ZTEST Electronics Inc.

Unaudited Interim Consolidated Financial Statements

December 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
December 31, 2007

	Dec. 31 2007	(Audited) June 30 2007
Assets		
Current Assets		
Cash	**$ 36,704**	$ 115,504
Accounts receivable	**452,296**	451,188
Inventories (Note 4)	**324,820**	241,467
Prepaid expenses and other assets	**72,826**	33,436
	886,646	841,595
Equipment (Note 5)	**563,509**	627,553
	$ 1,450,155	$ 1,469,148
Liabilities		
Current liabilities		
Customer deposits and deferred revenue	**$ 8,250**	$ 5,129
Accounts payable and accrued liabilities	**482,942**	487,552
Dividends payable	**268,201**	268,201
Notes payable and other advances (Note 6)	**151,031**	156,731
Current portion of long-term debt (Note 7)	**377,535**	388,421
Preferred shares (Note 9)	**473,855**	473,855
	1,761,814	1,779,889
Long-term debt (Note 7)	**588,927**	744,523
	2,350,741	2,524,412
Deficiency in assets		
Share capital (Note 9)	**21,956,332**	21,956,332
Contributed surplus (Note 9)	**309,743**	305,417
Equity portion of convertible debentures	**25,463**	25,463
Deficit	**(23,192,124)**	(23,342,476)
	(900,586)	(1,055,264)
	$ 1,450,155	$ 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 periods ended December 31

	Three months ended **2007**	Three months ended 2006	Six months ended **2007**	Six months ended 2006
Revenue				
Product sales	**$ 1,042,894**	$ 936,100	**$ 2,126,508**	$ 1,544,840
Interest and other	**-**	-	**11**	2,256
	1,042,894	936,100	**2,126,519**	1,547,096
Expenses				
Cost of product sales and design services	**594,484**	537,229	**1,246,452**	935,273
Selling, general and administrative	**351,218**	329,983	**673,178**	613,874
Interest expense - long term (Note 10)	**20,037**	17,961	**42,436**	43,623
Dividends on preferred shares	**-**	14,214	**-**	28,429
Interest expense - other (Note 10)	**3,525**	5,439	**9,064**	7,751
Foreign exchange	**45**	1,660	**(1,992)**	2,264
Amortization of equipment	**3,513**	46,482	**7,029**	52,780
	972,822	952,968	**1,976,167**	1,683,994
Income (loss) from operations	**70,072**	(16,868)	**150,352**	(136,898)
Gain on settlement of obligations	**-**	99,710	**-**	99,710
Loss from disposal of equipment	**-**	(5,307)	**-**	(5,307)
Income (loss) before income taxes	**70,072**	77,535	**150,352**	(42,495)
Provision for income taxes	-	-		-
Net income (loss) for the period	**70,072**	77,535	**150,352**	(42,495)
Deficit, beginning of period	**(23,262,196)**	(23,703,895)	**(23,342,476)**	(23,576,810)
Dividends on preferred shares	**-**	(7,055)	**-**	(14,110)
Deficit, end of period	**$ (23,192,124)**	$ (23,633,415)	**$ (23,192,124)**	$ (23,633,415)
Net income (loss) per share	**$ 0.0011**	$ 0.0013	**$ 0.0025**	$ (0.0007)
Weighted average shares outstanding	**61,010,288**	61,010,288	**61,010,288**	61,010,288

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

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

	Three months ended 2007	Three months ended 2006	Six months ended 2007	Six months ended 2006
Cash flow from operating activities				
Net income (loss) for the period	**$ 70,072**	$ 77,535	**$ 150,352**	$ (42,495)
Items not involving cash				
Gain on settlement of obligations	**-**	(99,710)	**-**	(99,710)
Loss on sale of equipment	**-**	5,307	**-**	5,307
Amortization of equipment	**32,021**	81,450	**64,044**	122,845
Stock option compensation	**2,132**	8,501	**4,326**	10,094
Dividends on preferred shares	**-**	14,214	**-**	28,429
Interest accretion	**-**	610	**-**	3,295
Changes in non-cash working capital items:				
Accounts receivable	**45,131**	(46,533)	**(1,108)**	(30,880)
Inventories	**(56,410)**	12,851	**(83,353)**	3,570
Prepaid expenses and other assets	**(40,664)**	(183)	**(39,390)**	7,160
Customer deposits and deferred revenue	**(4,039)**	1,655	**3,121**	1,655
Accounts payable and accrued liabilities	**(1,567)**	38,381	**(4,610)**	(33,255)
	46,676	94,168	**93,382**	(23,985)
Cash flow from investing activities				
Purchase of equipment	**-**	(3,869)	**-**	(7,054)
Cash flow from financing activities				
Net (repayment) proceeds of long-term debt and notes payable	**(79,784)**	(40,655)	**(172,182)**	(100,037)
Increase (decrease) in cash	**(31,108)**	49,644	**(78,800)**	(131,076)
Cash, beginning of period	**67,812**	32,490	**115,504**	213,210
Cash, end of period	**$ 36,704**	$ 82,134	**$ 36,704**	$ 82,134

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	Six months ended 2007	Six months ended 2006
Cash paid for interest	**$ 23,696**	22,893	**$ 51,582**	$ 48,313
Cash paid for income taxes	**$ -**	$ -	**$ -**	$ -

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

1. Business of the Company

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

2. Significant Accounting Policies

Going concern basis of presentation

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. This assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. As at December 31, 2007 the Company has a deficit, to date, of $23,192,124 and working capital deficiency of $875,168. 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 presentation

These unaudited interim consolidated financial statements have been compiled by management using, except as noted below, 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 December 31, 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 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 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.

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 there were no individual customers that accounted for 20% of total revenue (June 2007 – two customers aggregating 42.9%).

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 $1,992 (Dec. 2006 – loss of $2,264).

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

	Dec 31 2007	June 30 2007
Raw materials	**$ 270,780**	$ 167,348
Work in process	**24,216**	24,526
Finished goods	**29,825**	49,593
	$ 324,820	$ 241,467

5. Equipment

Dec. 31, 2007	Cost	Accumulated Amortization	Net Book Value
Computer equipment	**$ 158,072**	**$ 148,749**	**$ 9,323**
Office equipment and furniture	**70,287**	**57,016**	**13,271**
Manufacturing equipment	**1,578,773**	**1,057,901**	**520,872**
Leasehold improvements	**61,003**	**40,960**	**20,043**
	$ 1,868,135	**$ 1,304,626**	**$ 563,509**

June 30, 2007	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	**Dec 31 2007**	June 30 2007
Prime + 2%	Unsecured	No repayment terms [1]	**22,692**	29,192
12%	Unsecured	No repayment terms [1]	**88,339**	72,539
12%	Unsecured	No repayment terms [2]	**40,000**	30,000
12%	Unsecured	No repayment terms	**-**	25,000
			$ 151,031	$ 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

	Dec 31 2007	June 30 2007
Non interest bearing debenture matured December 1, 2005. [1]	**$ 39,600**	**$** 39,600
Term loan bearing interest at the TD Canada Trust prime lending rate plus 11%, is secured by a general security agreement, and matures June 30, 2008. Blended monthly principal and interest payments of $10,816 are required.	**62,402**	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.	**97,467**	130,962
Term loan bearing interest at 8.5%, unsecured, and matures June 30, 2009. Blended monthly principal and interest payments of $1,561 are required. [2]	**26,294**	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.	**85,229**	111,054
Term loans bearing interest at 8.0%, unsecured, and mature November 2010. Blended monthly principal and interest payments of $3,471 are required. [3]	**108,031**	124,157
Term loans bearing interest at 8.0%, unsecured, and mature May 2011. Blended monthly principal and interest payments of $3,296 are required.	**117,891**	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.	**429,548**	440,470
	966,462	1,132,944
Less: Current portion	**377,535**	388,421
	$ 588,927	$ 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) Payable to a corporate shareholder that is controlled by the spouse of a Director of the Company.
(3) Includes $63,315 (June 30, 2007 - $72,766) payable to Officers of the Company and/or their spouses.

7. Long-Term Debt - continued

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

2009	$ 377,535
2010	245,254
2011	196,630
2012	147,043
	$ 966,462

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	$ 107,894
2009	108,648
2010	108,648
2011	18,108
	$ 343,298

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 December 31, 2007 and June 30, 2007	60,351,804	$ 20,856,332
Class A special shares December 31, 2007 and June 30, 2007	1,193,442	100,000
Balance December 31, 2007 and June 30, 2007		$ 21,956,332

Preferred Shares:

	Current	Other	Total
Balance December 31, 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
1,000,000	$0.24	June 29, 2008

During the period no warrants were granted or exercised however 2,380,200 warrants expired, including 766,800 that were held by a related party 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)	$0.12	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
2,850,000			

During the period no options were exercised or granted however 750,000 options held by Directors and/or Officers of the Company 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:

	Dec. 31 2007	June 30 2007
Contributed surplus, beginning of period	**$ 305,417**	$ 108,228
Compensation expense related to stock options granted in prior periods	**4,326**	16,749
Gain on settlement of obligations classified as equity	-	180,440
Contributed surplus, beginning of period	**$ 309,743**	$ 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	Dec 31 2007	June 30 2007
Interest expense - long term	1114377	**$ 1,318**	$ 3,624
Interest expense - other	1114377	**$ 2,226**	$ 3,147
Interest expense - long term	Directors/Officers	**$ 2,754**	$ 3,679
Interest expense - other	Directors/Officers	**$ 5,381**	$ 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	249,678
2009	525,640
2010	439,852
2014	114,285
2027	287,896
	$ 1,617,351

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 December 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 (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 December 31, 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

The recently completed fiscal quarter, with total revenues of $1,042,894 represents the second consecutive quarter for which the Company has reported total revenues in excess of $1,000,000. It is also noteworthy that revenues have averaged more than $1,000,000 per quarter over the four most recent quarters. While this may not constitute a trend it certainly suggests that a new plateau for periodic revenues is being established. Management has long asserted that it was seeking sustainable growth and the consistency of recent results suggests that the growth achieved to date is sustainable.

The Q2 results also support the assertion that profitability would be achieved once revenues increased. The Company has reported net income from operations of $70,072 for the recently concluded quarter and $150,352 on a year-to-date basis. This is also the third fiscal quarter out of the past four for which the Company has reported net income. There is no assurance that the Company will continue to report favourable operating results, however management is optimistic that the encouraging results realized thus far in the current year will continue.

The second quarter also represents the fifth consecutive fiscal quarter for which the Company has reported positive figures for the net income for the period. This figure includes the net income or loss from operations plus the impact of transactions that occurred during the period, if any, that are not representative of the Company's recurring operations. There were no transactions of this nature during the second quarter and therefore the net income is the same as the net income from operations.

Aside from continuing the trends toward higher revenues and improved operating results the Company has also continued to make progress relative to the efforts to achieve financial stability. This fiscal quarter represents the third consecutive quarter, and the ninth out of the past ten, for which total liabilities have declined. This was also the fifth consecutive quarter for which the Company reported positive cash flow from operations, the fifth consecutive quarter for which the Company reported a reduction in the deficiency in assets, and the third consecutive quarter for which the Company has reported an improvement in the working capital deficiency. So long as the Company continues to report deficiencies it certainly cannot claim to have achieved any level of financial stability but there is no doubt that improvement has been achieved.

Management remains cautiously optimistic about the immediate future and beyond. While significant work remains to be done, all of the results reported as at December 31, 2007 represent improvements in comparison to prior periods. Management is focused on continuing to grow the operations, continuing to enhance the results from operations, and continuing to enhance the Company's financial position. All information currently available suggest that progress has been made and will continue.

Corporate Performance - continued

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:				
	Dec. 07	Sept. 07	June 07	Mar. 07	Dec. 06
Total Revenues	1,042,894	1,083,625	955,765	933,985	936,100
Net income (loss) from operations	70,072	80,280	(4,590)	34,292	(16,868)
Per share	0.001	0.001	(0.000)	0.001	(0.000)
Net income (loss) for the period	70,072	80,280	259,260	42,676	77,535
Per share	0.001	0.001	0.004	0.001	0.001
Total assets	1,450,155	1,463,341	1,469,148	1,487,014	1,358,050
Total long-term financial liabilities	588,927	667,504	744,523	405,839	484,179
Total liabilities	2,350,741	2,436,131	2,542,412	2,683,279	2,593,827
Cash dividends [1] – preferred shares	NIL	NIL	11,657	21,501	21,269

	For the three month periods ended:				
	Sept. 06	June 06	Mar. 06	Dec. 05	Sept. 05
Total Revenues	610,996	720,256	730,511	757,850	771,736
Net income (loss) from operations	(120,030)	(47,044)	(52,863)	(4,143)	(14,208)
Per share	(0.002)	(0.001)	(0.001)	(0.000)	(0.000)
Net income (loss) for the period	(120,030)	(47,044)	(50,863)	(5,293)	(14,208)
Per share	(0.002)	(0.001)	(0.001)	(0.000)	(0.000)
Total assets	1,357,519	1,710,074	1,495,156	1,703,984	1,851,848
Total long-term financial liabilities	334,751	396,113	1,222,460	2,391,435	2,554,689
Total liabilities	2,721,764	2,947,282	2,989,490	3,140,464	4,505,544
Cash dividends [1] – preferred shares	21,270	21,038	20,807	21,270	21,270

[1] Cash dividends were being accrued rather than paid

Results of Operations

The total revenues of $1,042,894 for the fiscal quarter ended December 31, 2008 are the second highest quarterly figure that the Company has ever reported for the assembly of printed circuit boards. The only quarter with higher revenues was Q1-2008 meaning that the total of $2,126,519 for the six month period represents a new maximum for any six-month period. These figures represent an increase of 11.4% for the quarter and 37.5% for the six-month period in comparison to the similar periods ended December 31, 2006.

As already noted, the revenues realized in Q2 were not quite as high as the revenues reported in the preceding quarter. While it would be wrong to say that management was enthused about a decline in revenue it would be accurate to say that management is encouraged by how small the total decline was. Revenues are comprised of the fees for assembling the circuit boards and the sale of the components being assembled. From Q1 to Q2 the revenues derived from component sales declined. This could mean that the Company sold fewer components or that the average value of each component sold was lower. Either way, the decline in component sales was partially offset by an increase in the fees for product assembly. Since assembly revenues are directly correlated with assembly volumes it is evident that Q2 assembly volumes exceeded Q1 assembly volumes. Since product assembly is the core of the Company's business every increase in assembly volume is an encouraging result, even when revenues have declined slightly.

Results of Operations - continued

It is also notable that the Company's two largest individual customers represented a lower percentage of total revenues during Q2 than they did in any recent period. For the year ended June 30, 2007 these two customers represented almost 43% of total revenues. In comparison these customers represented just over 39% of the total revenues in Q1, 29% in Q2, and 34% on a year-to-date basis. While these percentages are declining, it appears that the value of the revenues derived from business transacted with these parties has not. This means that the revenue growth that the Company is experiencing is coming from sources other than the two primary customers. Management is optimistic that revenue from these customers will be higher for the 2008 fiscal year than they were in 2007 however it is highly encouraged by this diversification of revenue sources.

Total cost of product sales in Q2-2008 was $594,484 or 57% of total revenues which means that the gross margins realized were 43% of revenues. In comparison the cost of product sales reported for Q2-2007 was $537,229 which was just over 57% of total revenues which leaves the gross margins at just under 43%. Historically, management advised that whenever gross margin percentages are fairly consistent then the mix between component sales and assembly fees must also have been fairly consistent. This correlation has not held true in recent periods however as fee structures have evolved to incorporate changes in component costs as well as the labour efficiencies being realized. In fact we will soon demonstrate that, just like we experienced in Q1, component sales are up this year in comparison to last year even though the historical model would suggest otherwise.

In most fiscal periods there are three cost components that make up approximately 90% of all cost of sales even though the relative percentage of each component varies from period to period. In Q2-2008 the total incurred for components, remuneration and the cost of machinery amounted to 90.5% of the total cost of sales, which is marginally favourable when compared to the 91.0% realized in Q2-2007. In Q2-2008 the cost of remuneration declined slightly from $287,252 to $281,472, the cost of components rose from $157,029 to $222,093, and the cost of machinery fell from $44,634 to $34,454.

The 2% decline in remuneration is a reflection of the labour efficiencies that the Company has realized in the past twelve months. Assembly volumes for Q2-2008 would be comparable to those arising in Q2-2007 which would normally result in increased labour costs due to typical increases in wage rates and payroll taxes. The efficiencies realized have been sufficient to offset these increases and provide the nominal overall reduction. The 41% increase in component costs is the reason why we know that revenues from component sales have increased since 100% of these costs are passed along to the customers that receive them. The 23% decline in equipment costs includes reductions in both maintenance costs and amortization. Maintenance costs are incurred primarily on an as-needed basis and will therefore fluctuate from one period to the next. Amortization costs are highest during the year following acquisition and the acquisitions made in the 2006 fiscal year were significantly higher than the acquisitions made in the 2007 fiscal year thereby accounting for the decline in this cost.

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 $56,465 for Q2-2008 and $48,314 for Q2-2007, 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) essentially include all costs incurred by the Company that are not directly attributable to the production process or the cost of financing. The total SG&A for Q2-2008 was $351,218 and for Q2-2007 was $329,983 representing an increase of 6.4%. This increase is significantly less than the 11.4% increase in revenues realized during the same period however many of these expenses are not linked to sales so no correlation should be expected.

Results of Operations - continued

The largest individual component of SG&A is employee and consultant remuneration. This amounted to $218,280 for the three month period ended December 31, 2007 and $195,969 for the comparable period one year earlier. The 11% increase can be attributed in part to annual increases in salaries and payroll taxes but would also be attributable to increased bonuses which are based, in part, on corporate performance.

Occupancy costs are the second largest component and they amounted to $74,547 for Q2-2008 and $73,481. The Company has a lease on its operating facility that continues through February 2011 so these costs, subject to fluctuation in utility rates and usage or other unforeseen events, will remain both consistent and predictable for quite some time.

Professional fees for the current period amounted to $27,523 while regulatory and reporting services amounted to $11,625. The Company printed and mailed out the annual financial statements to all of its shareholders and held its general shareholders' meeting during this period each of which contribute significantly to these costs. These events took place in Q1-2007 meaning that there were no comparable costs incurred during Q2-2007 and as a result the costs for this period were $10,788 and $1,835 respectively. On a year-to-date basis these costs aggregate $49,909 to December 2007 and $47,482 to December 2006 which are far more comparable than the costs for the individual fiscal quarters.

All other elements of SG&A amount to $19,243 for Q2-2008 and $47,910 for Q2-2007 and are generally considered to be insignificant. The 2007 figure includes a bad debt in the amount of $21,694 which represents the first, and only, bad debt that the Company has incurred in recent history. If this bad debt were excluded then the total other SG&A is reduced to $26,216 a figure that is much more comparable to the 2008 result. Due to the size and nature of these amounts no further investigation or elaboration is warranted.

The Company's cost of financing is comprised of interest on long-term debt and other interest. It used to also include dividends on preferred shares however the preferred shares all matured prior to the end of the last fiscal year and these costs are no longer being incurred. The dividend expense recorded in Q2-2007 amounted to $14,214. Excluding the dividends, the aggregate financing costs for each period are virtually identical as they amount to $23,562 for Q2-2008 as compared to $23,400 for Q2-2007.

Interest on long-term debt in Q2-2008 was $20,037 as compared to $17,961 for Q2-2007. This is reflective of the fact that total long-term debt was $150,234 higher at December 31, 2007 than it was at December 31, 2006. The Company issued new term financing in June 2007 in settlement of the obligation to the former holder of the series D preferred shares. The balance due on this new debt instrument more than offsets the other debt reduction achieved during this twelve month period and is the reason why these interest costs have risen.

Interest on short term items has decreased from $5,439 in Q2-2007 to $3,525 in Q2-2008. This is reflective of the fact that total notes payable are $71,156 lower at December 31, 2007 than it was at December 31, 2006. The Company finds it necessary to obtain short-term bridge financing from time to time to assist with working capital requirements. These short-term advances are repaid when cash flow permits thereby keeping interest costs down.

Liquidity

As at December 31, 2007 the Company reported a working capital deficiency of $875,168 as current liabilities amounted to $1,761,814 while current assets were $886,646. The deficiency is $25,648 lower than at the start of the quarter and $63,126 less than reported at the beginning of the fiscal year. This minor improvement in working capital, just like in Q1, is comprised of both an increase in current assets and a decline in current liabilities. The $18,835 increase in current assets arose as the increase in inventory and prepaid expenses exceeded the aggregate decline in cash and accounts receivable. Current liabilities went down by $6,813 as declines in customer deposits and deferred revenue, accounts payable and accrued liabilities, and current portion of long-term debt exceeded the increase in notes payable.

Liquidity - continued

Current liabilities also include $742,056, representing the balance of preferred shares and the related dividends payable. This balance has not changed during the current fiscal year and is unlikely to change until the Company is successful in negotiating an appropriate means of settlement with the creditors.

While the working capital improvements realized during Q2 have been relatively minor the progress that has been made since December 31, 2006 is significant. During this twelve month period current assets have risen by $226,265 and current liabilities have declined by $347,834 resulting in an overall reduction of $596,094 in the working capital deficiency. The increase in current assets is primarily due to higher inventory and accounts receivable balances which are reflective of the higher business volumes currently being realized. While these higher business volumes have also resulted in a higher balance of accounts payable and accrued liabilities, total current liabilities have still declined. This decrease is attributable to the settlement of certain preferred shares and related dividends that occurred during June 2007. The balance of these liability accounts at December 31, 2006 was $1,197,658 or $455,602 higher than currently reported. While this settlement added to long-term debt it certainly provided the Company with manageable monthly payment arrangements and favourable interest terms.

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

	Due by Dec. 2008	Due by Dec. 2010	Due by Dec. 2012	Due after Dec. 2012	Total Due
Repurchase of preferred shares	665,501	-	-	-	665,501
Debentures	39,600	-	-	-	39,600
Other long-term debt	337,935	441,884	147,043	-	926,862
Operating leases	107,894	217,296	18,108	-	343,298
Total	1,150,930	659,180	165,151	-	1,975,261

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

During Q2 the Company paid a deposit in the amount of US$39,193 representing 50% of the purchase price for a new machine that enables automated inspection of printed circuit boards. Subsequent to the end of the period the Company took delivery and installed the machine which is now operational. The purchase price for this machine will be paid from working capital. No other commitments to acquire equipment have been entered into at this time.

The Company currently has no formal arrangement with any party to provide financing for working capital, capital acquisitions or any other purpose. During recent periods related parties have been providing short term financing to meet working capital requirements.

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	
	Dec. 31	June 30	Dec. 31	June 30
Note payable at prime +2%	22,692	29,192	35,692	42,192
Notes payable at 12.0%	128,339	102,539	34,729	15,539
Note payable at 10.0% (1)	-	-	135,000	-
2 year debenture at 10.0% (1)	-	-	-	134,274
Non-interest bearing 3 year debentures (2)	-	-	-	82,447
Term loan payable at 8.0% (2)	68,087	72,766	81,848	-
Term loan payable at 8.5%	26,294	34,342	42,056	49,450

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

	2007		2006	
	Dec. 31	June 30	Dec. 31	June 30
Interest expense – long term	4,072	9,929	5,154	56,404
Interest expense – other	11,679	18,527	7,244	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
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 December 31, 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
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		$ -

Convertible Instruments and Other Securities - continued

In addition to the shares issued and outstanding the Company has utilized various convertible instruments as a means of raising financing and has issued stock options and share purchase warrants as incentives to various parties. The following list itemizes the common shares that have been reserved to satisfy the conversions and exercise of options and warrants along with the expiry date associated therewith.

Description	Expiry Date	Number of Common shares
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
		3,850,000

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 fiscal year 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 flows 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.

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.

Risk Factors – continued

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.

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 loss on foreign exchange of $45.