

ZTEST Electronics Inc.

Consolidated Financial Statements

June 30, 2007



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, 2007 and June 30, 2006, 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, 2007 and June 30, 2006 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
Licensed Public Accountants**

Toronto, Ontario
August 24, 2007

ZTEST Electronics Inc.

Consolidated Balance Sheets

June 30, 2007 and 2006

	2007	2006
Assets		
Current assets		
Cash	\$ 115,504	\$ 213,210
Accounts receivable	451,188	360,966
Inventories (note 3)	241,467	159,517
Prepaid expenses and other assets	33,436	39,321
Amounts receivable (note 4)	-	120,000
	841,595	893,014
Equipment (note 5)	627,553	817,056
Investments and advances (note 6)	-	4
	\$ 1,469,148	\$ 1,710,074
Liabilities		
Current liabilities		
Customer deposits and deferred revenue	\$ 5,129	\$ -
Accounts payable and accrued liabilities	487,552	389,354
Dividends payable (note 11)	268,201	486,504
Notes payable and other advances (note 7)	156,731	74,898
Current portion of long-term debt (note 8)	388,421	658,740
Current portion of preferred shares (note 10)	473,855	941,673
	1,779,889	2,551,169
Long-term debt (note 8)	744,523	396,113
	2,524,412	2,947,282
Deficiency in assets		
Share capital (note 10)	21,956,332	22,204,366
Contributed surplus (note 11)	305,417	108,228
Equity portion of convertible debentures	25,463	27,008
Deficit	(23,342,476)	(23,576,810)
	(1,055,264)	(1,237,208)
	\$ 1,469,148	\$ 1,710,074

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, 2007 and 2006

	2007	2006
Revenue		
Product sales	\$ 3,426,751	\$ 2,977,197
Design services	5,700	2,515
Interest and other	4,395	641
	<u>3,436,846</u>	<u>2,980,353</u>
Expenses		
Cost of product sales	2,131,932	1,841,215
Selling, general and administrative	1,189,074	1,035,441
Interest expense - long-term debt (note 12)	84,059	128,917
Amortization of equipment (note 5)	62,138	29,854
Dividends on preferred shares	50,590	56,395
Interest expense - other (note 12)	24,468	12,053
Foreign exchange loss (gain)	1,781	(5,264)
	<u>3,544,042</u>	<u>3,098,611</u>
Loss from operations	(107,196)	(118,258)
Gain on settlement of debt (notes 7 and 11)	371,948	2,000
Loss on disposal of equipment and other assets	(5,311)	(1,150)
Income (loss) before provision for income taxes	259,441	(117,408)
Provision for income taxes (note 13)	-	-
Net income (loss) for the year	259,441	(117,408)
Deficit, beginning of year	(23,576,810)	(23,431,412)
	(23,317,369)	(23,548,820)
Dividends	(25,107)	(27,990)
Deficit, end of year	<u>\$ (23,342,476)</u>	<u>\$ (23,576,810)</u>
Net income (loss) per share - basic	\$ 0.004	\$ (0.002)
- fully diluted	\$ 0.004	\$ (0.002)
Weighted average shares outstanding	<u>60,961,008</u>	<u>53,704,210</u>

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, 2007 and 2006

	2007	2006
Cash flow from operating activities		
Net income (loss) for the years	\$ 259,441	\$ (117,408)
Items not involving cash		
Amortization of equipment	203,188	162,073
Loss on disposal of equipment and other assets	5,311	1,150
Dividends on preferred shares	50,590	56,395
Stock based compensation	16,749	22,018
Interest accretion	3,295	24,655
Debt forgiveness	(371,948)	(2,000)
Changes in non-cash working capital items		
Accounts receivable	(90,222)	62,592
Inventories	(81,950)	99,618
Prepaid expenses and other assets	5,885	(3,953)
Amount receivable	-	(106,933)
Customer deposits	5,129	(62,437)
Accounts payable and accrued liabilities	82,350	(22,396)
	87,818	113,374
Cash flow from investing activity		
Purchase of equipment	(18,992)	(103,963)
Cash flow from financing activities		
Net (repayment) proceeds on long-term debt and notes payable	(166,532)	(213,076)
Net proceeds on issuance of common shares	-	300,800
	(166,532)	87,724
(Decrease) increase in cash	(97,706)	97,135
Cash, beginning of year	213,210	116,075
Cash, end of year	\$ 115,504	\$ 213,210

Supplemental Disclosure of Cash Flow Information

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

Interest	\$ 103,754	\$ 195,084
Income taxes	\$ -	\$ -

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



ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

June 30, 2007 and June 30, 2006

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 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, 2007 the Company has a deficit, to date, of \$23,342,472 and working capital deficiency of \$938,294. The Company's continuance as a going concern is dependent upon its ability to generate positive cash flow from operations or obtain adequate financing.

Basis of presentation

These consolidated financial statements have been compiled by management using the same accounting policies and methods as the audited financial statements as at June 30, 2006 and should be read in conjunction with those statements.

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:

Permatest Electronics Corporation ("Permatest")	-	100%	owned
Northern Cross Minerals Inc.	-	66.7%	owned (inactive)

Measurement uncertainty

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

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with maturity at the date of purchase of three months or less. At June 30, 2007 and June 30, 2006 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 equipment	-	30%	declining balance
Office equipment and furniture	-	20%	declining balance
Manufacturing equipment	-	20%	declining balance
Leasehold improvements	-	10 yrs	straight line



Notes to Consolidated Financial Statements*June 30, 2007 and June 30, 2006*

2. Significant Accounting Policies - continued

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 (2006 - \$4) and any further recoveries, should any arise, will be accounted for on a cash basis.

Financial instruments

The carrying amounts of cash, accounts receivable, amounts receivable, accounts payable and accrued liabilities, dividends payable, and notes payable and other advances approximate their fair values 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 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 asset 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.

Earnings per share

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

Foreign exchange

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

Stock based compensation

The Company has in effect a Stock Option Plan. Stock options awarded are accounted for using the fair value-based method. Fair value is calculated using the Black Scholes model with the assumptions described in note 10. Consideration paid on the exercise of stock options is credited to share capital together with any accumulated contributed surplus.

3. Inventories

	2007	2006
Raw materials	\$ 167,348	\$ 109,869
Work in process	24,526	13,835
Finished goods	49,593	35,813
	<u>\$ 241,467</u>	<u>\$ 159,517</u>

ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

June 30, 2007 and June 30, 2006

4. Amounts Receivable

	2007	2006
Demand promissory note bore interest at 8.0% and was settled through the surrender of the debenture payable by which it was secured (note 8). Monthly interest payments were required.	\$ -	\$ 120,000

5. Equipment

2007	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 158,072	\$ 147,104	\$ 10,968
Office equipment and furniture	70,287	55,542	14,745
Manufacturing equipment	1,578,773	1,000,026	578,747
Leasehold improvements	61,003	37,910	23,093
	\$ 1,868,135	\$ 1,240,582	\$ 627,553

2006	Cost	Accumulated Amortization	Net Book Value
Computer software	\$ 34,269	\$ 34,269	\$ -
Computer equipment	267,044	253,218	13,826
Office equipment and furniture	121,605	103,938	17,667
Manufacturing equipment	1,633,685	877,316	756,369
Leasehold improvements	61,003	31,809	29,194
	\$ 2,117,606	\$ 1,300,500	\$ 817,056

During the current year the Company reduced to \$Nil the net book value of certain equipment that had been removed from service. As a result of this write-down there was a one-time charge to amortization in the amount of \$40,096.

6. Investments and Advances

The Company holds various securities in five privately held 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:

	2007	2006
Investments recorded at net realizable value	\$ -	\$ 4

7. Notes Payable and Other Advances

			2007	2006
<u>Interest</u>	<u>Security</u>	<u>Terms</u>		
Prime + 2%	Unsecured	No repayment terms ⁽¹⁾	\$ 29,192	\$ 42,192
6%	Unsecured	On demand ⁽²⁾	-	16,767
12%	Unsecured	No repayment terms	60,000	-
12%	Unsecured	No repayment terms ⁽³⁾	30,000	-
12%	Unsecured	No repayment terms ⁽¹⁾	37,539	15,939
			\$ 156,731	\$ 74,898

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

(2) During the year this note was settled in its entirety by making a principal payment of \$8,383 plus any and all accrued interest. This resulted in the recognition of a gain in the amount of \$8,384.

(3) Payable to a corporate shareholder that is controlled by the spouse of a Director of the Company.



ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

June 30, 2007 and June 30, 2006

8. Long-Term Debt

	2007	2006
Non interest bearing debenture matured December 2005. ⁽¹⁾	\$ 39,600	\$ 39,600
Convertible debenture bearing interest at 10% with a face value of \$135,000 matured September 2006. ⁽²⁾	-	134,274
Convertible debenture bearing interest at 8% with a face value of \$120,000 was repaid September 2006 (note 4).	-	117,387
Convertible non-interest bearing debentures with a face value of \$142,176 matured December 2006 and were settled through the issuance of term loans bearing interest at 8.0%, unsecured, and mature November 2010. Blended monthly principal and interest payments of \$3,471 are required. ⁽³⁾	124,157	140,675
Term loan bearing interest at the TD Canada Trust prime lending rate plus 11%, is secured by a general security agreement, and matures June 2008. Blended monthly principal and interest payments of \$10,922 are required.	119,754	220,906
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.	130,962	193,379
Term loan bearing interest at 8.5%, unsecured, and matures June 2009. Blended monthly principal and interest payments of \$1,561 are required. ⁽⁴⁾	34,342	49,450
Term loans bearing interest at 9.5%, are secured by specific equipment and mature in June 2009. Blended monthly principal and interest payments of \$5,099 are required.	111,054	159,182
Term loans bearing interest at 8.0%, unsecured, and mature May 2011. Blended monthly principal and interest payments of \$3,296 are required.	132,605	-
Term loan bearing interest at 6.0%, secured by a general security agreement covering the assets of Permotech, matures December 2011. Blended principal and interest payments of \$4,000 are required each month until May 2008, then \$10,000 per month until May 2009, then \$11,265 per month until maturity.	440,470	-
	1,132,944	1,054,853
Less: Current portion	388,421	658,740
	\$ 744,523	\$ 396,113

(1) The debenture has matured but the Company has not been able to contact the holder in order to settle the balance due. The balance payable remains as an element of the current portion of long term debt.

(2) Payable to a shareholder that holds in excess of 10% of the issued common shares of the Company.

(3) Includes debentures with a face value of \$83,326 payable to Officers of the Company and/or their spouses that were settled through the issuance of a term loan. As at the balance sheet date a balance of \$72,766 remains payable under this term loan.

(4) Payable to a corporate shareholder that is controlled by the spouse of a Director of the Company.

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

2008	\$ 388,421
2009	305,749
2010	193,464
2011	178,887
2012	66,423
	\$ 1,132,944



ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

June 30, 2007 and June 30, 2006

9. Commitments

Operating leases

Minimum payments due under operating leases for premises and office equipment that are required to be made in each twelve month period subsequent to the balance sheet date are approximately as follows:

2008	\$	105,630
2009		108,648
2010		108,648
2011		72,432
	\$	<u>395,358</u>

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. 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 - 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 attributed to contributed surplus		(2,717)
Less: transaction fees on the private placement		(19,200)
Common shares - June 30, 2006	61,010,288	\$ 22,104,366
Equity portion of preferred shares repurchased during year (note 11)		(232,185)
Shares surrendered for cancellation (note 11)	(500,000)	-
Shares surrendered for cancellation ⁽¹⁾	(158,484)	(15,849)
Common shares - June 30, 2007	60,351,804	21,856,332
Class A special shares June 30, 2007 and June 30, 2006	1,193,442	100,000
Balance June 30, 2007		<u>\$ 21,956,332</u>



ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

June 30, 2007 and June 30, 2006

10. Share Capital - continued

(b) Issued:

Preferred Shares:

	Current	Other	Total
Balance - June 30, 2005	\$ 136,024	\$ 805,649	\$ 941,673
Changes in allocation during year	805,649	(805,649)	-
Balance - June 30, 2006	941,673	-	941,673
Portion repurchased during the year (note 11)	(467,818)	-	(467,818)
Balance - June 30, 2007	\$ 473,855	\$ -	\$ 473,855

⁽¹⁾ As a result of a Canada Revenue Agency audit it was determined that a non-resident shareholder received shares in excess of what they were entitled as part of a January 2005 transaction. The Company has recovered and cancelled these excess shares and has remitted the value originally attributed to those shares to Canada Revenue Agency as required.

(c) Details of warrants outstanding are as follows:

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

During the period no warrants were issued and 11,544,654 warrants expired including 6,580,400 held by related parties. An additional 1,177,524 warrants expired subsequent to the balance sheet date.

⁽¹⁾ Held by a shareholder that holds in excess of 10% of the issued common shares of the Company.

(d) Details of options outstanding are as follows:

Common Shares Under Option	Price/Option	Expiry Date
750,000 ⁽¹⁾	\$0.10	December 17, 2007
750,000 ⁽¹⁾	\$0.12	December 18, 2008
150,000	\$0.12	December 18, 2008
200,000	\$0.12	December 17, 2009
800,000 ⁽¹⁾	\$0.12	December 17, 2009
50,000	\$0.155	July 10, 2010
900,000 ⁽¹⁾	\$0.17	June 27, 2011
3,600,000		

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

During the period no options were exercised or granted and 1,850,000 options held by Directors and former Directors expired.

(e) Stock based compensation:

The fair values of stock options granted have 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.



ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

June 30, 2007 and June 30, 2006

10. Share Capital - continued

(e) Stock based compensation:

	2007	2006
Compensation expense related to stock options	\$ 16,749	\$ 22,018

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

	2007	2006
Dividend yield	N/A	NIL
Risk free interest rate	N/A	2.85%-4.51%
Expected stock volatility	N/A	18.72%-40.06%
Expected life	N/A	5 years

11. Gain on Settlement of Debts

During the year the Company entered into negotiation to settle certain debts as follows:

- (a) The holder of an unsecured note payable valued at \$16,767 accepted a single payment of \$8,383 in full and final settlement resulting in the recognition of a gain in the amount of \$8,384.
- (b) The holder of certain series D preference shares agreed to accept promissory notes valued at \$450,000 in settlement of the aggregate redemption price of \$700,003 plus \$294,001 in dividends that had accrued on these shares but had not been paid. This transaction was completed in two stages with all dividends accrued but unpaid as at December 31, 2006 being settled at that date then all subsequent dividends and the repurchase price being settled in June 2007. Immediately following the completion of the second stage of the settlement the two unsecured 9.5% promissory notes were surrendered, along with 500,000 common shares of the Company, in exchange for a 6% term loan that is secured by the assets of Permotech.

In accordance with Canadian generally accepted accounting principles, as they existed at the time the preference shares were issued, the issuance proceeds were segregated into a liability element and an equity element. The ensuing dividends were also segregated such that the pro-rata amount attributable to the liability element was accounted for as an expense while the remainder was accounted for as a distribution of equity. These accounting practices have resulted in the following amounts being recognized with the settlement difference attributable to the liability element being recorded as a gain while the amount attributable to equity has been added to contributed surplus:

	Liability	Equity	Total
Dividends accrued and unpaid as at December 2006	\$ 182,487	\$ 90,571	\$ 273,058
Dividends accrued and unpaid as at June 2007	13,997	6,946	20,943
Repurchase price paid June 2007	467,818	232,185	700,003
Promissory note assigned December 2006	(82,777)	(41,084)	(123,861)
Promissory note assigned June 2007	(217,961)	(108,178)	(326,139)
Settlement difference	\$ 363,564	\$ 180,440	\$ 544,004

12. Related Party Transactions

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

1114377 Ontario Inc. ("1114377")

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

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

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



ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

June 30, 2007 and June 30, 2006

12. Related Party Transactions - continued

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	2007	2006
Interest expense - long term	1114377	\$ 3,624	\$ 927
Interest expense - other	1114377	\$ 3,147	\$ 4,868
Interest expense - long term	Directors/Officers	\$ 3,679	\$ -
Interest expense - other	Directors/Officers	\$ 5,616	\$ 6,160
Interest expense - long term	J.T. Risty	\$ 2,626	\$ 13,500
Interest expense - other	J.T. Risty	\$ 9,764	\$ -

13. 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:

	2007	2006
Resource related expenditures	\$ 4,915,932	\$ 4,915,932
Undepreciated capital cost	315,894	203,034
Non-capital losses	542,135	661,988
Capital losses	1,108,162	1,108,162
Future income tax assets, before valuation allowance	6,882,123	6,889,116
Valuation allowance	(6,882,123)	(6,889,116)
Net future tax assets	\$ -	\$ -

The timing of the utilization of the future tax assets is undeterminable. Consequently, a full valuation allowance has been provided against the future value of these assets.

Tax Loss Carry-Forwards

The potential income tax benefits resulting from the application of income tax losses have not been recognized in the financial statements. The following losses include 100% of the respective losses of the subsidiary companies and will expire at the end of the taxation years as follows:

Year	
2008	\$ 62,574
2009	861,518
2010	439,852
2014	114,285
2026	3,139
2027	19,559
	\$ 1,500,927

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



ZTEST Electronics Inc.

Notes to Consolidated Financial Statements

June 30, 2007 and June 30, 2006

14. Concentration of Credit Risk

In the period, two of the Company's customers each accounted for over 20% (aggregate 42.9%) of revenue (2006 - 41.7%). 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.

15. 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.



ZTEST Electronics Inc.

Form 51-102F1 - Management's Discussion and Analysis

For The Year Ended June 30, 2007

(Prepared as at October 22, 2007)

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, 2007 and should only be read in conjunction with those financial statements. Additional information about the Company can be found at www.sedar.com.

Disclosure Controls and Procedures

Management is responsible for the information disclosed in this Management Discussion and Analysis and has in place the appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is, in all material respects, complete and reliable. As of the financial year ended June 30, 2007, an evaluation was carried out under the supervision of, and with the participation of, the 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, 2007 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.

Internal Control Over Financial Reporting

Multilateral Instrument 52-109 requires a reporting issuer to submit an annual certificate relating to the design of internal control over financial reporting. Internal control over financial reporting is a process designed by management to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles. As part of this process, management, including the Chief Executive Officer and the Chief Financial Officer, has evaluated the design of the internal control over financial reporting at June 30, 2007 and based on this evaluation, management has concluded that the design of internal control over financial reporting was effective as of June 30, 2007.

Changes in Internal Control Over Financial Reporting

Under the provisions of MI 52-109, a reporting issuer is also required to disclose in their MD&A any change in internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect internal control over financial reporting. Management has determined that there have been no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting.

Forward-looking Information

This Management's Discussion and Analysis 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.

ZTEST Electronics Inc.

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For The Year Ended June 30, 2007

(Prepared as at October 22, 2007)

The Company

The Company operates a single business segment involving the design, development, and assembly of printed circuit boards. The management of the Company, which has not changed since the previous fiscal year end, is comprised of the following individuals:

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

⁽¹⁾ Denotes member of audit committee

⁽²⁾ Denotes member of compensation committee

Corporate Performance

During the fiscal quarter ended June 30, 2007 ("Q4-2007") the Company reported total revenues of \$955,765 thereby raising total annual revenue to \$3,436,846. These revenue figures represent the second highest quarterly and the highest annual revenues that the Company has reported since it focused its operations on the assembly of circuit boards. The quarterly revenues are approximately 33% higher than those reported in Q4-2006. They reflect increases in both assembly volume and turnkey business which is consistent with a recent trend and is anticipated to continue for at least the immediate future. The strong Q4-2007 revenues resulted in annual revenues being approximately 15% higher than those reported for the 2006 fiscal year. They are also approximately 2% higher than reported in fiscal 2005 which represented the previous annual maximum. The 2005 results were attributed to two specific fiscal quarters which were strong but anomalous as a result of very high valued components being used in certain turnkey products. While these 2005 results were certainly welcomed, management warned at the time that they were not sustainable. In contrast management believes that the 2007 results are sustainable. This belief is based upon the assembly volumes being experienced in Q1-2008, the quantity of quotations currently being requested and the fact that 2007 revenues were not directly attributable to specific components or non-recurring jobs.

While revenues continue to climb the Company continues to report operating losses. The loss for the current period amounted to \$4,590 which is both small and an improvement in comparison to the loss of \$47,044 as reported for Q4-2006, but is still not at the level that the Company strives to be. The loss from operations for the year amounted to \$107,196 which again is marginally better than the losses reported in each of the preceding two fiscal years but is not a result that management is satisfied with. The Company continues to drive its revenues higher and to seek new avenues for reasonable cost reduction and realizes that this combination is the formula for sustainable profitability.

During Q4-2007 the Company also completed the second and final phase of a transaction through which it settled its obligation to the largest holder of series D preferred shares. These shares had a repurchase price of \$700,003 plus dividends payable of \$294,001. Through this two-phased transaction the Company was able to settle the \$994,004 obligation, and secure the surrender of all of the 500,000 common shares that this party held, through the assignment of \$450,000 in 9.5% unsecured promissory notes. As a condition of the transaction these promissory notes were converted following phase two into a 6% term loan secured by the assets of Permotech and payable over a 55 month period. Phase two of the transaction was completed in Q4-2007 and resulted in the recognition of a gain of \$263,854 and an increase of \$130,953 in contributed surplus. This gain allowed the Company to report a net income for the current quarter and for the fiscal year. Management will continue to negotiate means of settling its maturing liabilities and will attempt to do so in a manner that does not adversely affect operations and improves the Company's overall financial position.

ZTEST Electronics Inc.

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For The Year Ended June 30, 2007

(Prepared as at October 22, 2007)

Corporate Performance - continued

The Company's financial position is best represented through its working capital deficiency and its deficiency in assets. As at June 30, 2007 the amount by which current liabilities exceed current assets, the working capital deficiency, amounted to \$938,294 and the amount by which total liabilities exceeds total assets, the deficiency in assets, was \$1,055,264. The working capital deficiency improved by more than 43% in comparison to the balance that existed at June 30, 2006 and the deficiency in assets has improved by almost 15%. Management's effort to eliminate both of these deficiencies will continue and these results support that some progress is being made.

Management is not yet satisfied but it does interpret the Q4-2007 and fiscal 2007 results as being encouraging. Revenues are rising due to increases in both assembly volumes and turnkey business, operations are producing positive cash flow, creditors have been amenable to reaching mutually beneficial settlements on maturing obligations, and the overall financial position of the Company is improving. Despite each of these positive indicators management remains aware that it is the elimination of operating losses, rather than the reductions experienced in recent periods, which will lead to the stable financial outlook that it seeks.

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

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

	For the three month periods ended:				
	<u>June 07</u>	<u>Mar. 07</u>	<u>Dec. 06</u>	<u>Sept. 06</u>	<u>June 06</u>
Total Revenues	955,765	933,985	936,100	610,996	720,256
Net income (loss) from operations	(4,590)	34,292	(16,868)	(120,030)	(47,044)
Per share	(0.000)	0.001	(0.000)	(0.002)	(0.001)
Net income (loss) for the period	259,260	42,676	77,535	(120,030)	(47,044)
Per share	0.004	0.001	0.001	(0.002)	(0.001)
Total assets	1,469,148	1,487,014	1,358,050	1,357,519	1,710,074
Total long-term financial liabilities	744,523	405,839	484,179	334,751	396,113
Total liabilities	2,524,412	2,683,279	2,593,827	2,721,764	2,947,282
Cash dividends ⁽¹⁾ – preferred shares	11,657	21,501	21,269	21,270	21,038

	For the three month periods ended:				
	<u>Mar. 06</u>	<u>Dec. 05</u>	<u>Sept. 05</u>	<u>June 05</u>	<u>Mar. 05</u>
Total Revenues	730,511	757,850	771,736	710,395	757,113
Net income (loss) from operations	(52,863)	(4,143)	(14,208)	(95,805)	(76,099)
Per share	(0.001)	(0.000)	(0.000)	(0.002)	(0.002)
Net income (loss) for the period	(50,863)	(5,293)	(14,208)	(99,127)	(76,099)
Per share	(0.001)	(0.000)	(0.000)	(0.002)	(0.002)
Total assets	1,495,156	1,703,984	1,851,848	1,729,081	1,246,675
Total long-term financial liabilities	1,222,460	2,391,435	2,554,689	2,727,893	2,579,972
Total liabilities	2,989,490	3,140,464	4,515,544	4,418,552	3,908,196
Cash dividends ⁽¹⁾ – preferred shares	20,807	21,270	21,270	21,038	21,488

⁽¹⁾ Cash dividends were being accrued rather than paid

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Results of Operations

Q4-2007 represented the culmination of a year in which the Company experienced many positive results related to revenues. Q4-2007 revenues were the second highest quarterly revenue in recent history, annual revenues were the highest in recent history and the Company made sales to more customers than ever before. Management remains focused on generating sustainable growth and realizes that maintaining and growing its customer base is critical to that goal.

The Company operates in a competitive marketplace where customers are demanding a combination of competitive pricing and the timely delivery of reliable products. During the Company's 2004 and 2005 fiscal years there was a major industry trend towards Asian production due to the fact that the production costs were lower. During the Company's 2006 fiscal year there was evidence that this trend, at least relative to the short-run orders that the Company specializes in, was reversing. Many potential customers were refocusing their sights on domestic production in order to overcome the quality and delivery issues that they were experiencing. Management believes that they have capitalized on this shift in the marketplace and that the Company has gained some market share with a growth of more than 17% in the number of customers making purchases in 2007 after growth of more than 39% in 2006.

While the number of new customers is encouraging the fact remains that new customers are generally cautious with their orders as they seek proof of the Company's ability to deliver quality products on a timely basis. This belief that it takes time to nurture customer relations is supported by the fact that over 95% of revenues for both fiscal 2007 and fiscal 2006 were derived from returning customers. This statistic reinforces the fact that real growth requires customer retention in addition to the addition of new customers. In fiscal 2006 the Company experienced a good customer retention rate of over 80% but the retention rate for 2007 soared to over 91%, a rate that management is quite proud of. While the Asian option continues to exist and will continue to lure certain customers or potential customers this retention rate supports that the Company is succeeding in meeting market demands. This market success should mean that the revenue growth is sustainable under existing market trends.

Whenever cost of sales increases as a percentage of total revenues the gross margin percentage must, by definition, decline. As a consequence of this relationship the gross margin percentages for the 2007 fiscal periods are lower than those realized in the comparable 2006 fiscal periods although the amounts themselves are higher. The Q4-2007 gross margin was \$302,649 as compared to \$266,955 for Q4-2006 while the fiscal 2007 gross margins were \$1,304,914 as compared to \$1,139,138 realized in 2006. Management continually strives to maximize these margins in value and as a percentage of total revenues.

In Q4-2007 turnkey business represented a higher percentage of the total revenues as compared to both the comparable period one year earlier and the rest of fiscal 2007. As reported previously, the overall cost of sales will increase as a percentage of revenues whenever the proportion of turnkey business grows. The cost of sales for Q4-2007 amounted to almost 68% of total revenues at \$647,415, thereby raising the annual totals to \$2,131,932 and the annual average to just over 62%. In comparison the amounts reported in Q4-2006 were \$453,301 for the quarter then ended, representing almost 63% of total revenues, and \$1,841,215 for the year then ended or just less than 62% of total revenues. It is noteworthy that these results support the assertion that both assembly volumes and turnkey business have grown during fiscal 2007. Since cost of sales approximates 62% of total revenue for each of the 2007 and 2006 fiscal years we know that the relative proportion of turnkey business versus non-turnkey business has not changed very much. Since total revenues increased it therefore means that revenue from each source must have risen proportionately.

As per usual the largest elements of cost of sales are the cost of components, remuneration and the cost of machinery. In keeping with tradition these elements aggregate approximately 90% of the total for both Q4-2007 and for the entire 2007 fiscal year. As one should expect, when turnkey values are up the cost of components is also up. In Q4-2007 the cost of components was \$313,155 or 48% of cost of sales which is much greater than the Q4-2006 figures of \$171,654 and 38%. Similarly the 2007 annual figures of \$812,190 and 38% are higher than the fiscal 2006 figures of \$672,039 and 36%. Management continues to promote the turnkey business as a cost effective alternative for its clients and hopes that it will continue to grow as a result.

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(Prepared as at October 22, 2007)

Results of Operations - continued

Remuneration costs continue to fluctuate in value according to the specific assembly volumes and complexities and to fluctuate as a percentage of total cost of sales depending on the values of the other costs included. The total cost of remuneration for Q4-2007 was \$215,285 or 33% of cost of sales and the total for the year was \$940,255 or 44%. In comparison the figures for Q4-2006 were \$196,123 or 44% and for fiscal 2006 they were \$856,998 and 46% of cost of sales. While remuneration costs have increased in value by almost 10% it should be noted this increase not only covered inflationary pressures but also led to the increases in assembly volumes that contributed to the 15% increase in total revenues. Management remains confident that its flexible manufacturing model allows it to retain the most appropriate number of trained personnel to meet customer demands at any given time. While this should enable management to control its remuneration costs fairly well it should be noted that, should the recent growth in assembly volumes continue, the company may begin to experience additional costs for staff training.

Equipment costs, which incorporate amortization and repairs and maintenance, amounted to \$47,318 in the recently concluded period as compared to \$41,115 for Q4-2006 representing a 15% increase. The annual figures were \$168,810 for 2007 and \$143,979 for 2006 representing a 17% increase. These costs are generally a function of the demands placed on equipment as well as the timing and value of equipment purchases. As assembly volumes continue to increase the demand placed on existing equipment will also continue to rise. This is likely to be reflected in increased maintenance costs and may also necessitate the addition or replacement of equipment which would be reflected in higher amortization costs. There are no current commitments to purchase new equipment but management continues to evaluate the potential benefit of additional capital expenditures.

The remaining elements of costs of sales are the tooling and supplies necessary to enable assemblies to be completed and products to be shipped as well as the freight costs incurred to obtain parts and ship completed products. These expenses, which amounted to \$66,720 for Q4-2007 and \$205,740 for the 2007 fiscal year, are consistently monitored by management. Due to their natures and their relatively small values these elements can, and frequently do, reflect large % variances from one period to the next. In aggregate these expenses traditionally represent 10% or less of cost of sales and 5-7% of total revenues and as long as they remain in this range, as they do in the current periods, those variances are not subjected to detailed investigation or elaboration.

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

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

Occupancy costs are the second largest component and they amounted to \$68,674 for Q4-2007 and \$285,254 for the 2007 fiscal year as compared to \$61,084 and \$268,327 for 2006. The Company has a lease on its operating facility that continues through February 2011 so these costs, subject to significant fluctuation in utility rates or other unforeseen events, will remain both consistent and predictable for quite some time.

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Results of Operations - continued

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

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

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

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

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

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Liquidity

As at June 30, 2007 the Company reported a working capital deficiency of \$938,294, which is significantly improved from the balance of \$1,448,906 reported at the beginning of the fiscal quarter and \$1,658,155 reported at the beginning of the fiscal year. Total current assets rose slightly during Q4 to \$841,595 but remain lower than the \$893,014 reported at June 2006. Since current assets decreased the improvement in the deficiency has come from a significant reduction in current liabilities. Current liabilities declined by \$771,280 during fiscal 2007 including a reduction of \$497,551 realized in the fourth quarter alone. This decline can be primarily traced to the fact that throughout the 2007 fiscal year management was negotiating with various debt holders in order to find ways to repay or restructure certain debt instruments. As a result of these negotiations the current portion of long-term debt has been reduced from \$658,740 to \$388,421, preferred shares payable has been reduced from \$941,673 to \$473,855, and dividends payable has been reduced from \$486,504 to \$268,201 even though new dividends were accrued during the year. While short term borrowing increased during Q4-2007 the overall reduction in current liabilities, without corresponding erosion of the current assets, is a major step forward towards improving the Company's liquidity.

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

	Due by <u>June 2008</u>	Due by <u>June 2010</u>	Due by <u>June 2012</u>	Due after <u>June 2012</u>	Total <u>Due</u>
Repurchase of preferred shares	665,501	-	-	-	665,501
Debentures	39,600	-	-	-	39,600
Other long-term debt	348,821	499,213	245,310	-	1,093,344
Operating leases	<u>105,630</u>	<u>217,296</u>	<u>72,432</u>	-	<u>395,358</u>
Total	<u>1,159,552</u>	<u>716,509</u>	<u>317,742</u>	-	<u>2,193,803</u>

Financial Instruments

The Company's financial instruments are short-term in nature and do not expose the Company to any significant currency, interest rate, or credit risk. Accordingly their carrying values approximate their fair values and there are no deferred or unrecognized gains or losses attributable to changes in these fair values.

Capital Resources

The Company has not entered into any commitments to acquire any equipment however it is possible that the Company will be required to bring in additional equipment in order to continue to grow the business. The Company continues to have access to a credit facility of up to \$1,937,926 for use exclusively in relation to the acquisition of equipment. This credit line can be used up to the maximum of 88% of the pre-tax amount of any equipment purchases. Each amount borrowed under this facility will become repayable over a 48 month term and will bear interest at the rate of 9.5% per annum.

Related Party Transactions

The Company has participated in a number of transactions with related parties and consequently reports many amounts as being due to related parties. These transactions involve the Company's Officers, Directors, their spouses, 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.

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Related Party Transactions - continued

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Note payable at prime +2%	29,192	42,192	55,192
Notes payable at 8.0% ⁽¹⁾	-	-	41,045
Note payable at 8.5% ⁽²⁾	-	-	45,434
Long-term note payable at 8.0% ⁽²⁾	34,342	49,450	-
Notes payable at 12.0%	67,539	15,939	16,639
3 year debentures, non-interest bearing ⁽³⁾	-	82,447	80,375
Term loan at 8.0% ⁽³⁾	72,766	-	-
2 year debenture at 10% ⁽⁴⁾	-	134,274	-
Term loan at prime + 11.0% ⁽⁵⁾	N/A	N/A	308,145
Long-term note payable at 8.5%	-	-	15,592

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Interest expense – long term ⁽⁵⁾	9,929	56,404	2,860
Interest expense – other	18,527	11,028	84,040

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:

<u>Description</u>	<u>Expiry Date</u>	<u>Number of Common shares</u>
Share purchase warrants @ \$0.10 per share	November 2007	766,800
Stock options @ \$0.10 per share	December 2007	750,000
Stock options @ \$0.12 per share	December 2008	750,000
Stock options @ \$0.12 per share	December 2009	800,000
Stock options @ \$0.17 per share	June 2011	900,000

⁽¹⁾ 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 had a face value of \$83,326 but were subject to accretion. They were carried on the balance sheet at an amount less than their face value and are adjusted each period by the amount of accretion that is recorded. They were settled during the year through the issuance of a term loan.⁽⁴⁾ Debenture had a face value of \$135,000 and was issued September 2004 however the holder was not considered a related party until November 2005 so any balances existing prior to this date are not shown. Upon maturity in September 2006 a 10% demand promissory note was issued in settlement.⁽⁵⁾ The relationship that caused this party to be considered as related ceased in June 2006. 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.**Convertible Instruments and Other Securities**

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

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

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Convertible Instruments and Other Securities - continued

Series A preferred shares	166,667	160,000
Series C preferred shares	288,858	<u>505,501</u>
		665,501
Less: amount accounted for as paid in capital		<u>191,646</u>
Liability element of preferred shares		473,855
Less: amount reported as a current liability		<u>(473,855)</u>
Equity element of preferred shares		<u>\$ -</u>

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

<u>Description</u>	<u>Expiry Date</u>	<u>Number of Common shares</u>
Share purchase warrants @ \$0.10 per share	November 2007	2,380,200
Stock options @ \$0.10 per share	December 2007	750,000
Share purchase warrants @ \$0.24 per share	June 2008	1,000,000
Stock options @ \$0.12 per share	December 2008	900,000
Stock options @ \$0.12 per share	December 2009	1,000,000
Share options @ \$0.155 per share	July 2010	50,000
Stock options @ \$0.17 per share	June 2011	<u>900,000</u>
		<u>6,980,200</u>

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

Changes in Accounting Policy

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