	November 25, 2007
1,000,000	$0.24	June 29, 2008
3,380,200		

During the period no warrants were granted, exercised or expired.

(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
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 17, 2009
800,000	(1)	$0.12	December 17, 2009
50,000		$0.155	July 10, 2010
900,000	(1)	$0.17	June 27, 2011
3,600,000			

During the period no options were granted, exercised or expired.

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

(e) Stock based compensation:

The Company has a stock option plan. 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 Company has granted options for the purchase of common shares to employees, directors, officers and other service providers. The fair values of stock options granted have been determined using the Black-Scholes model and are added to contributed surplus as follows:

	Sept 30 2007	June 30 2007
Contributed surplus, beginning of period	**$ 305,417**	$ 108,228
Compensation expense related to stock options granted in prior periods	**2,194**	16,749
Gain on settlement of obligations classified as equity	-	180,440
Contributed surplus, beginning of period	**$ 307,611**	$ 305,417

10. Related Party Transactions

In addition to the Directors and Officers, the following related parties had transactions with the Company during the period or outstanding balances at the end of the period:

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.

10. Related Party Transactions - continued

Description	Related Party	Sept 30 2007	June 30 2007
Interest expense - long term	1114377	**$ 702**	$ 3,624
Interest expense - other	1114377	**$ 1,016**	$ 3,147
Interest expense - long term	Directors/Officers	**$ 1,424**	$ 3,679
Interest expense - other	Directors/Officers	**$ 3,067**	$ 5,616
Interest expense – long term	J.T. Risty	**$ -**	$ 2,626
Interest expense – other	J.T. Risty	**$ -**	$ 9,764

11. 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 2007
Resource related expenditures	$ 4,915,932
Undepreciated capital cost	315,894
Non-capital losses	542,135
Capital losses	1,108,162
Future income tax assets, before valuation allowance	6,882,123
Valuation allowance	(6,882,123)
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	
2008	$ 62,574
2009	861,518
2010	439,852
2014	114,285
2026	3,139
2027	19,559
	$ 1,500,927

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.

General

The following discussion of financial condition, changes in financial condition and results of operations has been prepared by the Company's management, without review or comment from the Company's auditors. This document is intended to accompany the unaudited interim consolidated financial statements of the Company as at September 30, 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 (MD&A) 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, 2007, an evaluation was carried out under the supervision of, and with the participation of, the Company's management, including the Chief Executive Officer and Chief Financial Officer, on the effectiveness of the Company's disclosure controls and procedures, as defined in Multilateral Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings ("MI 52-109").. Based on that evaluation, and as there have been no subsequent changes to these controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as of September 30, 2007 to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within each of those entities.

Internal Control Over Financial Reporting

MI 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, 2007 and based on this evaluation, management has concluded that the design of internal control over financial reporting was effective as of June 30, 2007.

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 affected, 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 MD&A 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. The management of the Company, which has not changed since the previous 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 first quarter of the 2008 fiscal year the Company realized a continuation of the trends toward increased revenues, improved profitability and improved financial stability. The reported revenue of $1,083,625 not only represents an increase of more than 77% in comparison to Q1-2007 but is also the highest quarterly amount the Company has realized thus far from the assembly of circuit boards. This follows Q4-2007 which reflected a figure that was, at that time, the second highest total quarterly revenue. While there is no assurance that quarterly revenues will continue to climb, particularly with the holiday season approaching, the preliminary results for Q2-2008 are also encouraging. Management has long been promoting a goal of sustainable growth and believes that recent results provide some proof that it is accomplishing this objective.

Management has long maintained that with increased revenues comes improved profitability. This certainly was true for Q1-2008 as the Company realized net income from operations of $80,280. This figure represents the best operating result the Company has reported from the assembly of circuit boards. It is also the second time in the past three fiscal quarters that the Company has reported positive results from operations. When management decided in January 2002 to change the Company's operating model and to focus all of its energies into the circuit board assembly business it was very aware that it would face a difficult challenge to grow the business and to overcome the burden of its own past. It was eleven fiscal quarters later, Q1-2005, that the Company first reported positive results from operations. Then, in spite of positive results also realized in Q2-2005, management warned that these results were the bi-product of an anomaly and were not sustainable. After this warning the Company proceeded to report another seven consecutive fiscal quarters with losses from operations before its next positive result in Q3-2007. While acknowledging that much of the original uphill climb remains, management believes that it is nearing the point where, as a consequence of the growth in revenues, profitable operations will be sustainable.

A major burden that management has been working to overcome is the effect of the financing that was raised to support the old operating model. This financing, which existed in the form of preferred shares, debentures, and other long-term debts, has had a significant impact on the results of operations, the deficiency in assets, and the Company's cash flow. In many cases, out of necessity, new debts were issued in settlement of previous ones thereby perpetuating the impact. While the burden of these debts is diminishing they have not yet been extinguished. The Company used the cash generated from operations and some of its existing cash resources to pay down $92,398 of its long term debt and notes payable during the current period but still reported total liabilities of $2,436,131. This total includes long term debt of $435,050 and current liabilities of $742,056 specifically related to the preferred shares and the dividends associated therewith. These preferred shares have now matured and no further dividends are accruing however a means of settling the $742,056 has not yet been negotiated. While efforts to work out from under this burden persist the Company will also continue to report a deficiency in assets or total liabilities that exceed total assets.

Corporate Performance - continued

While paying down some of its debt the Company also managed to reduce the working capital deficiency by $37,478 to $900,816. This deficiency, or the amount by which current liabilities exceed current assets, is a measure of the Company's liquidity, or the lack thereof. Although the current figure, which is less than half of the September 2006 deficiency of $1,808,434, is the lowest deficiency the Company has reported, it is still a deficiency that needs to be remedied.

Once again management is cautiously optimistic about the Company's future. In the most recent period the Company reported record highs for revenues and income from operations, record lows for working capital deficiency, total liabilities and deficiency in assets and positive cash flow from operations. Preliminary indications are that the operations subsequent to the balance sheet date remain solid and the number and nature of quotations being provided to customers suggest that future revenues will remain strong. Despite all of these positive indicators management will remain cautious until it is able to completely overcome the burdens of the past. Management will continue its efforts to negotiate mutually beneficial settlements to obligations that have matured or are maturing while simultaneously ensuring the ability to maintain and increase its operating volumes.

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

	For the fiscal years ended:		
	June 07	June 06	June 05
Total Revenues	3,436,846	2,980,353	3,381,478
Net income (loss) from operations	(107,196)	(118,258)	(123,815)
Per share	(0.002)	(0.002)	(0.003)
Net income (loss) for the period	259,441	(117,408)	(127,137)
Per share	0.004	(0.002)	(0.003)
Total assets	1,469,148	1,710,074	1,729,081
Total long-term financial liabilities	744,523	396,113	2,787,893
Total liabilities	2,524,412	2,947,282	4,418,552
Cash dividends [(1)] – preferred shares	75,697	84,385	113,063

	For the three month periods ended:				
	Sept. 07	June 07	Mar. 07	Dec. 06	Sept. 06
Total Revenues	1,083,625	955,765	933,985	936,100	610,996
Net income (loss) from operations	80,280	(4,590)	34,292	(16,868)	(120,030)
Per share	0.001	(0.000)	0.001	(0.000)	(0.002)
Net income (loss) for the period	80,280	259,260	42,676	77,535	(120,030)
Per share	0.001	0.004	0.001	0.001	(0.002)
Total assets	1,463,341	1,469,148	1,487,014	1,358,050	1,357,519
Total long-term financial liabilities	667,504	744,523	405,839	484,179	334,751
Total liabilities	2,436,131	2,524,412	2,683,279	2,593,827	2,721,764
Cash dividends [(1)] – preferred shares	NIL	11,657	21,501	21,269	21,270

	For the three month periods ended:				
	June 06	Mar. 06	Dec. 05	Sept. 05	June 05
Total Revenues	720,256	730,511	757,850	771,736	710,395
Net income (loss) from operations	(47,044)	(52,863)	(4,143)	(14,208)	(95,805)
Per share	(0.001)	(0.001)	(0.000)	(0.000)	(0.002)
Net income (loss) for the period	(47,044)	(50,863)	(5,293)	(14,208)	(99,127)
Per share	(0.001)	(0.001)	(0.000)	(0.000)	(0.002)
Total assets	1,710,074	1,495,156	1,703,984	1,851,848	1,729,081
Total long-term financial liabilities	396,113	1,222,460	2,391,435	2,554,689	2,727,893
Total liabilities	2,947,282	2,989,490	3,140,464	4,505,544	4,418,552
Cash dividends [(1)] – preferred shares	21,038	20,807	21,270	21,270	21,038

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

Results of Operations

Q1-2008 has been a ground breaking period as the Company had its first fiscal quarter with revenues in excess of $1,000,000. The results also indicate that the relative split between turnkey work and straight assembly work remains fairly consistent with recent periods, which means that the revenue growth is continuing to come from both sources. It is also noteworthy that the revenue growth realized came from sources in addition to the Company's two largest customers. For fiscal 2007 these two customers represented an aggregate of 42.9% of total revenues with each representing over 21%. During Q1-2008 these customers represented 39.1% of total sales with only one exceeding 20%. While management anticipates that fiscal 2008 revenues derived from each of these two companies will meet or exceed the 2007 totals it is also encouraged that growth is also coming from other sources.

Management remains aware that in order to generate sustainable growth it needs to focus on both customer retention and on growing its customer base. In order to achieve this, the Company must provide competitive pricing and the timely delivery of reliable products. During Q1-2008 a potential customer attended at the Company's facility to observe and inspect the assembly process. At the conclusion of this process the Company received high praise for product quality having produced failure rates of less than 2% while the customer had anticipated up to 10%. This recent failure rate is consistent with the Company's historical experience and management considers it to be a testament to the reliability it strives to provide and a critical success factor relative to the sustained growth that it seeks.

The Company made sales during the current period to forty three different customers including four to whom the Company did not have any sales in prior periods. In all of fiscal 2007 the company made sales to sixty-seven different customers so this means that almost 60% of those customers have already had orders filled in 2008. In 2007 the Company had over 90% of its customers return from the previous year and there has been nothing noted that would indicate that similar results will not be realized in 2008.

It is common for new customers to be cautious with their orders as they seek confirmation of the Company's ability to deliver on its promises. In Q1-2008 less than 3% of total sales came from new customers while in fiscal 2007 just over 5% of total sales came from 15 new customers. Of note however is the fact that during Q1-2008 seven of those new customers from 2007 made purchases which, in aggregate, represented over 10% of sales for the period. It would appear therefore that the new customers are providing favourable feedback with respect to the Company's performance providing further reason to be optimistic about sustained revenue growth.

Total cost of product sales in Q1-2008 was $651,968 or 60.2% of total revenues. In comparison the totals reported for Q1-2007 were $398,044 or 65% of total revenues. The combination of higher values and lower percentages combine to result in a significant increase in gross margins. Total gross margins in Q1-2008 are $431,657 as compared to $212,952 for Q1-2007. Historically, management has reported that the gross margin percentage tended to go down when turnkey sales increased as a relative percentage of total revenues. This relationship arises because the mark-up applied to components is typically lower than the mark-up applied to assembly work. It would appear however that this rule of thumb needs to be qualified to ensure that it is being applied only to periods with reasonably comparable revenue figures. This is based on the observation that the gross margin for Q1-2008 is higher than that of Q1-2007 but it also appears that turnkey business represented a larger percentage of revenues. A better example of this correlation can be seen as the gross margin for Q1-2008 is higher than realized in Q4-2007, a period with both reasonably comparable revenues and a higher relative percentage of turnkey business.

In most fiscal periods there are 3 cost components that make up approximately 90% of all cost of sales. In Q1-2008 the total incurred for components, remuneration and the cost of machinery amounted to 90.7% which is marginally favourable in comparison to the 91.1% realized in Q1-2007. The cost of remuneration has increased from $198,938 to $249,024 but has dropped from 50% of the total to 38.2%. The value increase, which represents approximately 25%, is attributable to the annual pay increases provided to production staff along with an increase in the number of production staff as required to accommodate the 77% increase in revenues realized. It is based upon results like these that management asserts that it has achieved significant production efficiencies.

Results of Operations - continued

The decline in remuneration as a percentage of cost of sales is clearly due to the increase in component costs which rose 146% from $126,657 to $311,664 and from 31.8% to 47.8% of cost of sales. Turnkey sales had been slow for a while but rebounded significantly in the second half of fiscal 2007 and this trend clearly has continued, as expected, into 2008. Component costs represent almost 29% of total revenues in Q1-2008 which is less than the almost 33% incurred in Q4-2007 but far exceeds the 21% realized in Q1-2007. It is noteworthy that component costs over the last three fiscal periods have, in aggregate, averaged 29% of total sales and it is based on this that the current period is considered to be consistent with recent periods. While turnkey business will fluctuate from one period to the next it is not expected to change dramatically when averaged over a reasonable time frame.

Equipment costs, which incorporate amortization and repairs and maintenance, amounted to $30,743 in the recently concluded period as compared to $36,670 for Q1-2007 representing a 16% decline. These costs are generally a function of the demands placed on equipment as well as the timing and value of equipment purchases. While the Company's equipment is currently operating at a higher percentage of capacity than it has previously it is still relatively new and therefore the maintenance costs have been minimal. While a continuation or increase in this demand may necessitate the acquisition of additional machinery which will translate into additional amortization charges there is no other reason to anticipate significant increases in this cost category.

The remaining elements of costs of sales are the tooling 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. These expenses, which amounted to $60,537 for Q1-2008 and $35,779 for Q1-2007, are consistently monitored by management. Due to their natures and their relatively small values these elements can, and frequently do, reflect large % variances from one period to the next. In aggregate these expenses traditionally represent 10% or less of cost of sales and 5-7% of total revenues and as long as they remain in this range, as they do in the current periods, those variances are not subjected to detailed investigation or elaboration.

Selling, general and administrative expenses ("SG&A) can best be described as being all costs incurred by the Company that are not directly attributable to the production process or the cost of financing. These costs often include fixed elements that do not fluctuate from period to period and others that vary but are not correlated with operating volumes and values. The total SG&A for Q4-2007 was $269,327 and the total for fiscal 2007 was $1,189,074. These costs are higher than those incurred one year previous as the amount incurred in Q4-2006 was $264,832 and for fiscal 2006 was $1,035,441.

The largest individual component of SG&A is employee and consultant remuneration. This amounted to $172,524 for the three month period ended June 30, 2007 and $739,889 for the 12 month period then ended. The comparable amounts for the same periods one year earlier were $184,733 and $637,802. The overall increase in this category is primarily due to the fact that existing personnel were given market-based wage adjustments at the start of the 2007 fiscal year that exceeded the average cost of living or inflation rate. This wage level is a reflection of the current market place and the reasonable success that the industry is currently experiencing. The Company also had to hire additional people late in the 2006 fiscal year in order to help satisfy customer demands and their salary contributed to the increase experienced in 2007.

Occupancy costs are the second largest component and they amounted to $68,674 for Q4-2007 and $285,254 for the 2007 fiscal year as compared to $61,084 and $268,327 for 2006. 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

Aside from remuneration and occupancy costs the other components are relatively insignificant as they aggregate only $28,129 for Q4-2007 and $163,831 for the 2007 fiscal year. Included in the 2007 annual figure is a bad debt in the amount of $21,694 representing the first bad debt that the Company has incurred in recent history and one that is not anticipated to recur. Without this bad debt the 2007 figure would have been quite comparable to the 2006 figure of $129,312 including $19,015 that arose in Q4-2006. Included in each of these figures are the periodic expenses incurred on account of professional services and for regulatory and reporting services. Professional services include the cost of the annual audit of the financial statements as well as all legal services received during the year. The total in this category actually fell in 2007 from $61,475 to $57,292 even though the annual auditing costs continue to rise. In prior years the Company has been fairly active in the issuance, conversion or renegotiation of complicated debt instruments which required the assistance of its legal counsel. The frequency and volume of this type of transaction declined in 2007 leading to a reduction in legal fees. Regulatory and reporting services rose in 2007 to $24,108 from $17,558. This increase is almost entirely attributable to the cost of the general meeting of the shareholders that was held during the 2007 fiscal year as the preceding one was held in late fiscal 2005 so there was no similar cost in 2006. All other components of SG&A are not significant enough to warrant further investigation or elaboration.

The Company's cost of financing, which is comprised of interest on long-term debt, other interest and dividends on preferred shares continued to decline in comparison to prior years although the relative amounts of each item also continued to change. The total financing costs realized during the fiscal year declined by over 19% to $159,117 from $197,365. The quarterly total was $39,319 representing a 10% decrease from the $43,623 that was incurred in Q4-2006.

Interest on long-term debt in Q4-2007 was $20,220 as compared to $26,938 for Q4-2006 reflecting that the average debt balance was lower in 2007. This fact is also reflected in the drop from $128,917 in long-term interest for the 2006 fiscal year to $84,059 for the 2007 fiscal year. It should be noted however that total long-term debt is actually $78,000 higher at June 2007 than it was at June 2006. This debt balance is a result of the term financing that was issued in June 2007 in settlement of the obligation to the former holder of the series D preferred shares. With this new debt load, and the possibility that the Company will issue additional debt instruments in settlement of other obligations that are coming due, it is quite possible that the trend towards declining interest expense may end.

Interest on short term items has increased from $2,626 in Q4-2006 to $11,308 in Q4-2007 as a result of the increase in short term borrowing. This increase of $8,682 represents the majority of the increase for the fiscal year which saw the total interest expense rise to $24,468 from $12,053. The Company found it necessary to obtain short-term bridge financing, primarily at the end of the third quarter and during the fourth quarter, to fund its short-term investment in accounts receivable and inventory. The 2007 balances in these current assets are $172,000 higher than they were in 2006 and it is anticipated that the collection of these amounts will enable the Company to repay some or all of this new short term debt.

Q4-2007 represents the final fiscal period for which the Company will record dividends on its preferred shares as all shares have now matured and are no longer eligible to receive dividends. In Q4-2007 the Company incurred $7,791 in dividend expense which compares very favourably to the $14,059 incurred in Q4-2006. Similarly the total of $50,590 incurred during fiscal 2007 is less than the $56,395 incurred in 2006. The Company is currently negotiating, or seeking to negotiate, with holders of all outstanding preferred shares in order to settle the amount owed to them on account of both the preferred shares and the related dividends payable. While it is likely that these settlements will result in additional interest expense being incurred there will be no further dividends.

Liquidity

As at September 30, 2007 the Company reported a working capital deficiency of $900,816, which is $37,478 less than reported at the beginning of the fiscal year. During the current period, total current assets rose by $26,216 as a result of increases in inventory and accounts receivable that more than offset a decline in cash. While current assets were increasing, current liabilities went down by $11,262. This was achieved through reductions in each of accounts payable, notes payable and current portion of long-term debt which, in aggregate, exceeded the increase in customer deposits and deferred revenue. At September 30, 2006 the Company had reported current assets of $578,579 and current liabilities of $2,387,013 resulting in a working capital deficiency of $1,808,434. This means that in the most recent twelve month period the Company has realized an increase of $289,232 in its current assets while reducing its current liabilities by $618,386. The majority of the increase in current assets is attributable to increases in inventory and accounts receivable which are consistent with management's expectations for a growing business. A major element of the reduction in current liabilities was the settlement reached with the holder of series D preferred shares that resulted in the net reduction of $680,419 in current liabilities.

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

	Due by Sept. 2008	Due by Sept. 2010	Due by Sept. 2012	Due after Sept. 2012	Total Due
Repurchase of preferred shares	665,501	-	-	-	665,501
Debentures	39,600	-	-	-	39,600
Other long-term debt	343,792	472,634	194,870	-	1,011,296
Operating leases	106,762	217,296	45,270	-	369,328
Total	1,155,655	689,930	240,140	-	2,085,725

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.

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, if it so chooses. 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, corporations that are considered related as a consequence of the involvement of one or more of these individuals, and a corporation that holds more than 10% of the Company's issued common shares. 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 as at June 30 of each year:

	2007		2006	
	Sept 30	June 30	Sept 30	June 30
Note payable at prime +2%	25,942	29,192	51,942	42,192
Note payable at 10.0% (1)	-	-	135,000	-
Notes payable at 12.0%	120,439	102,539	13,839	15,539
2 year debenture at 10.0% (1)	-	-	-	134,274
Non-interest bearing 3 year debentures (2)	-	-	82,969	82,447
Term loan payable at 8.0% (2)	68,087	72,766	-	-
Term loan payable at 8.5%	30,360	34,342	45,792	49,450

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

	2007		2006	
	Sept 30	June 30	Sept 30	June 30
Interest expense – long term	2,126	9,929	3,651	56,404
Interest expense – other	4,083	18,524	3,272	11,028

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 but was subject to accretion. It was carried on the balance sheet at an amount less than its face value and was adjusted each period by the amount of accretion that was recorded. It was converted to a note payable in September 2006 and later sold to unrelated parties.

(2) Debentures had 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 that was recorded. They were settled through the issuance of a term loan.

Convertible Instruments and Other Securities

As at September 30, 2007, and as at the date of this document, the Company had the following securities issued and outstanding:

Description	Quantity	Amount
Common shares	60,351,804	$ 21,664,686
Paid in capital of preferred shares		191,646
Class A special shares	1,193,442	100,000
		$ 21,956,332

Convertible Instruments and Other Securities - continued

Series A preferred shares	166,667	160,000
Series C preferred shares	288,858	505,501
		665,501
Less: amount accounted for as paid in capital		191,646
Liability element of preferred shares		473,855
Less: amount reported as a current liability		(473,855)
Equity 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
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
		6,980,200

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.

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.

During the current period the Company adopted the new accounting standards for Financial Instruments, Equity, and Comprehensive Income as required in accordance with Canadian generally accepted accounting principles. These standards introduce new requirements for the recognition, measurement and disclosure of financial instruments, establish the concept of comprehensive income and the rules for reporting it, and introduce new rules for the reporting of equity and the changes therein. There were no adjustments required as a result of the adoption of these new standards. Furthermore, the Company's comprehensive income for the current period is equal to its net income and there is no balance to be reported as Accumulated other comprehensive income.

Risk Factors

There are a number of risks that could affect the Company's future cash flows, results of operations and financial position. They include the ability to obtain required financing, interest rate risk, credit risk and concentration of credit risk, and foreign exchange/currency risk.

Financial Capability and Additional Financing:

The Company is currently operating with a working capital deficiency and a deficiency in assets. Accordingly, it is dependent upon its ability to obtain adequate financing, to the extent that cash flow from operations are not sufficient, in order to settle obligations as they become due. Although the Company has been successful obtaining necessary financing in the past through the issuance of debt instruments and the sale of its equity securities, there can be no assurance that it will be able to obtain sufficient financing in the future, or that the terms of such financing will be sufficiently favourable, to continue as a going concern.

Risk Factors – continued

Interest rate risk:

The Company has certain borrowings that are subject to interest rates that float in accordance with the prime lending rate of its financial institution. This may have an impact on the income and/or cash flows of future periods.

Credit risk and concentration of credit risk:

The Company is subject to credit risk, however, in an effort to mitigate this, it actively manages and monitors its receivables and obtains pre-payments where warranted. The Company's bad debt experience has not been significant.

During the current period, one of the Company's customers accounted for 23.4% of revenue. The loss of this customer or significant curtailment of purchases by such customer could have a material adverse affect on the Company's results of operations and financial condition.

Foreign exchange/Currency risk:

The Company purchases some inventory components in US dollars and earns most of its revenues in Canadian dollars. As a result it is subject to risk due to the fluctuations in the exchange rate between the two currencies, and it does not actively manage this risk. During the current period the Company reported a net gain on foreign exchange of $2,037.