ZTEST Electronics Inc.

Unaudited Interim Consolidated Financial Statements

December 31, 2008

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, 2008

	Dec. 31 2008	(Audited) June 30 2008
Assets		
Current Assets		
Cash	**$ 85,554**	$ 24,206
Accounts receivable	**386,537**	609,470
Inventories (Note 4)	**299,114**	351,638
Prepaid expenses and other assets	**36,211**	32,121
	807,416	1,017,475
Equipment (Note 5)	**514,649**	573,921
	$ 1,322,065	$ 1,591,396
Liabilities		
Current liabilities		
Customer deposits and deferred revenue	**$ 698**	$ -
Accounts payable and accrued liabilities	**418,068**	598,005
Dividends payable	**268,201**	268,201
Notes payable and other advances (Note 6)	**145,765**	126,270
Current portion of long-term debt (Note 7)	**367,907**	437,199
Preferred shares (Note 9)	**473,855**	473,855
	1,674,494	1,903,530
Long-term debt (Note 7)	**414,131**	497,844
	2,088,625	2,401,374
Deficiency in assets		
Share capital (Note 9)	**21,956,332**	21,956,332
Contributed surplus (Note 9)	**314,437**	312,745
Equity portion of convertible debentures	**25,463**	25,463
Deficit	**(23,062,792)**	(23,104,518)
	(766,560)	(809,978)
	$ 1,322,065	$ 1,591,396

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

Approved by the Board:

Signed: "John Perreault"
Director

Signed: "Wojciech Drzazga"
Director

ZTEST Electronics Inc.

Unaudited Interim Consolidated Statement of Operations and Deficit
For the periods ended December 31

	Three months ended		Six months ended	
	2008	2007	**2008**	2007
Revenue				
Product sales	**$ 928,499**	$ 1,042,894	**$ 1,958,925**	$ 2,126,508
Interest and other	**-**	-	**-**	11
	928,499	1,042,894	**1,958,925**	2,126,519
Expenses				
Cost of product sales (Note 4)	**597,616**	594,484	**1,271,196**	1,246,452
Selling, general and administrative	**315,487**	351,218	**604,465**	673,178
Interest expense - long term (Note 10)	**10,773**	20,037	**27,808**	42,436
Interest expense - other (Note 10)	**8,403**	3,525	**11,991**	9,064
Foreign exchange	**(7,634)**	45	**(4,769)**	(1,992)
Amortization of equipment	**3,253**	3,513	**6,508**	7,029
	927,898	972,822	**1,917,199**	1,976,167
Income from operations	**601**	70,072	**41,726**	150,352
Other gains and losses	**-**	-	**-**	-
Income before income taxes	**601**	70,072	**41,726**	150,352
Provision for income taxes	**-**	-	**-**	-
Net income for the period	**601**	70,072	**41,726**	150,352
Deficit, beginning of period	**(23,063,393)**	(23,262,196)	**(23,104,518)**	(23,342,476)
Deficit, end of period	**$ (23,062,792)**	$ (23,192,124)	**$ (23,062,792)**	$ (23,192,124)
Net income per share	**$ 0.0000**	$ 0.0011	**$ 0.0007**	$ 0.0025
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

ZTEST Electronics Inc.

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

	Three months ended 2008	Three months ended 2007	Six months ended 2008	Six months ended 2007
Cash flow from operating activities				
Net income for the period	**$ 601**	$ 70,072	**$ 41,726**	$ 150,352
Items not involving cash				
Amortization of equipment	**29,635**	81,450	**59,272**	64,044
Stock option compensation	**830**	8,501	**1,692**	4,326
Changes in non-cash working capital items:				
Accounts receivable	**167,681**	45,131	**222,933**	(1,108)
Inventories	**86,144**	(56,410)	**52,524**	(83,353)
Prepaid expenses and other assets	**(2,408)**	(40,664)	**(4,050)**	(39,390)
Customer deposits and deferred revenue	**-**	(4,039)	**698**	3,121
Accounts payable and accrued liabilities	**(193,094)**	(1,567)	**(157,738)**	(4,610)
	89,389	46,676	**217,053**	93,382
Cash flow from financing activities				
Proceeds of notes payable	**80,000**	69,000	**105,000**	144,000
Repayment of notes payable	**(65,350)**	(64,350)	**(95,700)**	(149,700)
Repayment of long-term debt	**(69,997)**	(84,434)	**(165,005)**	(166,482)
	(55,347)	(79,784)	**(155,705)**	(172,182)
Increase (decrease) in cash	**34,042**	(31,108)	**61,348**	(78,800)
Cash, beginning of period	**51,512**	67,812	**24,206**	115,504
Cash, end of period	**$ 85,554**	$ 36,704	**$ 85,554**	$ 36,704

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	**$ 14,859**	$ 23,696	**$ 40,114**	$ 51,582
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 applicable to a “going concern”. This assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

As at December 31, 2008 the Company has a deficit, to date, of $23,062,792 and working capital deficiency of $867,078. 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.

If the going concern assumption were not appropriate for these financial statements then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

Basis of consolidation

These unaudited interim consolidated financial statements have been compiled by management. They have been prepared using the same accounting policies and methods as the audited financial statements as at June 30, 2008 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, 2008 the Company adopted the following new accounting standards:

(a) CICA Handbook Sections 3862, "Financial Instruments – Disclosures" and 3863, “Financial Instruments – Presentation” which revise and enhance the disclosure requirements, and carry forward unchanged the presentation requirements relative to financial instruments. 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.

(b) CICA Handbook Section 1535, “Capital Disclosures”, which requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance.

(c) CICA Handbook Section 3031 "Inventories", which is based on International Financial Reporting Standard IAS 2, “Inventories”, which prescribes the accounting treatment of and disclosures required for inventories.

There were no adjustments required as a result of the adoption of these new standards.

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.

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2. Significant Accounting Policies - continued

Measurement uncertainty - continued

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.

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, 2008 and June 30, 2008 there were no cash equivalents on hand.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the amount, net of the estimated costs to complete assemblies and sell them, which the Company expects to realize from the sale of inventory in the ordinary course of business. An assessment of net realizable value is completed at the end of each period and any resulting write-downs, or recovery of previous write-downs, are reflected in income for the period. Current assessments have determined that net realizable values equal or exceed the corresponding costs and accordingly all inventories are currently carried at cost.

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.

2. Significant Accounting Policies - continued

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 and is added to contributed surplus over the vesting period for the options. Consideration paid on the exercise of stock options is credited to share capital together with any associated 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

Future accounting pronouncements

International reporting standards:

In February 2008, the Accounting Standards Board ("AcSB") confirmed that the transition to International Financial Reporting Standards from Canadian GAAP will occur on January 1, 2011 for public entities. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. Financial instruments

The Company has determined the most appropriate classification for its financial instruments such that each financial asset is classified as either held for trading or loans and receivables while each financial liability is classified as either held for trading or other financial instruments. These classifications have remained unchanged since initial recognition.

Fair Values

The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities, dividends payable, and notes payable approximate their fair values due to the short-term maturities of these instruments. The estimated fair value of long term debt is not significantly different from its carrying value based upon a comparison to other debts having similar maturities and conditions.

Risks

The Company is exposed to credit risk, concentration of credit risk, currency risk, interest rate risk and liquidity risk. The Company's primary risk management objective is to protect earnings and cash flow and, ultimately, shareholder value. Risk management strategies, as discussed below, are designed and implemented to ensure that the Company's risks and the related exposure are consistent with its business objectives and risk tolerance. There have been no changes to the risks to which the Company is exposed or to the corresponding risk management strategies during the current period.

Credit risk;

Credit risk represents the financial loss that the Company would experience if one or more of its customers failed to meet its obligations. The maximum credit exposure is represented by the carrying amount of accounts receivable as reported on the balance sheet. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. Bad debt experience has not been significant and there are currently no amounts that are more than 90 days past due. It has been determined that no allowance is required for amounts that may be uncollectible.

3. Financial instruments - continued

Concentration of credit risk:

Concentration of credit risk arises when a significant portion of the financial assets subject to credit risk arise from a single or limited number of sources. During the current period, one of the Company's customers accounted for over 20% (29.5%) of revenue (June 2008 – 22.4%). 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. The Company monitors the relationship with this customer closely and ensures that every customer is subject to the same risk management criteria.

Currency risk:

Currency risk is the risk that the amount of future cash flows of one or more financial instruments will fluctuate because of changes in foreign exchange rates. The Company purchases some inventory components and makes some of its product sales in US dollars. The Company monitors its exposure to, but does not actively manage this risk. During the current period the Company reported a net loss on foreign exchange of $2,865 (Sept. 2007 – gain of $2,037).

Interest rate risk:

Interest rate risk represents the possibility that future cash flows arising from a financial instrument may fluctuate because of changes in the market rate of interest. The Company has certain notes payable that are subject to interest rates that float in accordance with the prime lending rate of its financial institution. The Company manages this risk by establishing fixed interest rates on the majority of its obligations predicated upon market rates that are prevailing at the time the obligation originates.

Liquidity risk:

Liquidity risk represents the potential difficulties that the Company may encounter in meeting obligations associated with financial liabilities. The Company is reporting a working capital deficiency of $869,777 (June 30, 2008 - $886,055). This includes a long-term debt, preferred shares and dividends payable, with an aggregate carrying value of $781,656 (June 30, 2008 - $781,656), that are each past due. The Company manages its liquidity risk through the management of its capital (see Note 12) which incorporates the continuous monitoring of actual and projected cash flows to ensure that it has sufficient liquidity to meet its operating commitments without incurring unacceptable losses or risking damage to the Company's reputation.

4. Inventories

The carrying value of inventory is comprised of:

	Dec 31 2008	June 30 2008
Raw materials and supplies	**$ 244,744**	$ 294,212
Work in process	**21,699**	27,008
Finished goods	**32,761**	30,418
	$ 299,115	$ 351,638

Inventory utilization during the period was as follows:

	Dec 31 2008	Dec 31 2007
Raw materials and supplies used	**$ 598,843**	$ 533,757
Labour costs	**500,962**	510,417
Other costs	**178,721**	182,199
Net change in finished goods and work in process	**3,056**	20,079
Cost of product sales	**$ 1,281,582**	$ 1,246,452

5. Equipment

Dec. 31, 2008	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ **161,518**	$ **152,502**	$ **9,016**
Office equipment and furniture	**70,287**	**59,669**	**10,618**
Manufacturing equipment [1]	**1,443,775**	**962,703**	**481,072**
Leasehold improvements	**61,003**	**47,060**	**13,943**
	$ **1,736,583**	$ **1,221,935**	$ **514,649**

June 30, 2008	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 161,518	$ 150,911	$ 10,607
Office equipment and furniture	70,287	58,490	11,797
Manufacturing equipment [1]	1,443,775	909,251	534,524
Leasehold improvements	61,003	44,010	16,993
	$ 1,736,583	$ 1,162,662	$ 573,921

[1] Specific equipment having an aggregate net book value of $326,762 (June 2008 - $363,070) have been pledged as security for long-term debts (Note 7).

6. Notes Payable and Other Advances

Interest	Security	Terms	**Dec 31 2008**	June 30 2008
Prime + 2%	Unsecured	No repayment terms [1]	**9,693**	16,192
12%	Unsecured	No repayment terms [1]	**136,072**	110,078
			$ **145,765**	$ 126,270

[1] Payable to Officers of the Company and/or their spouses.

7. Long-Term Debt

	Dec 31 2008	June 30 2008
Non interest bearing debenture matured December 2005. [1]	$ **39,600**	$ 39,600
Term loan bearing interest at 9.5%, secured by specific equipment having a net book value of $122,112 (June 2008 - $135,681) and matures in April 2009. Blended monthly principal and interest payments of $6,510 are required.	**25,532**	62,350
Term loan bearing interest at 8.5%, unsecured, and matures June 2009. Blended monthly principal and interest payments of $1,561 are required. [2]	**9,138**	17,898
Term loans bearing interest at 9.5%, are secured by specific equipment having a net book value of $129,520 (June 2008 - $143,911) and mature in June 2009. Blended monthly principal and interest payments of $5,099 are required.	**29,764**	58,153
Balance forward	**104,034**	178,001

7. Long-Term Debt - continued

	Dec 31 2008	June 30 2008
Balance forward	**104,034**	178,001
Term loan bearing interest at 12.0%, unsecured, and matures in December 2009. Monthly payments as to interest only are required until December 31, 2008 after which blended monthly principal and interest payments of \$2,570 are required. (2)	**28,929**	33,424
Term loan bearing interest at 12.0%, unsecured, and matures in December 2009. Monthly payments as to interest only are required until December 31, 2008 after which blended monthly principal and interest payments of \$4,532 are required. (3)	**51,007**	45,068
Term loans bearing interest at 12.0%, secured by specific equipment having a net book value of \$75,130 (June 2008 - \$83,478) and mature in August 2010. Blended monthly principal and interest payments of \$3,177 are required. (2, 3)	**57,337**	72,428
Term loans bearing interest at 8.0%, unsecured, and mature November 2010. Blended monthly principal and interest payments of \$3,471 are required. (4)	**73,785**	91,249
Term loans bearing interest at 8.0%, unsecured, and mature May 2011. Blended monthly principal and interest payments of \$3,296 are required.	**86,644**	102,578
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 \$10,000 are required each month until May 2009, then \$11,265 per month until maturity.	**380,302**	412,295
	782,038	935,043
Less: Current portion	**367,907**	437,199
	\$ 414,131	\$ 497,844

(1) The debenture has matured but all attempts to contact the holder have been unsuccessful. The balance payable remains as an element of the current portion of long term debt pending settlement.
(2) Payable to a corporate shareholder that is controlled by the spouse of a Director of the Company.
(3) Payable to Officers of the Company and/or their spouses.
(4) Includes \$43,244 (June 30, 2008 - \$58,446) payable to Officers of the Company and/or their spouses.

The minimum annual future principal repayments are as follows:

2009	\$ 367,907
2010	242,579
2011	171,552
	\$ 782,038

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:

2009	\$ 108,648
2010	108,648
2011	18,108
	\$ 235,404

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, 2008 and June 30, 2008	60,351,804	$ 21,856,332
Class A special shares December 31, 2008 and June 30, 2008	1,193,442	100,000
Balance December 31, 2008 and June 30, 2008		$ 21,956,332

Preferred Shares:

	Current	**Other**	**Total**
Balance December 31, 2008 and June 30, 2008	$ 473,855	$ -	$ 473,855

(c) Details of warrants outstanding are as follows:

During the period no warrants were granted, exercised or expired. As at December 31, 2008 and June 30, 2008 there were no warrants outstanding.

(d) Details of options outstanding are as follows:

Common Shares Under Option	Number of Options Vested	Price/Option	Expiry Date
200,000	200,000	$0.120	December 17, 2009
800,000 [1]	800,000	$0.120	December 17, 2009
50,000	50,000	$0.155	July 10, 2010
900,000 [1]	540,000	$0.170	June 27, 2011
1,950,000	1,950,000		

	Common Shares Under Option	Weighted Average Price/Option	Weighted Average Expiry Date
Beginning of period	2,850,000	$0.136	February 21, 2010
Expired	(750,000) [1]	$0.120	December 18, 2008
Expired	(150,000)	$0.120	December 18, 2008
End of period	1,950,000	$0.144	September 7, 2010

[1] Directors and/or Officers of the Company hold these options.

9. Share Capital - continued

(e) Contributed surplus

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 2008	June 30 2008
Contributed surplus, beginning of period	**$ 312,745**	$ 305,417
Compensation expense related to stock options granted in prior periods	**1,692**	7,328
Contributed surplus, beginning of period	**$ 314,407**	$ 312,745

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, which is controlled by the spouse of a Director of the Company.

All revenues, expenses and period end balances with the related parties are at exchange amounts established and agreed to by the related parties. All transactions with related parties are in the normal course of operations and have been carried out on the same terms as those accorded to unrelated parties.

Description	**Related Party**	**Dec 31 2008**	June 30 2008
Interest expense - long term	1114377	**$ 3,424**	$ 4,857
Interest expense - other	1114377	**$ -**	$ 2,632
Interest expense - long term	Directors/Officers	**$ 7,295**	$ 9,249
Interest expense - other	Directors/Officers	**$ 6,461**	$ 10,783

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 2008
Resource related expenditures	$ 101,225
Scientific research and experimental development	304,679
Reserves claimed	3,400,976
Undepreciated capital cost	329,024
Non-capital losses	392,227
Capital losses	889,674
Future income tax assets, before valuation allowance	5,417,805
Valuation allowance	(5,417,805)
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.

11. Income Taxes - continued

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	
2009	$ 418,386
2010	417,232
2014	114,285
2027	287,896
	$ 1,237,799

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 $14,164,240 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.

12. Capital Management

The Company's objective when managing capital is to ensure its ability to meet operating commitments as they become due. This is achieved primarily by continuously monitoring its actual and projected cash flows and making adjustments to capital as necessary. Except for meeting the repayment terms, as may exist from time to time, associated with the long-term debt instruments, there are no externally imposed capital requirements.

Management includes the following items in its definition of capital:

	Dec 31 2008	June 30 2008
Current portion of long-term debt (1)	**$ 312,611**	$ 316,696
Long-term debt (1)	**414,131**	497,844
Share Capital	**21,956,332**	21,956,332
Contributed surplus	**314,407**	312,745
Equity portion of convertible debentures	**25,463**	25,463
Deficit	**(23,073,178)**	(23,104,518)
Net capital (deficiency) under management	**$ (50,234)**	$ 4,562

(1) Excludes long-term debts that are both secured by specific equipment and due to unrelated parties.

General

The following Management Discussion and Analysis ("MD&A") has been prepared by the Company's management, without review or comment from the Company's auditors, to accompany the unaudited interim consolidated financial statements of the Company as at December 31, 2008 and should only be read in conjunction with those financial statements. Additional information about the Company can be found at www.sedar.com.

Forward-looking Information

Certain statements in this MD&A may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and its subsidiary, or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this report, the words "estimate", "believe", "anticipate", "intend", "expect", "plan", "may", "should", "will", the negative thereof or other variations thereon or comparable terminology are intended to identify forward-looking statements. Such forward-looking statements reflect the current expectations of the management of the Company with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results, performance or achievements to differ materially from those expressed or implied by those forward-looking statements, such as reduced funding, long sales cycles, currency and interest rate fluctuations, increased competition and general economic and market factors and including the risk factors summarized below under the heading "Risk Factors". New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those expressed or implied in such forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements contained in this MD&A speak only as of the date hereof. The Company does not undertake or assume any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.

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 preceding fiscal year end, is comprised of the following individuals:

Name	**Position(s)**
Wojciech Drzazga	Director and CEO
John Perreault (1)	Director and President
K. Michael Guerreiro (1) (2)	Director
Mike Hiscott (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 Company reported total revenues of $928,499 for Q2-2009 representing the end of a brief run of two consecutive quarters wherein periodic revenues exceeded $1,000,000. This softening of revenues is reflective of current market conditions as the industry seems to be experiencing a decline in market demand. While the economic climate remains in its current unstable state it is certain to be a greater challenge to achieve this informal revenue target.

Management considers the threshold of $1,000,000 in quarterly revenues to be the level that is required in order to consistently report net income from operations. Although the lower revenue figures for Q2-2009 did not result in a loss being reported, the net income from operations and net income for the period of $601 certainly suggests that profitability is less assured at this revenue level. This represents the sixth consecutive quarter for which the Company has reported positive income from operations and the ninth consecutive quarter with positive net income. Management is adjusting to suit current market conditions however profitability will remain uncertain, at least until the economy stabilizes.

Further evidence of the general softening of economic conditions is that this represents the second consecutive quarter whereby both revenues and net income have declined in comparison to the same periods one year earlier. While two quarters does not constitute a trend, the fact that this follows eight consecutive quarters with increasing revenues certainly leads to the realization that the Company has not been exempted from the current economic turmoil. It remains possible that revenues for the 2009 fiscal year will equal or exceed 2008 levels however the continuing instability of the financial markets and the recognition that year to date revenues are almost 8% lower than 2008 levels would suggest that this is improbable.

As a result of the nominal profits realized, the Company's deficit and deficiency in assets were essentially unchanged over the course of the recently concluded fiscal quarter. The deficit of $23,062,792 and deficiency in assets of $766,560 are each the lowest that the Company has reported in quite some time, however the Company will need to return to more significant levels of profitability in order to realize future improvements in these amounts. As of the date of this document management has taken steps to reduce operating costs and enhance capacity which is expected to improve the profitability of future periods.

During the past quarter the Company generated cash flow from operations in the amount of $89,389, making this the seventh consecutive quarter with positive operating cash flow. This cash has been used primarily to service debt and therefore long-term debt continues to be reduced. The Company repaid $165,005 in long-term debt during the first six months of this fiscal year and $346,424 over the past twelve months. Even though $164,000 in new debt has been added since December 2007 the Company has still realized a net reduction of $182,424 during this time period. Many of the existing debts are approaching their maturities, and this trend of debt reduction should continue, however should the Company acquire a new machine, then this will likely add a new long-term debt,

As at December 31, 2008 the Company reported a working capital deficiency of $867,078 representing decreases of $2,879 for the three month period and $8,090 for the year then ended. It is generally recognized that this deficiency will fluctuate from period to period based upon the amount of short term borrowing needed to fund temporary working capital shortages and the fluctuations in the current portion of long-term debt. While the Company's continuing ability to generate positive operating cash flows should allow it to reduce this deficiency it will not be eliminated until the Company successfully negotiates the settlement of $742,056 owing on preferred shares and the associated dividends.

Corporate Performance - continued

The following data may provide some additional insights relative to the Company's operating performance and financial position:

	For the fiscal years ended:		
	June 08	June 07	June 06
Total Revenues	4,066,902	3,436,846	2,980,353
Net income (loss) from operations	250,963	(107,196)	(118,258)
Per share	0.004	(0.002)	(0. 002)
Net income (loss) for the period	237,958	259,441	(117,408)
Per share	0.004	0.004	(0.002)
Total assets	1,591,396	1,469,148	1,710,074
Total long-term financial liabilities	497,844	744,523	396,113
Total liabilities	2,401,374	2,524,412	2,947,282
Cash dividends (1) – preferred shares	NIL	75,697	84,385

	For the three month periods ended:				
	Dec. 08	Sept. 08	June 07	Mar. 08	Dec. 07
Total Revenues	928,499	1,030,426	1,003,130	937,253	1,042,894
Net income (loss) from operations	601	41,125	66,121	34,490	70,072
Per share	0.000	0.001	0.001	0.001	0.001
Net income (loss) for the period	601	41,125	66,121	21,485	70,072
Per share	0.000	0.001	0.001	0.001	0.001
Total assets	1,322,065	1,566,082	1,591,396	1,456,980	1,450,155
Total long-term financial liabilities	414,131	442,318	497,844	571,435	588,927
Total liabilities	2,088,625	2,334,073	2,401,374	2,334,463	2,350,741
Cash dividends (1) – preferred shares	NIL	NIL	NIL	NIL	NIL

	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	2,542,412	2,683,279	2,593,827	2,721,764
Cash dividends (1) – preferred shares	NIL	11,657	21,501	21,269	21,270

(1) Cash dividends were being accrued rather than paid

Results of Operations

During the second fiscal quarter the Company earned revenues of $928,499 representing a decline of approximately 11% in comparison to Q2-2008. When combined with the 5% reduction experienced during Q1-2009, the year to date revenues of $1,958,925 are down almost 8% year over year. Management believes that the Company remains competitive and is maintaining its market share but that the market itself is currently contracting. This is supported by the fact that product orders continue to be received but desired delivery periods are longer. It is too soon to determine whether this market contraction is temporary or permanent or whether the level of competition in the market will remain as high as it has been but it is anticipated that the current market conditions will persist at least until the end of the current fiscal year.

Results of Operations - continued

Gross margins realized during the three and six month periods ended December 31, 2008 were $330,883 and $687,729 representing 35.6% and 35.1% of sales respectively. The comparable amounts as at December 31, 2007 were $448,410 or 43% of sales and $880,056 or 41.4% of sales. The decline in the gross margin percentages can be attributed to two factors. First, the proportion of turnkey work, which always generates lower gross margins, was higher in the current periods. The second reason is that labour, as a percentage of sales, is higher in the current periods. The higher labour costs arise because the assembly work currently being conducted has a high proportion of one particular process. The demand for this process has led to the intermittent addition of a second shift and the incurrence of overtime in order to provide adequate capacity. Management has determined that this situation is not temporary and that additional automation will lead to additional capacity and reduced labour costs. The addition of a new machine, which the Company is currently investigating, would not only resolve this capacity issue but would also provide excess capacity that is expected to enable the Company to secure additional orders.

The cost of raw materials and supplies used during the current period amounted to $261,954 thereby raising the total to $598,843 on a year to date basis. For the periods ended December 31, 2007 these costs amounted to $222,093 and $533,757. These costs are reflective of the volume of turnkey business that is completed. Given that the cost totals were higher during the current periods, when total revenues were lower, it should be evident that the proportion of turnkey work was much higher during the current periods. It is also noteworthy that many of the components that the Company utilizes in the assembly process are purchased in US funds. Since the Company reports all amounts in Canadian currency this means that the reported cost to acquire these parts will rise and fall with the changes in the Canada-US exchange rates. The exchange rates for Q2-2009 were an average of 23.5% higher than for Q2-2008 (based upon the average monthly noon spot rates as published by the Bank of Canada). While there has been no analysis completed to determine the exact impact of the Canada-US exchange rates on the value of the components used in each period it is reasonable to assume that some of the cost increase experienced in the current period can be attributed to the significant change in average exchange rates.

The labour costs incurred during Q2-2009 amounted to $245,878 or 26.5% of sales while the costs for Q2-2008 were $260,414 or 25.0% of sales. The 2009 year to date costs amounted to $490,576 or 25.0% of sales while the 2008 amounts are $510,417 or 24.0% of sales. It has previously been established that labour increases as a percentage of sales when turnkey volumes increase and this certainly holds true for the current periods. Also, while the value of the labour costs incurred is not absolutely correlated with the number of circuit boards assembled it still serves as a reasonably reliable indicator of assembly volume. Management has asserted that assembly volumes were slightly lower in the current period than they were one year earlier. The fact that costs are marginally lower in the current period than they were in Q2-2008 tends to support this assertion.

Equipment costs, which include amortization and repairs and maintenance, amounted to $30,310 for the quarter and $60,287 on a year to date basis. The comparable figures from one year earlier are $34,454 and $65,197 indicating that there has been relatively little change. These costs are generally a function of the demands placed on equipment as well as the timing and value of equipment purchases and nothing out of the ordinary occurred in either period.

There are no other individual elements of costs of goods sold that represent 4% or more of the total for the periods. These remaining elements include the cost of the tooling and supplies as well as the freight costs incurred to obtain parts and ship completed products. These expenses are consistently monitored by management. Due to their natures and their relatively small values these elements can, and frequently do, reflect large percentage variances from one period to the next even though the value of that change is relatively insignificant. Accordingly, those variances are not subjected to detailed investigation or elaboration.

Results of Operations - continued

Selling, general and administrative expenses ("SG&A), are made up of many costs which 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 Q2-2009 total for SG&A was $315,487 representing a 10.2% decrease in comparison to the Q2-2008 total of $351,218. The six-month total of $604,465 is also 10.2% lower than was incurred during the same period one year ago.

Employee and consultant remuneration, at $192,674, continues to be the largest component of SG&A even though it is almost 12% lower than the $218,280 incurred during Q2-2008. This comes after an even larger reduction in the first quarter to result in a decrease of just over 15% so far this year with a total of $374,116 as compared to $440,841. Had it not been for the previously described need to incur overtime and operate a second shift from time to time the current period costs would have been lower. As noted in Q1, the criteria by which key employees earn a bonus based upon quarterly profitability were revised after Q2-2008 leading to no bonuses having been earned since that time. The absence of this periodic bonus is the primary reason why this cost has declined. Management continues to monitor business volumes and has recently implemented a reduced work-week as a result. This will continue so long as business volumes dictate.

Occupancy costs amounted to $75,856 during the current period and $156,801 on a year-to-date basis. These costs consist primarily of rent and utility charges. The quarterly costs are less than 2% more than the $74,547 incurred during Q2-2008 while the 2008 six month total of $148,902 was approximately 5% lower. Since the base rent for the Company's facility has remained constant throughout the 2008 and 2009 periods the changes from period to period relate to changes in the cost of utilities and additional rent charges for realty taxes and maintenance. The Company has a lease on its operating facility that continues at the same base rental rate through February 2011 so these costs, subject to usage and rate fluctuations or other unforeseen events, will remain reasonably consistent and predictable for quite some time.

Professional fees for the quarter amounted to $16,350 and regulatory fees were $12,785. A significant portion of each of these costs relate to the mailing of the annual financial statements to shareholders, the preparation of all documents related to the annual shareholders' meeting and mailing them to stakeholders, and holding this meeting in December 2008. The previous meeting was held in December 2007 and the costs for that period were $27,253 and $11,625 respectively. The amounts incurred in other fiscal periods are typically lower than the period in which the annual shareholders' meeting is held. This is reflected in the 2009 six-month totals of $27,107 and $14,268 and the 2008 six-month totals of $36,900 and $13,009.

There are no other elements that equal or exceed 4% of the total SG&A for any of the periods ended December 31, 2008 and 2007. These remaining elements are monitored closely by management and are only noteworthy in the event that something out of the ordinary arises and nothing has.

Interest expense for the quarter was $19,176. This is 18.6% lower than the $23,562 incurred during Q2-2008. A total of $39,799 in interest costs have arisen thus far in 2009 which is 22.7% lower than the $51,500 incurred last year. This cost savings is a benefit earned as a result of the significant reduction in long-term debt that the Company has achieved over the past few periods. Not only has total interest declined but interest on long-term debt now represents only 56% of the total. It was 85% of the total in Q2-2008. This ratio change reflects an increase in other interest which results from the more frequent use of short term financing to satisfy working capital requirements. These interest trends are expected to continue for the rest of fiscal 2009.

Liquidity

While the Company continues to realize some improvement in its liquidity, it also continues to have current liabilities that exceed its current assets. This working capital deficiency amounted to $867,078 as at December 31, 2008 representing an improvement of $8,090 since December 31, 2007. This minor improvement has occurred during a period in which the Company has eliminated almost $175,000 in non-current liabilities and added just over $124,000 to equity. These simultaneous improvements are made possible by being profitable and generating positive cash flows from operations.

While remaining profitable during these tumultuous economic times will be difficult, management is confident that all reasonable steps have been taken to reduce costs without becoming an impediment to conducting business. These steps may still not be sufficient to assure profitability but they are believed to be enough to make continued profitability a possibility.

Positive cash flows from operations begin with profitability, which is adjusted for non-cash expenses like amortization, and then incorporates the administration of the working capital elements of accounts receivable, inventories and accounts payable. Management has always been very active in administering these amounts and will certainly be equally attentive in the current economic climate. Through effective management of these balances it is expected that positive cash flow from operations will persist.

Working capital also includes the current portion of long-term debt which represents the principal payments that are due on these obligations over the next twelve months. As these debts get closer to their maturity a greater portion of each payment is allocated to principal with less being attributed to interest. This means that the current portion of a debt increases each period until such time that there are less than twelve payments remaining. The Company currently has nine debt instruments upon which it is making blended monthly principal and interest payments. Five of these instruments will mature on or before December 31, 2009 while the remaining four have later maturities. This mix of maturities should result in a decline in the current portion of long-term debt throughout the remainder of the 2009 fiscal year. It should be noted however that, if the Company adds new long-term debt, then there will be a corresponding impact on the current portion.

Notes payable represent the final element of working capital that the Company is actively managing. These notes are the short-term financing that the Company utilizes from time to time to provide the cash necessary to satisfy immediate obligations. These notes are interest bearing and require monthly interest payments but allow the Company to make principal payments if and when cash flows permit. Related parties have been the primary source for this type of financing and it is expected that these parties will continue to make funds available to the Company.

The final elements of working capital are a debenture in the amount of $39,600, preferred shares in the amount of $473,855 and dividends payable in the amount of $268,201. Each of these amounts has already reached their maturity dates. Management is seeking to settle any or all of this $781,656 in matured debts but only if suitable repayment terms can be negotiated

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. 2009	Due by Dec. 2011	Due after Dec. 2011	Total Due
Repurchase of preferred shares	665,501	-	-	665,501
Settlement of dividends payable	268,201	-	-	268,201
Debentures	39,600	-	-	39,600
Other long-term debt	374,531	367,907	-	742,438
Operating leases	108,648	126,756	-	235,404
Total	1,456,481	494,663	-	1,951,144

Capital Resources

The Company has not entered into any commitments to acquire any equipment and, while management continually evaluates its requirements, there are no formal plans to acquire any additional equipment in the immediate future.

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, companies 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.

The following balances are due to the related parties defined above as at the following dates:

	2008		2007	
	Dec 30	June 30	Dec 31	June 30
Note payable at prime +2%	9,692	16,192	22,692	29,192
Notes payable at 12.0%	136,072	110,078	128,339	102,539
Term loan payable at 8.0%	43,244	58,446	63,315	72,766
Term loan payable at 8.5%	9,138	17,898	26,294	34,342
Term loans payable at 12%	137,273	150,920	-	-

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

	2008		2007	
	Dec 30	June 30	Dec 30	June 30
Interest expense – long term	10,721	14,106	4,072	9,929
Interest expense – other	6,461	13,415	7,607	18,527

The following stock options 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 2009	800,000
Stock options @ $0.17 per share	June 2011	900,000

Convertible Instruments and Other Securities

As at December 31, 2008, 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 issued stock options as incentives to various parties. The following list itemizes the common shares that have been reserved to satisfy the conversions and exercise of options along with the expiry date associated therewith.

Description	Expiry Date	Number of Common shares
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
		1,950,000

Additional disclosures relative to these options are as follows:

	Common Shares Under Option	Weighted Average Price/Option	Weighted Average Expiry Date
Beginning of period	2,850,000	$0.136	February 21, 2010
Expired	(900,000)	$0.120	December 18, 2008
End of period	1,950,000	$0.144	September 7, 2010

While some of the stock options are held by related parties, the Company has no ability to cause any of the items noted above to be 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.

Effective July 1, 2008 the Company adopted the following new accounting standards:

(a) CICA Handbook Sections 3862, "Financial Instruments – Disclosures" and 3863, "Financial Instruments – Presentation" which revise and enhance the disclosure requirements, and carry forward unchanged the presentation requirements relative to financial instruments. 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.

(b) CICA Handbook Section 1535, "Capital Disclosures", which requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance.

(c) CICA Handbook Section 3031 "Inventories", which is based on International Financial Reporting Standard IAS 2, "Inventories", which prescribes the accounting treatment of and disclosures required for inventories.

There were no adjustments required as a result of the adoption of these new standards.

Changes in Accounting Policy - continued

In addition, the following aspects of Canadian GAAP will be changing in the future and, accordingly, will cause the Company's accounting policies to change:

International reporting standards:

In February 2008, the Accounting Standards Board ("AcSB") confirmed that the transition to International Financial Reporting Standards from Canadian GAAP will occur on January 1, 2011 for public entities. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Financial Instruments

The Company has determined the most appropriate classification for its financial instruments such that each financial asset is classified as either held for trading or loans and receivables while each financial liability is classified as either held for trading or other financial instruments. These classifications have remained unchanged since initial recognition.

The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities, dividends payable, and notes payable approximate their fair values due to the short-term maturities of these instruments. The estimated fair value of long term debt is not significantly different from its carrying value based upon a comparison to other debts having similar maturities and conditions.

Risk Factors

Recent events have demonstrated that businesses and industries throughout the world are very tightly connected to each other. Thus, events seemingly unrelated to us, or to our industry, may adversely affect our finances or operations in ways that are hard to predict or defend against. For example, credit contraction in financial markets may hurt our ability to access credit when it is needed or rapid changes in foreign exchange rates may adversely affect our financial results. Finally, a reduction in credit, combined with reduced economic activity, may adversely affect businesses and industries that collectively constitute a significant portion of our customer base. As a result, these customers may need to reduce their purchases of our products, or we may experience greater difficulty in receiving payment for the products that these customers purchase from us. Any of these events, or any other events caused by turmoil in world financial markets, may have a material adverse effect on our business, operating results, and financial condition.

In addition to the foregoing, the Company is exposed to credit risk, concentration of credit risk, currency risk, interest rate risk and liquidity risk. The Company's primary risk management objective is to protect earnings and cash flow and, ultimately, shareholder value. Risk management strategies, as discussed below, are designed and implemented to ensure that the Company's risks and the related exposure are consistent with its business objectives and risk tolerance. There have been no changes to the risks to which the Company is exposed or to the corresponding risk management strategies during the current period.

Credit risk;

Credit risk represents the financial loss that the Company would experience if one or more of its customers failed to meet its obligations. The maximum credit exposure is represented by the carrying amount of accounts receivable as reported on the balance sheet. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. Bad debt experience has not been significant and there are currently no amounts that are more than 90 days past due. It has been determined that no allowance is required for amounts that may be uncollectible.

Concentration of credit risk:

Concentration of credit risk arises when a significant portion of the financial assets subject to credit risk arise from a single or limited number of sources. During the current six month period, one of the Company's customers accounted for over 20% (29.5%) of revenue (June 2008 – 22.4%). 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. The Company monitors the relationship with this customer closely and ensures that every customer is subject to the same risk management criteria.

Risk Factors - continued

Currency risk:

Currency risk is the risk that the amount of future cash flows of one or more financial instruments will fluctuate because of changes in foreign exchange rates. The Company purchases some inventory components and makes some of its product sales in US dollars. The Company monitors its exposure to, but does not actively manage this risk. During the current period the Company reported a net gain on foreign exchange of $4,769 (Dec. 2007 – gain of $1,992).

Interest rate risk:

Interest rate risk represents the possibility that future cash flows arising from a financial instrument may fluctuate because of changes in the market rate of interest. The Company has certain notes payable that are subject to interest rates that float in accordance with the prime lending rate of its financial institution. The Company manages this risk by establishing fixed interest rates on the majority of its obligations predicated upon market rates that are prevailing at the time the obligation originates.

Liquidity risk:

Liquidity risk represents the potential difficulties that the Company may encounter in meeting obligations associated with financial liabilities. The Company is reporting a working capital deficiency of $867,078 (June 30, 2008 - $886,055). This includes a long-term debt, preferred shares and dividends payable, with an aggregate carrying value of $781,656 (June 30, 2008 - $781,656), that are each past due. The Company manages its liquidity risk through the management of its capital (see Note 12 of the unaudited interim financial statements) which incorporates the continuous monitoring of actual and projected cash flows to ensure that it has sufficient liquidity to meet its operating commitments without incurring unacceptable losses or risking damage to the Company's reputation.