ZTEST Electronics Inc.

Consolidated Financial Statements

June 30, 2006

MOORE STEPHENS COOPER MOLYNEUX LLP
CHARTERED ACCOUNTANTS

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Auditors' Report

To the Shareholders of ZTEST Electronics Inc.

We have audited the consolidated balance sheets of ZTEST Electronics Inc. as at June 30, 2006 and June 30, 2005, and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2006 and June 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Signed: ***"Moore Stephens Cooper Molyneux LLP"***

Chartered Accountants

Toronto, Ontario
July 31, 2006

ZTEST Electronics Inc.

Consolidated Balance Sheets
June 30

		2006		2005
Assets				
Current assets				
Cash	**$**	**213,210**	$	116,075
Accounts receivable		**360,966**		425,183
Inventories *(note 3)*		**159,517**		259,135
Prepaid expenses and other assets		**39,321**		35,368
Amount receivable *(note 4)*		**120,000**		17,000
		893,014		852,761
Equipment *(note 5)*		**817,056**		876,316
Investments and advances *(note 6)*		**4**		4
	$	**1,710,074**	$	1,729,081
Liabilities				
Current liabilities				
Customer deposits	**$**	**-**	$	62,437
Accounts payable and accrued liabilities		**389,354**		412,423
Dividends payable		**486,504**		402,119
Notes payable and other advances *(note 7)*		**74,898**		181,962
Current portion of long-term debt *(note 8)*		**658,740**		495,694
Current portion of preferred shares *(note 10)*		**941,673**		136,024
		2,551,169		1,690,659
Long-term debt *(note 8)*		**396,113**		1,922,244
Preferred shares *(note 10)*		**-**		805,649
		2,947,282		4,418,552
Deficiency in assets				
Share capital *(note 10)*		**22,204,366**		20,547,026
Contributed surplus *(note 10)*		**108,228**		83,493
Equity portion of convertible debentures *(note 8)*		**27,008**		111,422
Deficit		**(23,576,810)**		(23,431,412)
		(1,237,208)		(2,689,471)
	$	**1,710,074**	$	1,729,081

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board

Signed: *"John Perreault"*

Director

Signed: *"Wojciech Drzazga"*

Director

ZTEST Electronics Inc.

Consolidated Statements of Operations and Deficit
for the years ended June 30

	2006	2005
Revenue		
Product sales	**$ 2,977,197**	$ 3,376,029
Interest and other	**2,641**	1,629
Design services	**2,515**	3,820
	2,982,353	3,381,478
Expenses		
Cost of product sales	**1,841,215**	2,182,783
Selling, general and administrative	**1,035,441**	956,052
Interest expense - long-term debt *(note 11)*	**128,917**	126,513
Dividends on preferred shares	**56,395**	75,559
Amortization of equipment	**29,854**	34,182
Financing fees	**-**	107,529
Interest expense - other *(note 11)*	**12,053**	38,163
Foreign exchange	**(5,264)**	(15,488)
	3,098,611	3,505,293
Loss from operations	**(116,258)**	(123,815)
Other income or deductions	**-**	(3,322)
Loss on disposal of capital and other assets	**(1,150)**	-
Loss before provision for income taxes	**(117,408)**	(127,137)
Provision for income taxes *(note 12)*	**-**	-
Net loss for the year	**(117,408)**	(127,137)
Deficit, beginning of year	**(23,431,412)**	(23,266,771)
	(23,548,820)	(23,393,908)
Dividends	**(27,990)**	(37,504)
Deficit, end of year	**$ (23,576,810)**	$ (23,431,412)
Net loss per share - basic and fully diluted	**$ (0.002)**	$ (0.003)
Weighted average shares outstanding	**53,704,210**	38,090,629

The accompanying notes are an integral part of these consolidated financial statements.

ZTEST Electronics Inc.

Consolidated Statements of Cash Flows
for the years ended June 30

	2006	2005
Cash flow from operating activities		
Net loss for the years	**$ (117,408)**	$ (127,137)
Items not involving cash		
Amortization of equipment	**162,073**	117,723
Dividends on preferred shares	**56,395**	75,559
Stock based compensation	**22,018**	81,648
Interest accretion	**24,655**	35,918
Debt forgiveness	**(2,000)**	-
Changes in non-cash working capital items		
Accounts receivable	**62,592**	123,664
Inventories	**99,618**	(132,791)
Prepaid expenses and other assets	**(3,953)**	10,140
Amount receivable	**(106,933)**	(17,000)
Customer deposits	**(62,437)**	(2,584)
Accounts payable and accrued liabilities	**(22,396)**	(342,524)
	112,224	(177,384)
Cash flow from investing activity		
Purchase of equipment	**(102,813)**	(103,320)
Cash flow from financing activities		
Repayments of capital lease obligations	**-**	(1,971)
Net (repayment) proceeds on long-term debt and notes payable	**(213,076)**	362,662
Net proceeds on issuance of common shares	**300,800**	-
	87,724	360,691
Increase in cash	**97,135**	79,987
Cash, beginning of year	**116,075**	36,088
Cash, end of year	**$ 213,210**	$ 116,075

Supplemental Disclosure of Cash Flow Information

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

	2006	2005
Interest	**$ 195,084**	$ 143,666
Income taxes	**$ -**	$ -

The accompanying notes are an integral part of these consolidated financial statements.

1. Business of the Company

ZTEST Electronics Inc. ("the Company") was 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 TSX Venture Exchange under the symbol "ZTE".

2. Significant Accounting Policies

Going concern basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. This assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. As at June 30, 2006 the Company has a deficit, to date, of $23,596,010 and working capital deficiency of $1,658,155. The Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and its ability to generate positive cash flow from operations.

Basis of consolidation

These consolidated financial statements have been prepared using the consolidation method and accordingly include the following subsidiaries' assets and liabilities as well as the revenues and expenses arising, subsequent to the date of acquisition:

Permatech Electronics Corporation	100% owned
Northern Cross Minerals Inc.	66.7% owned (inactive)

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short term interest bearing securities with maturity at the date of purchase of three months or less. At June 30, 2006 and June 30, 2005 there were no cash equivalents on hand.

Inventories

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

Equipment

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

Computer software	100	%	declining balance
Computer equipment	30	%	declining balance
Office equipment and furniture	20	%	declining balance
Manufacturing equipment	20	%	declining balance
Leasehold improvements	10	yrs	straight line

Investments

Investments in entities over which the Company has neither significant influence nor control are accounted for under the cost method. The Company currently has investments in three inactive corporations and holds preference shares of another. The carrying value of each of these investments has been written down to their estimated net realizable value of $1 and any further recoveries, should any arise, will be accounted for on a cash basis.

Financial instruments

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

Future income taxes

The Company accounts for income taxes using the asset and liability method of accounting. Under this method, future income tax assets and future income tax liabilities are recorded based on temporary differences between the financial reporting basis of the Company's assets and liabilities and their corresponding tax basis. The future benefits of income tax assets, including unused tax losses, are recognized subject to a valuation allowance that is predicated upon the extent that it is more likely than not that such assets will be realized and losses will be utilized. These future income tax assets and liabilities are measured using substantially enacted tax rates and laws that are expected to apply when the tax assets or liabilities are to be settled or realized.

Revenue recognition

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

2. Significant Accounting Policies - continued

Earnings (loss) per share

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

Foreign exchange

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

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Black-Scholes option valuation model used by the Company to determine fair values was developed for use in estimating the fair value of freely traded options and warrants. This model requires the input of highly subjective assumptions including future stock price volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing model does not necessarily provide a reliable single measure of the fair value of the Company's stock options and warrants granted during the period.

Stock based compensation

The Company has in effect a Stock Option Plan. Stock options awarded are accounted for using the fair value based method. Fair value is calculated using the Black-Scholes model with the assumptions described in note 10. The fair values attributed to stock that have not yet vested are amortized on a straight-line basis over the vesting period with this amortization being reversed in the event that vesting ceases to be possible. Consideration paid on the exercise of stock options is credited to share capital together with any accumulated contributed surplus.

3. Inventories

	2006	2005
Raw materials	**$ 109,869**	$ 152,651
Work in process	**13,835**	20,845
Finished goods	**35,813**	85,639
	$ 159,517	$ 259,135

4. Amount Receivable

	2006	2005
Demand promissory note bearing interest at 8.0% is secured by a debenture payable (*note 8*) and matures September 23, 2006. Monthly interest payments are required.	**$ 120,000**	$ -
Demand promissory note bearing interest at 10% per annum with no fixed maturity date.		17,000
	$ 120,000	$ 17,000

5. Equipment

	2006			2005
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Computer software	**$ 34,269**	**$ 34,269**	**$ -**	$ -
Computer equipment	**267,044**	**253,218**	**13,826**	15,523
Office equipment and furniture	**121,605**	**103,938**	**17,667**	28,889
Manufacturing equipment	**1,633,685**	**877,316**	**756,369**	796,609
Leasehold improvements	**61,003**	**31,809**	**29,194**	35,295
	$ 2,117,606	**$ 1,300,550**	**$ 817,056**	$ 876,316

6. Investments and Advances

The Company holds various securities in the following entities, each of which has been written down to its net realizable value as they are no longer operational nor do they possess any tangible security to be acted upon:

		2006		2005
Dion Entertainment Corp. 2,153,973 common shares and a debenture having a face value of $3,574,522 which is in default.	**$**	**1**	$	1
Nexsys Commtech International Inc. 5,480,314 common shares and 1,830,000 preferred shares representing a 43% voting interest. The Company also holds 4,750,000 warrants and has granted an option on 400,000 shares of Nexsys to a creditor.		-		-
Uniqrypt.Com Inc. 1,900,500 common shares representing a 10.0% investment and a convertible debenture having a face value of $318,000, which is in default.		**1**		1
Med-Minder Enterprises Inc. 100,000 shares representing a 2.4% investment and a $120,000 amount receivable for which the Company provided notice of intent to convert but never received the requisite shares.		**1**		1
Chessen Group Inc. 1,705,871 Class A Preference shares.		**1**		1
	$	**4**	$	4

7. Notes Payable and Other Advances

Interest	Security	Terms		2006		2005
Nil	Unsecured	No repayment terms	**$**	-	$	2,000
Prime + 2%	Unsecured	No repayment terms (1)		**42,192**		55,192
6%	Unsecured	On demand		**16,767**		16,767
8%	Unsecured	No repayment terms (2)		-		45,930
8.5%	Unsecured	No repayment terms (3)		-		45,434
12%	Unsecured	No repayment terms (1)		**15,939**		16,639
			$	**74,898**	$	181,962

(1) Payable to Officers of the Company and/or their spouses.

(2) This balance included $41,045 payable to Officers of the Company and/or their spouses, which was converted during the period into 328,630 common shares of the Company.

(3) Payable to a company controlled by the spouse of a Director of the Company. This loan was converted into a term loan effective June 30, 2006.

8. Long Term Debt

		2006		2005
Convertible non interest bearing debentures with a face value of $142,176 (2005 - $912,202) maturing in December 2006. Convertible, in whole or in part, into units of the Company at the rate of one unit for each $0.11 converted. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to acquire an additional common share on or before December 1, 2006 for $0.11. (1)	**$**	**140,675**	$	879,898

8. Long Term Debt - continued

		2006		2005
Balance forward	**$**	**140,675**	$	879,898
Convertible non interest bearing debentures with a face value of $222,292 were converted during the current period into 2,222,925 common shares and 2,222,295 share purchase warrants that expired December 1, 2005.		**-**		219,764
Convertible non interest bearing debentures with a face value of $39,600 (2005 - $72,600) matured December 1, 2005. (2)		**39,600**		72,175
Convertible non interest bearing debentures with a face value of $238,020 were converted during the current period into 2,163,818 common shares and 2,163,818 share purchase warrants.		**-**		225,898
Convertible debenture bearing interest at 10% with a face value of $135,000 maturing in September 2006. Monthly interest payments are required. Convertible, in whole or in part, into common shares of the Company at the rate of one common share for each $0.10 converted. The holder also received 1,350,000 share purchase warrants, each of which entitles the holder to acquire an additional common share for $0.10 before August 31, 2006. (3)		**134,274**		130,543
Convertible debenture bearing interest at 8% with a face value of $120,000. Monthly interest payments are required. Convertible, in whole or in part, into units of the Company at the rate of one unit for each $0.06 converted. Each unit consists of one common share and one share purchase warrant that entitles the holder to acquire an additional common share for $0.10 before January 25, 2007. This debenture was scheduled to mature January 2007 however the holder was provided notice, in accordance with the terms of the debenture, that the Company intends to repay it on September 24, 2006. Coincident with delivery of this notice the Company paid the holder an amount equal to the face value under a demand loan arrangement (*note 4*) whereby the interest otherwise due can be offset and the conversion rights cannot be exercised until the day after the demand loan in repaid.		**117,387**		112,801
Term loan bearing interest at 8.5%, unsecured, and matures June 30, 2009. Blended monthly principal and interest payments of $1,561 are required. (4)		**49,450**		-
Term loan bearing interest at the TD Canada Trust prime lending rate plus 11%, secured by a general security agreement, and matures June 30, 2008. Blended monthly principal and interest payments of $10,816 are required. (5)		**220,906**		308,145
Note payable bore interest at 8.5% and matured June 2006. Blended monthly principal and interest payments of $947 were required. (6)		**-**		15,592
Term loan bearing interest at 9.5%, secured by specific equipment and matures in April 2009. Blended monthly principal and interest payments of $6,510 are required.		**193,379**		250,160
Term loans bearing interest at 9.5%, secured by specific equipment and mature in June 2009. Blended monthly principal and interest payments of $5,099 are required.		**159,182**		202,962
		1,054,853		2,417,938
Less: Current portion		**658,740**		495,694
	$	**396,113**	$	1,922,244

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

2007	$	658,740
2008		257,712
2009		138,401
	$	1,054,853

8. Long Term Debt - continued

At the date of issue of a convertible debenture the Company determines the relative amounts to be reported as the liability component and the equity component. The liability portion represents the estimated present value of the associated cash flows determined using an interest rate applicable to non-convertible debt. The equity component, which is included in shareholders' equity, represents the estimated fair value of the conversion right and any share purchase warrants. An amount equal to the equity portion is amortized on a straight-line basis over the term of the debenture. The periodic amortization is called interest accretion and is included as an element of Interest expense – long term. The carrying value of each convertible debenture represents the liability portion plus the cumulative interest accretion. In the event that one of these debentures is converted the amount added to Share capital is equal to the carrying value on the conversion date plus the equity component.

(1) Includes debentures with a face value of $83,326 payable to Officers of the Company and/or their spouses. During the current fiscal year debentures having a face value of $770,026 were converted into 7,700,255 common shares and 7,700,255 share purchase warrants.

(2) During the current fiscal year debentures having a face value of $33,000 were converted into 330,000 common shares. The remaining debenture has matured but the Company has not yet been able to contact the holder in order to settle the balance due. Until appropriate arrangements can be made the balance payable will remain as an element of the current portion of long term debt.

(3) Payable to a company that acquired sufficient common shares during the year to hold in excess of 10% of the issued and outstanding shares as at the balance sheet date.

(4) Payable to a company controlled by the spouse of a Director of the Company. This loan was converted from a note payable with no fixed repayment terms into a term loan effective June 30, 2006.

(5) Payable to a corporation that is a shareholder of the Company and whose President was a Director of the Company until June 2006.

(6) Payable to a company controlled by the spouse of a Director of the Company.

9. Commitments

Operating leases

Minimum payments under operating leases for premises are approximately as follows:

2007	$	104,121
2008		105,630
2009		108,648
2010		108,648
2011		72,432
	$	499,479

10. Share Capital

(a) Authorized

Unlimited Common shares

Unlimited Non voting, non participating Class A special shares redeemable by the Company or the holders, under specific conditions that have not yet been satisfied, on a one for one basis for common shares of Northern Cross Minerals Inc.

Unlimited Preferred shares in one or more series of which the following four series have been authorized to date:

Series A redeemable, voting [1] shares were to be repurchased on May 21, 2004. Negotiations as to a means of settlement are ongoing.

Series B non-voting shares may no longer be issued. All previously issued shares in this series have been converted into common shares.

Series C redeemable, voting [1] shares bear 7% cumulative dividends payable monthly and must be repurchased in May 2007. These shares can be converted by the holder into common shares of the Company at a rate of 1 common share for each 1.7143 Series C shares until May 2007.

Series D redeemable, voting [1] shares bear 7% cumulative dividends payable monthly and must be repurchased in June 2007. These shares can be converted by the holder into common shares of the Company at a rate of 1 common share for each 1.6432 Series D shares until June 2007.

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

10. Share Capital - continued

(b) Issued

	Number of Shares	Amount
Common shares June 30, 2004	32,731,016	$ 19,527,637
Debentures converted	3,376,250	188,426
Preferred shares converted	7,934,000	530,235
Settlement of dividends payable on preferred shares converted	2,007,280	200,728
Common shares June 30, 2005	46,048,546	20,447,026
Note payable converted	328,362	41,045
Debentures converted	12,633,380	1,318,212
Private placement	2,000,000	320,000
Less: portion allocated to contributed surplus	-	(2,717)
Less: transaction fees on the private placement		(19,200)
Common shares March 31, 2006	61,010,288	22,104,366
Class A special shares June 30, 2006 and June 30, 2005	1,193,442	100,000
Balance June 30, 2006		$ 22,204,366
Preferred Shares		
Balance June 30, 2004		$ 1,471,908
Conversion of 143,000 Series C preferred shares		(167,243)
Conversion of 255,000 Series D preferred shares		(362,992)
		941,673
Less: Series A preferred shares reflected as a current liability		(136,024)
Balance June 30, 2005		805,649
Less: Series C & D preferred shares reflected as current liability		(805,649)
Balance June 30, 2006		$ -

(c) Details of warrants outstanding are as follows:

Number of Warrants	Price/Warrant	Expiry Date
1,350,000	$0.10	August 30, 2006
66,875	$0.10	December 1, 2006
7,700,255	$0.10	December 1, 2006
1,250,000 (1)	$0.10	January 24, 2007
1,177,524	$0.155	April 8, 2007
2,380,200	$0.10	November 25, 2007
1,000,000	$0.24	June 29, 2008
14,924,854		

During the current fiscal year, 13,303,380 warrants were issued and 2,461,668 warrants expired, including 2,222,925 of the newly issued warrants and 238,743 that had been held Directors and Officers of the Company or their spouses.

(1) A Director of one of the Company's subsidiaries holds these warrants.

(d) Details of options outstanding are as follows:

Common Shares Under Option	Price/Option	Expiry Date
100,000 (1)	$0.17	November 27, 2006
750,000 (1)	$0.24	February 19, 2007
75,000 (2)	$0.24	February 19, 2007
75,000 (3)	$0.24	February 19, 2007
200,000 (1)	$0.135	April 30, 2007
750,000 (1)	$0.10	December 17, 2007
75,000 (2)	$0.10	December 17, 2007
75,000 (3)	$0.10	December 17, 2007
750,000 (1)	$0.12	December 18, 2008
100,000 (2)	$0.12	December 18, 2008
100,000 (3)	$0.12	December 18, 2008
150,000	$0.12	December 18, 2008

10. Share Capital - continued

(d) Details of options outstanding are as follows: - continued

Common Shares Under Option	Price/Option	Expiry Date
200,000	$0.12	December 22, 2009
800,000 (1)	$0.12	December 22, 2009
100,000 (2)	$0.12	December 22, 2009
100,000 (3)	$0.12	December 22, 2009
100,000 (2)	$0.19	June 14, 2010
50,000	$0.155	July 10, 2010
900,000 (1)	$0.17	June 27, 2011
5,450,000		

During the current fiscal year 950,000 new options were granted, including 900,000 options issued to Directors and/or Officers of the Company, and 335,500 options expired, including 305,500 held by Directors and/or Officers of the Company. Subsequent to the balance sheet date an additional 450,000(2) options expired.

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

(2) These options expired July 2006 as a consequence of the resignation of two of the Company's Directors.

(3) If not exercised, these options will expire in September 2006 as a consequence of the resignation of one of the Company's Directors.

(e) Stock based compensation:

The fair value of stock options and share purchase warrants granted during the period has been determined using the Black-Scholes model. The Company has granted options for the purchase of common shares to employees, directors, officers and other service providers. The aggregate number of common shares reserved for issuance under this plan cannot exceed 20% of the aggregate number of common shares of the Company that are issued and outstanding. The compensation amount related to stock options is included in Selling, general and administrative expense and the amount related to warrants is included in Financing fees for the period. Both are added to Contributed surplus.

	2006	2005
Compensation expense related to options	**$ 22,018**	$ 24,546
Compensation expense related to warrants	**$ -**	$ 57,102

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

	2006	2005
Dividend yield	**NIL**	NIL
Risk free interest rate	**2.85%-4.51%**	3.07%-3.17%
Expected stock volatility	**18.72%-40.06%**	52.78%
Expected life	**5 years**	2-5 years

11. Related Party Transactions

The following related parties had transactions with the Company during the period or outstanding balances at the end of the period.

Nu Way Offerings Limited ("Nu Way")

A shareholder, whose President was a Director of the Company until June 2006.

1114377 Ontario Inc. ("1114377")

A shareholder, that is controlled by the spouse of a Director of the Company.

James Lalonde

A director of Northern Cross Minerals Inc., a subsidiary of the Company.

J.T. Risty Limited ("J.T. Risty")

A shareholder that holds in excess of 10% of the common shares of the Company currently issued and outstanding.

Description	**Related Party**	**2006**	2005
Interest expense-long term	Nu Way	**$ 41,977**	$ 66,456
Interest expense-long term	1114377	**$ 927**	$ 1,775
Interest expense-long term	James Lalonde	**$ -**	$ 1,085
Interest expense-other	1114377	**$ 4,868**	$ 4,204
Interest expense-other	Directors/Officers	**$ 6,160**	$ 13,381
Interest expense - long term	J.T. Risty	**$ 13,500**	$ -

11. Related Party Transactions - continued

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.

12. Income Taxes

Major items causing the Company's income tax to differ from federal statutory rate if approximately 36.12% (2005 - 36.12%)

	2006	2005
Loss before income taxes	**$ (117,408)**	$ (127,137)
Expected income tax benefit based on statutory rates	**$ (42,407)**	$ (45,922)
Adjustments to benefit resulting from:		
Non-taxable or non-deductible items	**93,188**	117,986
Valuation allowance	**(50,781)**	(72,064)
	$ -	$ -

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:

	2006	2005
Resource related expenditures	**$ 4,915,932**	$ 4,915,932
Undepreciated capital cost	**203,034**	205,108
Non capital losses	**661,988**	703,220
Capital losses	**1,108,162**	1,108,162
Future income tax assets, before valuation allowance	**6,889,116**	6,932,422
Valuation allowance	**(6,889,116)**	(6,932,422)
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	
2007	$ 164,542
2008	249,411
2009	861,518
2010	439,852
2014	114,285
2016	3,139
	$ 1,832,747

The full realization of these losses carried forward is subject to the result of audits by Canada Revenue Agency. In addition, expenses in the amount of approximately $13,610,000 have been recorded in the accounts but have not yet been claimed for income tax purposes and capital losses of approximately $6,136,000 are available indefinitely.

13. Concentration of Credit Risk

In 2006, two of the Company's customers each accounted for over 20% (aggregate 41.7%) of revenue (2005 - 1 customer at 29.2%). The loss of either of these customers or significant curtailment of purchases by such customer could have a material adverse affect on the Company's results of operations and financial condition.

14. Segment Disclosure

The Company has one operating segment involving the design, development, and assembly of printed circuit boards and other electronic equipment. All of the Company's assets are located in Canada.

General

The following Management Discussion and Analysis has been prepared by the company's management to accompany the consolidated financial statements of the Company as at June 30, 2006 and should only be read in conjunction with those financial statements. Additional information about the Company can be found at www.sedar.com.

Disclosure Controls and Procedures

Management is responsible for the information disclosed in this management discussion and analysis and has in place the appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is, in all material respects, complete and reliable. As of the financial year ended June 30, 2006, an evaluation was carried out under the supervision of, and with the participation of, the Corporation's management, including the Chief Executive Officer and Chief Financial Officer, on the effectiveness of the Corporation's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as of June 30, 2006 to provide reasonable assurance that material information relating to the Corporation and its consolidated subsidiaries would be made known to them by others within those entities.

Forward-looking Information

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties, which may cause actual results to differ materially from the statements made. When used in this document, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect" and similar expressions are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to such risks and uncertainties. Many factors could cause our actual results to differ materially from the statements made, including those factors discussed in filings made by us with the Canadian securities regulatory authorities. Should one or more of these risks and uncertainties, such as reduced funding, long sales cycles, currency and interest rate fluctuations, increased competition and general economic and market factors, occur or should assumptions underlying the forward looking financial statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, or expected. We do not intend and do not assume any obligation to update these forward-looking statements. Shareholders are cautioned not to put undue reliance on such forward-looking statements.

The Company

The Company operates a single business segment involving the design, development, and assembly of printed circuit boards and other electronic equipment. The management of the Company is comprised of the following individuals:

Name	**Position(s)**
Wojciech Drzazga[1]	Director and CEO
John Perreault [1][2]	Director and President
K. Michael Guerreiro [1][2]	Director
Michael D. Kindy	VP Finance & CFO
William R. Johnstone	Secretary

[1] Denotes member of audit committee
[2] Denotes member of compensation committee

Three of the Company's directors, each of whom was a member of the Company's audit and/or compensation committees, resigned during the year. The remaining Directors, representing a quorum, have temporarily filled the vacancies on the audit and compensation committees pending the appointment of additional Directors. Following the appointment of new Board members it is expected that new committee members will replace these temporary participants.

Corporate Performance

The year ended June 30, 2006 has been a year during which the Company assembled more circuit boards than it did in prior years but still experienced a decline in total revenues. This apparent contradiction is because of a reduction in turnkey work that began in the 2005 fiscal year and persisted throughout 2006. Total revenues of $2,982,353 represent an 11.8% decline in comparison to 2005 levels. While a decline in revenues cannot be characterized as a positive result it has been documented previously that the 2005 revenues included some positive anomalies that were unlikely to recur. It may also be noteworthy that 2006 revenues are 20.9% higher than those realized in 2004 further indicating that 2005 was uncharacteristic with respect to revenues. Notwithstanding this point, the decline in turnkey work experienced in 2006 did exceed management's expectations.

While turnkey work, which is still a significant part of the Company's operations, continue at lower than anticipated levels management remains focused on increasing business volumes and achieving sustainable profitability. Management's efforts in this area have been modestly rewarded with an increase in fourth quarter revenues to $720,256 as opposed to $710,395 one year earlier. Similarly, the Company has reported a net loss from operations of $47,014 which represents a 50.9% improvement over the prior year. Management will continue to pursue growth in business volumes, revenues and profitability over the upcoming months and the growth in turnkey business that is anticipated will add to this result.

The 2006 fiscal year was an encouraging year with respect to the Company's financial position as total liabilities declined by $1,471,270 and the deficiency in assets improved by $1,452,263. While the Company continues to report a deficiency in assets, currently valued at $1,237,208, and a working capital deficiency an improvement of this magnitude should, in managements' opinion, be recognized as significant. The improvement in the equity position comes as a result of a private placement completed in the fourth quarter and the conversion of numerous debentures into shares of the Company. The private placement represents the first time in over two years that the company has raised money without the use of convertible debt instruments and, in combination with the conversions that took place in the second quarter, is perceived to represent a growing optimism about the Company's future.

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

	For the fiscal years ended:		
	June 06	June 05	June 04
Total Revenues	2,982,353	3,381,478	2,467,019
Net income (loss) from operations	(116,258)	(123,815)	(368,192)
Per share	(0.002)	(0.003)	(0.011)
Net income (loss) for the period	(117,408)	(127,137)	(368,192)
Per share	(0..002)	(0.003)	(0.011)
Total assets	1,710,074	1,729,081	1,122,999
Total long-term financial liabilities	396,113	2,787,893	3,004,960
Total liabilities	2,947,282	4,418,552	4,677,614
Cash dividends [(1)] – preferred shares	84,385	113,063	150,104

	For the three month periods ended:				
	June 06	Mar. 06	Dec. 05	Sept. 05	June 05
Total Revenues	720,256	732,511	757,850	771,736	710,395
Net income (loss) from operations	(47,044)	(50,863)	(4,143)	(14,208)	(95,805)
Per share	(0.001)	(0.001)	(0.000)	(0.000)	(0.002)
Net income (loss) for the period	(47,044)	(50,863)	(5,293)	(14,208)	(99,127)
Per share	(0.001)	(0.001)	(0.000)	(0.000)	(0.002)
Total assets	1,710,074	1,495,156	1,703,984	1,851,848	1,729,081
Total long-term financial liabilities	396,113	1,222,460	1,391,435	2,554,689	2,727,893
Total liabilities	2,947,282	2,989,490	3,140,464	4,515,544	4,418,552
Cash dividends [(1)] – preferred shares	21,038	20,807	21,270	21,270	21,038

Corporate Performance - continued

	For the three month periods ended:				
	Mar. 05	Dec. 04	Sept. 04	June 04	Mar 04
Total Revenues	757,113	993,047	920,923	675,915	743,029
Net income (loss) from operations	(76,099)	46,829	1,260	(42,943)	(64,727)
Per share	(0.002)	0.001	0.000	(0.001)	(0.003)
Net income (loss) for the period	(76,099)	46,829	1,260	(42,943)	(64,727)
Per share	(0.002)	0.001	0.000	(0.001)	(0.003)
Total assets	1,246,675	992,455	1,092,700	1,122,199	987,857
Total long-term financial liabilities	2,579,972	2,672,742	2,986,591	3,004,960	2,709,696
Total liabilities	3,908,196	4,518,884	4,657,753	4,677,614	4,572,383
Cash dividends [1] – preferred shares	21,488	35,269	35,268	35,812	37,964

[1] Cash dividends are being accrued rather than paid

Results of Operations

Prior to the first quarter of the 2006 fiscal year the Company had posted 11 consecutive quarters whereby total revenues increased in comparison to the same quarter one year earlier. The fourth quarter of 2006 is the first period since that time that the Company has realized a year over year improvement. During this string of 11 consecutive quarters of growth the increases were attributed to a change in product mix otherwise described as a rise in the volume of turnkey business. Turnkey refers to contracts where the Company is required to complete the assembly of the electronic circuit boards but is also required to acquire all or most of the components to be assembled. In these instances revenue grows as a consequence of component sales even if assembly volumes do not increase. In 2005 the amount of revenue derived from component sales was $1,433,533 or 42.4% of total annual revenues. For 2006 this value was $963,339 or 32.3% of total revenues which supports the assertion that the value of turnkey business has declined. Turnkey values peaked in the first half of the 2005 fiscal year then began to decline. During the first three quarters of the 2006 fiscal year the reduction in the value of turnkey business was enough to result in a decline in gross revenue when compared to the prior year. The fourth quarter of 2006 is the first period where the revenues attributable to the assembly activities have grown enough to more than offset the decline in revenues from component sales.

While this reduction in the value of turnkey business was occurring management was attempting, through an expanded sales team, to broaden its customer base and generate a sustainable increase in business volumes. As a result of these efforts the Company made initial sales to 24 new customers during the 2006 fiscal year. While new customers tend to start with relatively small orders, the value of the sales to these new customers was $121,712 which more than offset the $102,479 in sales made to 8 customers in 2005 that did not place orders in 2006. It is noteworthy as well that these sales to new customers contributed to a $71,360 increase in revenue from assembly business in 2006. It is management's belief that the 1.3% fourth quarter increase in gross revenues and the 3.7% increase in annual revenues from board assembly in fiscal 2006, are precursors of future business activities. The new sales effort and enhanced assembly capacity are expected to help keep the assembly volumes high into and throughout the 2007 fiscal year.

The Company continues to derive virtually all (99.8%) of its revenue from product sales with minor contributions from product design fees and miscellaneous income. The Company will continue to offer product design services to its customers, since it can maintain this capability without incurring incremental costs however, it is no longer anticipated that this will grow into a significant source of revenue.

Results of Operations - continued

The cost of product sales and design services ("cost of sales") for the 2006 fiscal year are almost 16% lower than incurred in 2005. Since revenues declined by less than 12% it follows that gross margin percentages have actually increased, although the gross margin value has declined by $58,569 to $1,138,497. The disproportionate decline in the cost of sales is anticipated whenever there is decline in turnkey volume. This arises because the mark up on assembly labour and overhead is greater than the mark up on the components. The fact that gross margins declined by only $58,569, despite a decline of $399,125 in total revenues, is further evidence that the assembly volumes have increased. It also supports that the gross margins realized on assembly work have replaced virtually the entire gross margin lost on the decline in turnkey work. If management continues to be successful in increasing its labour efficiency through increased automation it would seem reasonable to anticipate that the company will continue to experience increased margins, both percentage and value, as assembly volumes rise.

The largest elements of cost of sales continue to be the cost of components, the cost of remuneration and the cost of machinery. For 2006 these categories represented 91% of total cost of sales as compared to 94% in 2005, 92% in 2004 and 91% in 2003. While these elements are the three largest each year what is not readily apparent is that the relative value of components and remuneration vary each year according to the amount of turnkey work being done. For example component costs made up 37% of cost of sales in 2006 which is lower than the 44% factor they represented in 2005 but are still higher than the 31% in 2004 and 18% in 2003. This supports that component sales are declining but continue to be a major element of the total operations.

When component costs decline an increase in remuneration as a percentage of cost of sales is anticipated. This is precisely what has occurred based on the 46% factor in 2006 compared to 39% in 2005. The final factor is the costs associated with equipment including repairs and maintenance, equipment rental and amortization. Through 2003 and 2004 the majority of this category was attributable to rental and repairs however late in the 2005 fiscal year the Company began acquiring new machinery with enhanced capabilities and capacity. This newer equipment has resulted in a decline in this category to 8% of cost of sales in 2006 compared to 11% in 2005. This decline is not expected to persist as depreciation costs increase, whether or not the company continues to purchase new equipment. The remaining elements of costs of sales are the stencils, tools and supplies necessary to enable assemblies to be completed and products to be shipped as well as the freight costs incurred to obtain parts and ship completed products. Each of these will continue to be relatively insignificant elements of cost of sales.

Selling, general and administrative expenses ("SG&A) encompass all costs other than those directly attributable to the production process or the cost of financing the operations. The total SG&A for the current period was $1,035,441 representing an increase of $79,389 or 8% over 2005 levels. The largest individual elements of this category are always employee and consultant compensation and occupancy costs. For the current fiscal year compensation amounted to $637,802 or 62% of the total SG&A while occupancy costs amounted to $268,327 or 26%. The corresponding figures for 2005 were $553,223 or 58% and $259,706 or 27%. As predicted in prior years, the Company has added personnel in order to achieve and maintain the business volumes being experienced. These additional people, plus market based increases provided to existing staff, account for the rise in compensation expense. The $84,104 increase in remuneration costs actually exceeds the increase realized in total SG&A. It is probable that the Company will continue to hire new people in order to meet the demands that come from a growing business. It should also be noted that in 2006 the Company recorded $22,018 (2005 - $24,565) in compensation expenses related to the stock options granted to consultants, employees, officers and directors. Just as in 2005 the majority of this compensation expense arose in the fourth quarter. Occupancy costs have remained very stable for the last past three years having increased only 3% in the both the current and immediately preceding fiscal years and only 1.0% in 2004. The Company has a lease on its operating facility that continues through February 2011 so these costs, subject to significant fluctuation in utility rates or other unforeseen events, will remain both consistent and predictable for quite some time.

Results of Operations - continued

The remainder of SG&A is comprised of professional fees, regulatory fees and various other costs. Professional fees, which amounted to $61,475 or 6% of SG&A in 2006, are impacted significantly by the amount and nature of financing transactions that the Company undertakes, by the regulatory filings that must be completed, and by the increasing cost of having the annual financial statements audited. In 2006 the Company settled a loan using common shares, had a number of debentures converted, and completed a private placement of shares and warrants just before year-end. Each of these transactions contributed to the amount of professional fees incurred however the largest factor behind the 13% increase experienced in 2006 was the increased cost of the financial statement audit. While the Company's operations and overall complexity have not changed in recent years the market conditions that impact upon the way that a financial statement audit is completed have. The Company, like many others, is experiencing the cost of these changes and will continue to do so unless market conditions change unexpectedly. Regulatory fees, which include fees levied by stock exchanges and by the Company's transfer agent, were $17,558 in 2006 or 2% of SG&A as compared to $30,573 and 3% in 2005. These fees are based entirely on the number and size of reportable events that take place and will vary accordingly from period to period. All other individual components of SG&A, which aggregated $49,710 or 5% in 2006 and $68,254 or 7% in 2005, are not significant enough to warrant further investigation.

The Company's cost of financing, which is comprised of interest on long-term debt, other interest, financing fees and dividends on preferred shares decreased by more than 43% in 2006 as compared to 2005. This is a reflection of the aging of existing debt instruments, that no new debt was incurred during the year, and that numerous debt instruments were converted into shares during the 2005 and 2006 fiscal years. In each of the three preceding fiscal years the Company had raised over $300,000 through the issuance of new debt instruments. In 2006 there was no need to issue new debt instruments and the $320,000 raised just prior to the end of the fiscal year was through the issuance of shares and warrants.

Interest on long-term debt for the 2006 fiscal year was $128,917, including $24,655 in accretion, as compared to $126,513 and $35,918 for 2005. Accretion is a non-cash charge required under Canadian generally accepted accounting principles whenever a debt instrument is issued at an interest rate that is considered to be below market rates applicable at the time of issue. The increase in the cash-cost of interest in 2006 is a result of the term financing that the Company used to acquire equipment in 2005 and 2006 and the conversion of some notes payable into term debt facilities.

All other elements of the cost of financing have declined in 2006. Interest on short term item has dropped from $38,163 to $12,053 as a result of the repayment of a number of short term loans and the conversion of others into structured term debt facilities. Financing fees dropped from $107,529 to $Nil reflecting a reduction in the money raising requirements and the fact that the $19,200 in fees incurred relative to the private placement are accounted for, in accordance with Canadian generally accepted accounting principles, as a reduction of the carrying value of share capital. It should be noted that the 2005 figure included $57,083 in compensation expense attributed to the share purchase warrants that were issued to the provider of term financing. Finally, the dividends paid on preferred shares declined from $75,559 to $56,395 due to the share conversions that took place in 2005. It is expected that financing costs will continue to decline as interest bearing items mature or are settled.

Liquidity

At the end of the 2006 fiscal year the Company has reported a working capital deficiency of $1,658,515 which is up dramatically from 2005 levels when a deficiency of $837,898 was reported. While management anticipates that many debenture holders and holders of preferred shares will each opt to convert their holdings into common shares the fact remains that there is no agreement currently in place to secure this fact and therefore liquidity remains a significant concern. The debentures maturing in 2007 represent $431,936 of the working capital deficiency while the preferred shareholders are owed $1,428,177. If the majority of this can be settled without the use of existing current assets then the working capital deficiency could be eliminated.

Liquidity - continued

Improved liquidity will come through improved cash flow from operations and the effective management of available cash. Cash flow from operations has been under significant pressure for the past number of years as the Company was growing, incurring losses and attempting to deal with liabilities that remained from prior years. If we take the net loss for the 2006 fiscal year and add back the non-cash items such as stock based compensation, depreciation, accretion and dividends expensed but not paid we come to a figure of $147,733 making 2006 the second consecutive year that this result has been positive. In fact 2006 was a good year for cash generation as operations produced over $112,000 in positive cash flow even though a loan receivable was issued in the amount of $120,000 just prior to the year end date. It is expected that these positive cash flows will continue thereby enabling the Company to settle liabilities as they come due, except those discussed in the previous paragraph. It is entirely possible that new financing, either debt or equity based, will need to occur prior to the maturity of the debentures and/or preferred shares.

In addition to meeting working capital requirements the Company must also address the payment or other settlement of the following amounts:

	Due by June 2007	Due by June 2008	Due by June 2010	Due after June 2010	Total Due
Repurchase of preferred shares	1,365,504	-	-	-	1,365,504
Convertible debentures	431,936	-	-	-	431,936
Other long-term debt	226,804	257,712	138,401	-	622,917
Operating leases	104,121	105,630	217,296	72,432	499,479
Total	2,128,365	363,342	355,697	72,432	2,919,836

Capital Resources

The Company has not entered into any commitments to acquire any equipment however it is likely that the Company will be required to bring in additional equipment in order to continue to grow the business. The Company continues to have access to a credit facility of up to $1,937,926 for use exclusively in relation to the acquisition of equipment. This credit line can be used up to the maximum of 88% of the pre-tax amount of any equipment purchases. Each amount borrowed under this facility will become repayable over a 48 month term and will bear interest at the rate of 9.5% per annum. It should be noted that the equipment purchase that took place in June 2006 was paid out of available cash and did not utilize any portion of this loan facility.

Related Party Transactions

The Company has participated in a number of transactions with related parties and consequently reports many amounts as being due to related parties. These transactions involve the Company's Officers, Directors, their spouses, companies that are considered related as a consequence of the involvement of one or more of these individuals, a corporation that holds more than 10% of the Company's shares, and a director of a subsidiary Company. The majority of these related party transactions involve the provision of financing to the Company along with the corresponding interest expense. All related party transactions are in the normal course of operations and have been carried out on the same terms as those accorded to unrelated parties.

The following balances are due to the related parties defined above as at June 30 of each year:

	2006	2005	2004
Note payable at prime +2%	42,192	55,192	57,692
Notes payable at 8.0% (1)	-	41,045	46,545
Note payable at 8.5% (2)	-	45,434	41,744
Note payable at 10.0%	-	-	10,922
Notes payable at 12.0%	15,939	16,639	33,369
Note payable at 16.0%	-	-	12,080

Related Party Transactions - continued

The following additional balances are due to the related parties defined above:

	2006	2005	2004
3 year debentures, non-interest bearing (3)	82,447	80,375	78,304
2 year debenture, non-interest bearing (4)	-	-	5,822
2 year debenture at 10% (5)	134,274	-	-
Term loan at prime + 11.0% (6)	220,906	308,145	363,145
Long-term note payable at 8.5%	-	15,592	25,186
Long-term note payable at 8.0% (2)	49,450	-	-

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

	2006	2005	2004
Interest expense – long term (6)	56,404	2,860	12,061
Interest expense – other	11,028	84,040	110,207

The following stock options and share purchase warrants have been issued to Directors and/or Officers of the Company and remain outstanding as at the date of this document:

Description	Expiry Date	Number of Common shares
Stock options @ $0.17 per share	November 2006	100,000
Share purchase warrants @ $0.10 per share	January 2007	1,250,000
Stock options @ $0.24 per share	February 2007	825,000
Stock options @ $0.135 per share	April 2007	200,000
Stock options @ $0.10 per share	December 2007	825,000
Stock options @ $0.12 per share	December 2008	850,000
Stock options @ $0.12 per share	December 2009	900,000
Stock options @ $0.17 per share	June 2011	900,000

(1) During the 2006 fiscal year this loan was settled through the issuance of 328,362 common shares.

(2) Interest at 8.5% accrued on this note monthly and was added to the balance of the note. It was converted to a term loan effective June 30, 2006.

(3) Debentures have a face value of $83,326 but are subject to accretion as described previously. They are carried on the balance sheet at an amount less than their face value and are adjusted each period by the amount of accretion that is recorded.

(4) Debenture had a face value of $5,938 and was subject to accretion as described previously. This debenture was converted during the 2005 fiscal year into 59,375 common shares.

(5) Debenture has a face value of $135,000 and was issued September 2004. Only the carrying value for the current year is reflected as the holder was not considered a related party prior to the current fiscal year.

(6) Interest on this note was at prime + 14.3% prior to June 30, 2005. All interest paid on this debenture during the 2006 fiscal year has been included as an amount paid to a related party.

Changes in Accounting Policy

The accounting policies followed by the Company are established in accordance with Canadian GAAP and once policies are established they will not, as a matter of policy, be revised unless Canadian GAAP changes. There were no policy changes during the 2006 fiscal year or subsequent thereto.

Convertible instruments and other securities

As at June 30, 2006 the Company has the following securities issued and outstanding:

Description	Quantity	Amount
Common shares	61,010,288	$ 21,680,535
Paid in capital of preferred shares		423,831
Class A special shares	1,193,442	100,000
		$ 22,204,366
Series A preferred shares	166,667	160,000
Series C preferred shares	288,858	505,501
Series D preferred shares	328,640	700,003
		1,365,504
Less: amount accounted for as paid in capital		423,831
Liability element of preferred shares		941,673
Less: amount reported as a current liability		(941,673)
Liability element of preferred shares		$ -

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

Description	Expiry Date	Number of Common shares
Share purchase warrants @ $0.10 per share	August 2006	1,350,000
Debentures convertible @ $0.10	September 2006	1,350,000
Stock options @ $0.17 per share	November 2006	100,000
Debentures convertible @ $0.11	December 2006	1,292,511
Share purchase warrants @ $0.10 per share	December 2006	7,767,130
Debentures convertible @ $0.06	January 2007	2,000,000
Share purchase warrants @ $0.10 per share	January 2007	1,250,000
Stock options @ $0.24 per share	February 2007	825,000
Stock options @ $0.135 per share	April 2007	200,000
Series C preferred shares	May 2007	288,858
Series D preferred shares	June 2007	328,640
Share purchase warrants @ $0.10 per share	November 2007	2,380,200
Stock options @ $0.10 per share	December 2007	825,000
Share purchase warrants @ $0.155 per share	April 2008	1,177,524
Share purchase warrants @ $0.24 per share	June 2008	1,000,000
Stock options @ $0.12 per share	December 2008	1,000,000
Stock options @ $0.12 per share	December 2009	1,100,000
Share purchase warrants @ $0.155 per share	July 2010	50,000
Stock options @ $0.17 per share	June 2011	900,000
		25,184,863

In the event that certain convertible debentures are converted in accordance with the chart above then the holder will also receive share purchase warrants that are exercisable as follows:

Share purchase warrants at $0.11	December 2006	1,292,511
Share purchase warrants at $0.10	January 2007	2,000,000
		3,292,511

While some of the stock options, share purchase warrants, and convertible debentures are held by related parties the Company has no ability to cause any of the items noted above to be converted and/or exercised.