ZTEST Electronics Inc.

Unaudited Interim Consolidated Financial Statements

March 31, 2009

Be advised that these Unaudited Interim Consolidated Financial Statements have been compiled by the Company's management and they have not been examined, in any manner, by the Company's auditors.

ZTEST Electronics Inc.

Unaudited Interim Consolidated Balance Sheet
March 31, 2009

		Mar. 31 2009		(Audited) June 30 2008
Assets				
Current Assets				
Cash	**$**	**32,366**	$	24,206
Accounts receivable		**362,515**		609,470
Inventories (Note 4)		**379,522**		351,638
Prepaid expenses and other assets		**32,475**		32,121
		806,878		1,017,475
Equipment (Note 5)		**485,012**		573,921
	$	**1,291,890**	$	1,591,396
Liabilities				
Current liabilities				
Customer deposits and deferred revenue	**$**	**34,003**	$	-
Accounts payable and accrued liabilities		**440,005**		598,005
Dividends payable		**268,201**		268,201
Notes payable and other advances (Note 6)		**138,015**		126,270
Current portion of long-term debt (Note 7)		**256,455**		437,199
Preferred shares (Note 9)		**473,855**		473,855
		1,610,534		1,903,530
Long-term debt (Note 7)		**474,187**		497,844
		2,084,721		2,401,374
Deficiency in assets				
Share capital (Note 9)		**21,956,332**		21,956,332
Contributed surplus (Note 9)		**340,474**		338,208
Deficit		**(23,089,637)**		(23,104,518)
		(792,831)		(809,978)
	$	**1,291,890**	$	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

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

	Three months ended 2009	Three months ended 2008	Nine months ended 2009	Nine months ended 2008
Revenue				
Product sales	**$ 690,777**	$ 937,253	**$ 2,649,702**	$ 3,063,761
Interest and other	**-**	-	**-**	11
	690,777	937,253	**2,649,702**	3,063,772
Expenses				
Cost of product sales (Note 4)	**463,989**	592,034	**1,735,185**	1,838,486
Selling, general and administrative	**229,040**	285,840	**833,505**	959,018
Interest expense - long term (Note 10)	**14,953**	19,709	**47,773**	62,145
Interest expense - other (Note 10)	**4,078**	2,997	**11,057**	12,061
Foreign exchange	**2,307**	(1,591)	**(2,462)**	(3,583)
Amortization of equipment	**3,255**	3,774	**9,763**	10,803
	717,622	902,763	**2,634,821**	2,878,930
(Loss) income from operations	**(26,845)**	34,490	**14,881**	184,842
Loss from disposal of equipment	**-**	(13,005)	**-**	(13,005)
(Loss) income before income taxes	**(26,845)**	21,485	**14,881**	171,837
Provision for income taxes	**-**	-	**-**	-
Net (loss) income for the period	**(26,845)**	21,485	**14,881**	171,837
Deficit, beginning of period	**(23,062,792)**	(23,192,124)	**(23,104,518)**	(23,342,476)
Deficit, end of period	**$ (23,089,637)**	$ (23,170,639)	**$ (23,089,637)**	$ (23,170,639)
Net (loss) income per share	**$ (0.0004)**	$ 0.0004	**$ 0.0001**	$ 0.0028
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 March 31

	Three months ended		Nine months ended	
	2009	2008	**2009**	2008
Cash flow from operating activities				
Net (loss) income for the period	**$ (26,845)**	$ 21,485	**$ 14,881**	$ 171,837
Items not involving cash				
Loss from disposal of equipment	-	13,005	-	13,005
Amortization of equipment	**29,637**	36,421	**88,909**	100,465
Stock option compensation	**574**	1,618	**2,266**	5,944
Changes in non-cash working capital items:				
Accounts receivable	**24,022**	(48,618)	**246,955**	(49,726)
Inventories	**(80,408)**	50,389	**(27,884)**	(32,964)
Prepaid expenses and other assets	**3,736**	40,660	**(314)**	1,270
Customer deposits and deferred revenue	**33,305**	952	**34,003**	4,073
Accounts payable and accrued liabilities	**21,937**	(7,195)	**(135,805)**	(11,805)
	5,958	108,717	**223,011**	202,099
Cash flow from investing activities				
Purchase of equipment	**-**	(96,008)	**-**	(96,008)
Cash flow from financing activities				
Proceeds of notes payable	**-**	69,000	**105,000**	144,000
Proceeds of long-term debt	**12,000**	-	**12,000**	-
Repayment of notes payable	**(7,750)**	(64,350)	**(103,450)**	(149,700)
Repayment of long-term debt	**(63,396)**	(84,434)	**(228,401)**	(166,482)
	(59,146)	(10,035)	**(214,851)**	(182,217)
(Decrease) increase in cash	**(53,188)**	2,674	**8,160**	(76,126)
Cash, beginning of period	**85,554**	36,704	**24,206**	115,504
Cash, end of period	**$ 32,366**	$ 39,378	**$ 32,366**	$ 39,378

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	**$ 18,198**	$ 21,521	**$ 59,312**	$ 73,103
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 March 31, 2009 the Company has a deficit, to date, of $23,089,637 and working capital deficiency of $803,656. 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.

.

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 March 31, 2009 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% (25.2%) 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 gain on foreign exchange of $2,462 (Mar. 2008 – gain of $3,583).

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 $803,656 (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:

	Mar 31 2009	June 30 2008
Raw materials and supplies	**$ 328,882**	$ 294,212
Work in process	**21,146**	27,008
Finished goods	**29,494**	30,418
	$ 379,522	$ 351,638

Inventory utilization during the period was as follows:

	Mar 31 2009	Mar 31 2008
Raw materials and supplies used	**$ 869,012**	$ 881,735
Labour costs	**694,183**	756,626
Other costs	**165,205**	188,355
Net change in finished goods and work in process	**6,785**	11,770
Cost of product sales	**$ 1,735,185**	$ 1,838,486

5. Equipment

Mar. 31, 2009	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ **161,518**	$ **153,297**	$ **8,221**
Office equipment and furniture	**70,287**	**60,259**	**10,028**
Manufacturing equipment [1]	**1,443,775**	**989,430**	**454,345**
Leasehold improvements	**61,003**	**48,585**	**12,418**
	$ 1,736,583	**$ 1,251,571**	**$ 485,012**

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 $308,609 (June 2008 - $363,070) have been pledged as security for long-term debts (Note 7).

6. Notes Payable and Other Advances

Interest	Security	Terms	**Mar 31 2009**	June 30 2008
Prime + 2%	Unsecured	No repayment terms [1]	**6,442**	16,192
12%	Unsecured	No repayment terms [1]	**131,573**	110,078
			$ 138,015	$ 126,270

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

7. Long-Term Debt

	Mar 31 2009	June 30 2008
Non interest bearing debenture that has matured. [1]	**$ 39,600**	$ 39,600
Term loan bearing interest at 9.5%, secured by specific equipment having a net book value of $115,328 (June 2008 - $135,681) and matures in April 2009. Blended monthly principal and interest payments of $6,510 are required.	**6,459**	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]	**4,618**	17,898
Term loans bearing interest at 9.5%, are secured by specific equipment having a net book value of $122,325 (June 2008 - $143,911) and mature in June 2009. Blended monthly principal and interest payments of $5,099 are required.	**15,058**	58,153
Balance forward	**65,735**	178,001

7. Long-Term Debt - continued

	Mar 31 2009	June 30 2008
Balance forward	**65,735**	178,001
Term loan bearing interest at 12.0%, unsecured, and matures in March 2011. No payments are required from April 2009 to March 2010 after which all accrued interest will be added to the loan balance. Blended monthly principal and interest payments of $4,073 will commence April 2010 and continue until maturity. [2, 5]	**40,929**	33,424
Term loan bearing interest at 12.0%, unsecured, and matures in March 2011. No payments are required from April 2009 to March 2010 after which all accrued interest will be added to the loan balance. Blended monthly principal and interest payments of $5,076 will commence April 2010 and continue until maturity. [3, 5]	**51,007**	45,068
Term loans bearing interest at 8.0%, unsecured, and mature May 2011. Blended monthly principal and interest payments of $3,296 are required.	**78,434**	102,578
Term loans bearing interest at 12.0%, secured by specific equipment having a net book value of $70,956 (June 2008 - $83,478) and mature in August 2011. No payments are required from April 2009 to March 2010 after which all accrued interest will be added to the loan balances. Blended monthly principal and interest payments of $3,559 will commence April 2010 and continue until maturity. [2, 3, 5]	**49,447**	72,428
Term loans bearing interest at 8.0%, unsecured, and mature November 2011. No payments are required from April 2009 to March 2010 after which all accrued interest will be added to the loan balances. Blended monthly principal and interest payments of $3,559 will commence April 2010 and continue until maturity. [4, 5]	**64,788**	91,249
Term loan bearing interest at 6.0%, secured by a general security agreement covering the assets of Permatech, matures December 2011. Monthly interest payments of $2,218 are required each month until May 2009. Blended monthly principal and interest payments of $13,446 per month will commence June 2009 and continue until maturity [5]	**380,302**	412,295
	730,642	935,043
Less: Current portion	**256,455**	437,199
	$ 474,187	$ 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 $37,971 (June 30, 2008 - $58,446) payable to Officers of the Company and/or their spouses.
[5] The repayment terms of these loans were renegotiated during the period such that payments were deferred and maturity dates were extended.

The minimum annual future principal repayments are as follows:

2010	$ 256,455
2011	307,728
2012	166,459
	$ 730,642

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:

2010	$ 108,648
2011	99,594
	$ 208,242

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 March 31, 2009 and June 30, 2008	60,351,804	$ 21,856,332
Class A special shares March 31, 2009 and June 30, 2008	1,193,442	100,000
Balance March 31, 2009 and June 30, 2008		$ 21,956,332

Preferred Shares:

	Current	Other	Total
Balance March 31, 2009 and June 30, 2008	$ 473,855	$ -	$ 473,855

(c) Details of warrants outstanding:

During the period no warrants were granted, exercised or expired. As at March 31, 2009 and June 30, 2008 there were no warrants outstanding.

(d) Details of options outstanding:

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		

9. Share Capital - continued

(d) Details of options outstanding - continued

	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.

(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:

	Mar. 31 2009	June 30 2008
Contributed surplus, beginning of period	**$ 338,208**	$ 330,880
Compensation expense related to stock options granted in prior periods	**1,866**	7,328
Contributed surplus, beginning of period	**$ 340,074**	$ 338,208

10. Related Party Transactions

In addition to the Directors and Officers, the following related party 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**	**Mar 31 2009**	June 30 2008
Interest expense - long term	1114377	**$ 4,974**	$ 4,857
Interest expense - other	1114377	**$ -**	$ 2,632
Interest expense - long term	Directors/Officers	**$ 10,776**	$ 9,249
Interest expense - other	Directors/Officers	**$ 10,540**	$ 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
Balance forward	$ 3,806,880

11. Income Taxes - continued

Future Income Taxes - continued

Balance forward	$ 3,806,880
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.

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:

	Mar 31 2009	June 30 2008
Long-term debt [1, 2]	**$ 709,125**	$ 814,540
Share Capital	**21,956,332**	21,956,332
Contributed surplus	**340,074**	338,208
Deficit	**(23,089,637)**	(23,104,518)
Net capital (deficiency) under management	**$ (84,106)**	$ 4,562

(1) Excludes long-term debts that are both secured by specific equipment and due to unrelated parties.
(2) During the current period many of these debts (see Note 7) were renegotiated such that payments were deferred and maturities were extended.

13. Subsequent Event

Subsequent to the balance sheet date the Company completed negotiation of a loan agreement whereby it borrowed $997,500 from arm's length parties in order to purchase equipment. The equipment acquired constitutes a new assembly line which significantly increases the Company's assembly capacity. Under the loan agreement the Company issued two debentures which are jointly secured by this equipment. The debentures mature December 15, 2013 although the Company retains the right to prepay them, in whole or in part, without penalty at any time prior to maturity.

The first debenture has a face value of $715,000 and bears interest at 10.5% per annum. The second debenture has a face value of $282,500 and bears interest at 4.5% per annum. The loan agreement required the Company to issue 2,800,000 common shares to the holder of the first debenture, for no additional proceeds, and to grant the holder of the second debenture an option to acquire 24% ownership in Permatech Electronics Corporation for $200,000. The option is valid until June 15, 2012 and, if exercised, any amounts that may then be outstanding on the debenture may be applied as payment, in part or in full, of the option price.

No amounts relative to these transactions have been reflected in these financial statements

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 March 31, 2009 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

During the recently concluded fiscal quarter the Company experienced some repercussions of the economic downturn that has caused market demand to wane. Revenues for the period amounted to $690,777 representing only the second time since the end of the 2004 fiscal year that revenues have been below $700,000. While the Company continues to receive product orders and the number of requests for quotations is increasing there is no way to know how long the current economic uncertainty will continue.

Management was very proactive during this period and took steps to not only weather the current economic storm but also to create real opportunity for immediate and future growth. To address the current situation steps were taken to minimize operating losses and to preserve cash flow. While management expects this leaner operation to be able to sustain operations until conditions improve it was unwilling to sit back and wait for the recovery to commence. In an attempt to stimulate revenue growth the Company was negotiating a transaction that will see production capacity increase significantly and provide the Company with access to elements of the marketplace that it previously did not have. This transaction was successfully concluded after the end of the fiscal quarter and the benefits are expected to begin to be realized immediately.

In an attempt to minimize current operating losses the Company kept discretionary spending to a minimum and reduced its staff compliment in both production and administration. As a result of these endeavours the Company was able to keep its quarterly loss to only $26,845. These staff reductions were done in a manner that the Company anticipates that it will be able to ramp back up quickly, whenever business volumes dictate. Management will continue to seek ways to control costs without impeding the Company's ability to satisfy current and future customer demands.

While reducing operating costs helps preserve cash resources, management also realized that it would require cash to fund the expected increase in business volumes. It is well documented that the investment in inventory, accounts receivable and other elements that accompany periods of growth have a short term negative impact on cash flow. In order to make the cash available to fund this anticipated requirement management renegotiated the repayment terms of a number of its long-term debts. The debt instruments affected were those having scheduled maturities of 12 months or more. The new terms reduced the required monthly payments and extended those maturities. There were no changes to the interest rates being charged or to the security granted. Debts valued at $586,473 were renegotiated and the new repayment terms were all in effect by March 31, 2009.

In addition to renegotiating these debt instruments the Company was also busy negotiating the acquisition and financing of a new assembly line. This augments existing equipment and significantly increases the Company's production capacity. Management was aware that the Company's capacity was an impediment to growth and has been seeking a solution for some time now. Current economic conditions resulted in the availability of reasonably priced equipment and the Company was able to negotiate reasonable financing in order to obtain it. This transaction was completed after the end of the fiscal quarter and all machinery is in place and operational as of the date of this document.

The acquisition of this equipment means that the Company has taken on an additional $977,500 in long-term debt. While this is a significant undertaking the Company was able to negotiate favourable repayment terms. As one should expect, you always have to give something in order to get something and securing these repayment terms was no exception. In exchange for interest charges of 8.8% on a weighted average basis, limiting the security to the equipment acquired, and deferring the repayment of more than 61% of the debt until the debentures mature in December 2013 the Company was required to issue 2,800,000 common shares and grant an option to acquire 24% of Permatech Electronics Corporation for $200,000. The Company also secured the right to pre-pay any or all of this debt at any time without penalty.

While the renegotiated debts and the acquisition of the new equipment put the Company in a position to capitalize on new opportunities it continues to operate with a deficiency in assets and a working capital deficiency that will only be remedied with enhanced profitability and the improved cash flow that will result from it.

Corporate Performance - continued

There is no way to accurately predict when, or if, the current economic conditions will improve however management is reasonably optimistic that it has taken, and will continue to take, the steps necessary to sustain the Company through these difficult times and to potentially stimulate its own economic recovery.

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:				
	Mar. 09	Dec. 08	Sept. 08	June 08	Mar. 08
Total Revenues	690,777	928,499	1,030,426	1,003,130	937,253
Net (loss) income from operations	(26,845)	601	41,125	66,121	34,490
Per share	(0.000)	0.000	0.001	0.001	0.001
Net (loss) income for the period	(26,845)	601	41,125	66,121	21,485
Per share	(0.000)	0.000	0.001	0.001	0.001
Total assets	1,291,890	1,322,065	1,566,082	1,591,396	1,456,980
Total long-term financial liabilities	474,187	414,131	442,318	497,844	571,435
Total liabilities	2,084,721	2,088,625	2,334,073	2,401,374	2,334,463
Cash dividends [1] – preferred shares	NIL	NIL	NIL	NIL	NIL

	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 (loss) income 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 (loss) income 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

[1] Cash dividends were being accrued rather than paid

Results of Operations

The impact of the current economic downturn continued through the third fiscal quarter as revenues declined to $690,777. This represents the third consecutive quarter whereby reported revenues were lower than the same periods one year earlier and as a result the year to date revenues of $2,649,702 are approximately 13.5% lower than those realized during the first nine months of the 2008 fiscal year. While the recently acquired equipment will provide an increase in production capacity and access to new market segments it is uncertain when, or if, market demand will return to previous levels. Prior to the economic downturn the Company was at or near the $1,000,000 level in quarterly revenues and management is confident that, when the economic recovery occurs, periodic revenues will exceed these previous levels.

Results of Operations - continued

With the reduction in revenues comes the expected decline in profitability. For the recently concluded fiscal quarter the Company has reported a net loss from operations of $26,845 which is also the net loss for the period. This represents a decline of $61,335 in the net income from operations and a decline of $48,330 in the net income for the period when compared to Q3-2008. This also marks the end of a string of six consecutive quarters whereby the Company reported net income from operations and nine consecutive quarters with net income for the period. Profitability, just like periodic revenues, have now declined for three consecutive periods in comparison to prior year amounts. The net income from operations and net income for the nine month period were $14,881 as compared to $184,482 and $171,837 respectively as reported at March 31, 2008. Maintaining profitable operations will be very difficult unless revenues return to previous levels.

While quarterly revenues are more than 26% lower than at March 2008 the cost of sales has declined by less than 22% thereby continuing the recent trend of declining gross margin percentages. The gross margins realized during the three and nine month periods ended March 31, 2009 were 32.8% and 34.5% of sales respectively. The amounts for the comparable periods ended March 31, 2008 were 36.8% of sales and 40.0% of sales. Historically, when the gross margin percentage declines the primary reason has been that revenue from turnkey business is rising as a percentage of total revenues. Although this relationship holds true on a year-to-date basis this was not the case during the third quarter of 2009 as the cost of components and supplies consumed declined as a percentage of sales during this period. This anomaly has arisen as a consequence of higher than typical labour costs incurred during the period.

There are two reasons why labour costs, as a percentage of sales, are higher in the current periods than they were one year ago. The situation that arose earlier in the year persisted throughout this period whereby assembly work being completed had a high proportion of one particular process which led to the intermittent addition of a second shift and the incurrence of overtime. The determination that this situation was not temporary was a major factor leading to the addition of new machinery after the end of the fiscal quarter. This increased automation will resolve this labour issue and will also provide excess capacity that is expected to enable the Company to secure additional orders. In addition to this, management had to adapt operations to suit the weakening economy. This had to be done in such a manner that it did not hamper the Company's ability to secure and service orders that were being quoted. While there is no assurance these quotations will translate into orders it was determined that is was cost effective to retain existing employees rather than face the costs of locating and training new employees. Management will continue to monitor this situation based upon the timing and number of orders it reasonably expects to receive and will make further adjustments, up or down, to labour as they become appropriate.

The cost of raw materials and supplies used during the current period amounted to $206,439 which is lower than the $295,298 incurred during Q3-2008. In addition to the decline in value they also fell from 31.5% of sales to 29.9%. These percentages are reflective of the volume of turnkey business that is completed and clearly it was lower in the current period. This is contrary to a recent trend that has seen turnkey business rising as a percentage of revenue. In fact, on a year to date basis, the cost of raw materials and supplies still exceeds 2008 levels as a percentage of revenues. In fact the nine month figure of $869,012 is very similar to the $881,735 incurred one year which means that cumulatively the value of turnkey business is almost unchanged from one year earlier. The Company promotes that turnkey sales are a cost effective solution for its customers and anticipates that the third quarter results are not indicative of a new trend. The nature of recently issued quotations would tend to support that turnkey business will remain strong however current economic conditions have made it more difficult to predict the size and timing of customer orders.

Labour costs, which have already been discussed on the percentage of sales basis, amounted to $203,607 in the current period. This represents a decline of more than 17.3% in comparison to the $246,209 incurred for three month period ended March 2008. On a year to date basis labour costs aggregate $694,183 which represents a decline of 8.3%. Management will continue to monitor labour costs and to ensure that they are optimized relative to current and expected future demand. It should be noted that it is expected that there will be a learning curve associated with implementing the new machinery during the fourth quarter which could serve to keep labour costs higher than demand might otherwise dictate.

Results of Operations - continued

Equipment costs, which include amortization and repairs and maintenance, amounted to $33,532 for the quarter and $93,819 on a year to date basis. The comparable figures from one year earlier are $33,350 and $98,547 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, packaging and freight. 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.

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. In these uncertain economic times management has taken steps to minimize administrative costs as well as all discretionary spending, which are included in these costs. As a result the total for the period was $229,041 representing a decline of 19.9% from the sum of $285,840 incurred in Q3-2008. The reduction realized in the current period raises the decrease realized thus far in fiscal 2009 to approximately 13.1%.

Employee and consultant remuneration continues to be the largest component of SG&A even though it was significantly reduced during Q3-2009. The total for the period of $119,726 is 32.6% lower than the $177,637 sustained one year previous. During the nine-month period ended March 2009 the Company has spent $493,842 on remuneration which is 20.2% less than the total to March 2008 of $618,478. During the third quarter management implemented a reduction in work hours for all administrative staff, with a corresponding reduction in pay. In addition, key personnel waived the amounts due to them under a salary deferral arrangement which resulted in a one-time savings of almost $31,000. These significant cost cutting measures were made necessary by the decline in business volumes resulting from the economic downturn. Management continues to monitor business volumes and will make further adjustments, up or down, when it is appropriate to do so.

Occupancy costs amounted to $77,020 during the current period and stand at $233,821 on a year-to-date basis. These costs, which consist primarily of rent and utility charges, were approximately 1% higher than the Q3-2008 total of $76,083 and 3.9% higher than the $224,985 for the nine month period then ended. The base rent for the Company's facility has remained constant throughout the 2008 and 2009 periods therefore 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 $13,000 and regulatory fees were $7,019. These expenses are virtually identical to the amounts of $13,186 and $7,071 incurred during the third quarter of 2008. Management has always attempted to keep these transaction based fees as low as possible and therefore was unable to effect any further reductions during the current period. Regulatory fees, on a year to date basis, amount to $21,287 for 2009 as compared to $20,080 in 2008 again reflecting the continual efforts to minimize these costs. Professional fees for the nine month period, which amount to $40,107, are 24.9% lower than the $50,086 spent to March 2008 however this difference is likely to be eroded during the fourth quarter as a result of legal services related to the equipment acquisition and financing.

There are no other elements that equal or exceed 4% of the total SG&A for any of the periods ended March 31, 2009 and 2008. 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.

Results of Operations - continued

Interest expense for the quarter was $19,031 thereby raising the total thus far this year to $58,830. The amounts incurred during the comparable periods one year earlier were $22,706 and $74,206. The reduction in financing costs is a reflection of the headway that the Company had been making in reducing its overall debt load but particularly the reduction in its long-term debt. It is certain that this trend will not continue in the immediate future as the restructuring of many debts has deferred their repayment plus the impact of the new debt taken on during the fourth quarter in order to finance the equipment acquisitions.

Liquidity

Until the Company suffered the impact of the current economic turmoil it had been making slow but steady progress in its battle to improve liquidity. The working capital deficiency at March 31, 2009 stands at $803,656 however this figure has been reduced by $122,869 as a result of the restructuring of long term debts. Had those debts not been renegotiated then the current portion of long-term debt would have been $379,324 as opposed to the $256,455 reported.

Management has long understood that sustained profitability is a necessity to enable it to eliminate this deficiency. Despite having had a modest run of successive profitable periods it was acknowledged that remaining profitable during these tumultuous economic times was going to be difficult. The results of the latest fiscal quarter are evidence that this was true. Management is confident that all reasonable steps have been taken to reduce costs without becoming an impediment to conducting business. It has also undertaken an expansion of its operating capacity that should make it feasible for the Company to gain more market share. These steps may still not be sufficient to assure profitability but they are believed to be enough to make continued profitability a possibility.

In addition to the sustained profitability management is also aware that it needs to maintain positive cash flows. While both the net income for the period, when adjusted to eliminate non-cash expenses like amortization, and net cash flow from operations were each positive during Q3-2009 they were only nominally above break even. Management remains very active in administering all aspects of its cash flow which has been reflected in the restructuring of the debts and the avoidance of losses due to non-collection of accounts receivable. Through the continuing effective management of these balances it is expected that positive cash flow from operations will persist.

The working capital deficiency continues to include 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 its maturity date. 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 Mar. 2010	Due by Mar. 2012	Due after Mar. 2012	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	256,455	434,587	-	691,042
Operating leases	108,648	99,594	-	208,242
Total	1,338,405	534,181	-	1,872,586

Capital Resources

During the third quarter of 2009 management was actively negotiating a transaction to acquire and finance new machinery. These negotiations culminated with the issuance of two debentures on May 1, 2009 having an aggregate face value of $997,500 the proceeds of which were utilized to purchase a number of pieces of equipment that together constitute a second production line.

Aside from this transaction the Company has no further commitments to acquire any assets nor has any commitments from any parties to provide additional financing. The Company remains reliant on related parties to provide short term financing as required to satisfy working capital shortages.

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:

	Mar. 31 2009	June 30 2008	Mar. 31 2008	June 30 2007
Note payable at prime +2%	6,442	16,192	19,442	29,192
Notes payable at 12.0%	131,573	110,078	66,442	102,539
Term loan payable at 8.0%	37,971	58,446	58,446	72,766
Term loan payable at 8.5%	4,618	17,898	22,140	34,342
Term loans payable at 12%	141,383	150,920	-	-

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

	Mar. 31 2009	June 30 2008	Mar. 31 2008	June 30 2007
Interest expense – long term	15,750	14,106	8,018	9,929
Interest expense – other	10,540	13,415	10,606	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 March 31, 2009, 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% (25.2%) 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 $803,656 (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.