ZTEST Electronics Inc.

Consolidated Financial Statements

June 30, 2008 and June 30, 2007

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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, 2008 and June 30, 2007, and the consolidated statements of income, comprehensive income 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 audits.

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, 2008 and June 30, 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Signed: **MSCM LLP***

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
September 12, 2008

ZTEST Electronics Inc.

Consolidated Balance Sheets
June 30, 2008 and June 30, 2007

	2008	2007
Assets		
Current Assets		
Cash	$ 24,206	$ 115,504
Accounts receivable	609,470	451,188
Inventories *(note 4)*	351,638	241,467
Prepaid expenses and other assets	32,161	33,436
	1,017,475	841,595
Equipment *(note 5)*	573,921	627,553
	$ 1,591,396	$ 1,469,148
Liabilities		
Current liabilities		
Customer deposits and deferred revenue	$ -	$ 5,129
Accounts payable and accrued liabilities	598,005	487,552
Dividends payable	268,201	268,201
Notes payable *(note 6)*	126,270	156,731
Current portion of long-term debt *(note 7)*	437,199	388,421
Preferred shares *(note 9)*	473,855	473,855
	1,903,530	1,779,889
Long-term debt *(note 7)*	497,844	744,523
	2,401,374	2,524,412
Deficiency in assets		
Share capital *(note 9)*	21,956,332	21,956,332
Contributed surplus *(note 9)*	312,745	305,417
Equity portion of convertible debentures	25,463	25,463
Deficit	(23,104,518)	(23,342,476)
	(809,978)	(1,055,264)
	$ 1,591,396	$ 1,469,148

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 Income, Comprehensive Income and Deficit
For the years ended June 30, 2008 and June 30, 2007

	2008	2007
Revenue		
Product sales	$ 4,066,836	$ 3,426,751
Design services	-	5,700
Interest and other	66	4,395
	4,066,902	3,436,846
Expenses		
Cost of product sales	2,485,650	2,131,932
Selling, general and administrative	1,218,653	1,189,074
Interest expense - long-term debt *(note 10)*	81,623	84,059
Interest expense - other *(note 10)*	14,875	24,468
Amortization of equipment	14,576	62,138
Foreign exchange loss	562	1,781
Dividends on preferred shares	-	50,590
	3,815,939	3,544,042
Income (loss) from operations	250,963	(107,196)
Gain on settlement of debts *(note 12)*	-	371,948
Loss on disposal of equipment and other assets	(13,005)	(5,311)
Income before provision for income taxes	237,958	259,441
Provision for income taxes *(note 11)*	-	-
Net income and comprehensive income for the year	237,958	259,441
Deficit, beginning of year	(23,342,476)	(23,576,810)
	(23,104,518)	(23,317,369)
Dividends	-	(25,107)
Deficit, end of year	$ (23,104,518)	$ (23,342,476)
Net income per share - basic	$ 0.004	$ 0.004
- fully diluted	$ 0.004	$ 0.004
Weighted average shares outstanding – basic and fully diluted	60,351,804	60,961,008

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

Consolidated Statements of Cash Flows

For the years ended June 30, 2008 and June 30, 2007

		2008		2007
Cash flow from operating activities				
Net income for the years	$	**237,958**	$	259,441
Items not involving cash				
Amortization of equipment		**136,636**		203,188
Loss on disposal of equipment and other assets		**13,005**		5,311
Dividends on preferred shares		**-**		50,590
Stock based compensation		**7,328**		16,749
Interest accretion		**-**		3,295
Debt forgiveness		**-**		(371,948)
Changes in non-cash working capital items				
Accounts receivable		**(158,282)**		(90,222)
Inventories		**(110,171)**		(81,950)
Prepaid expenses and other assets		**1,275**		5,885
Customer deposits and deferred revenue		**(5,129)**		5,129
Accounts payable and accrued liabilities		**124,156**		82,350
		246,776		87,818
Cash flow from investing activities				
Proceeds from sale of equipment		**191**		-
Purchase of equipment		**(14,200)**		(18,992)
		(14,009)		(18,992)
Cash flow from financing activities				
Proceeds of notes payable		**226,500**		120,000
Proceeds of long-term debt		**20,000**		-
Repayment of notes payable		**(200,664)**		(29,783)
Repayment of long-term debt		**(369,901)**		(256,749)
		(324,065)		(166,532)
Decrease in cash		**(91,298)**		(97,706)
Cash, beginning of year		**115,504**		213,210
Cash, end of year	$	**24,206**	$	115,504

Supplemental Disclosure of Cash Flow Information

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

Interest	$	**92,971**	$	103,754
Income taxes	$	**-**	$	-

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

1. Business of the Company

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

2. Significant Accounting Policies

Going concern basis of presentation

These 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, 2008 the Company has a deficit, to date, of $23,104,518 and working capital deficiency of $886,055. The Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and its ability to generate positive cash flow from operations.

Basis of presentation

These 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	-	100.0%	owned
Northern Cross Minerals Inc.	-	66.7%	owned (inactive)

Adoption of new accounting standards

Effective July 1, 2007 the Company adopted the new accounting standards for Financial Instruments, Equity, and Comprehensive Income as required in accordance with Canadian generally accepted accounting principles. These standards introduce new requirements for the recognition, measurement and disclosure of financial instruments, establish the concept of comprehensive income and the rules for reporting it, and introduce new rules for the reporting of equity and the changes therein.

At the time of adoption the Company conducted a comprehensive review of its assets and liabilities to first determine whether each item was or was not a financial instrument and finally to determine the most appropriate classification for its financial instruments. This review resulted in the classification of each financial instrument asset as either held for trading or loans while each financial instrument liability was classified either as loans or other financial instruments.

There were no adjustments required as a result of the adoption of these new standards. Furthermore, the Company's comprehensive income for the current period is equal to its net income and there is no balance to be reported as accumulated other comprehensive income.

Measurement uncertainty

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

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

2. Significant Accounting Policies - continued

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, 2008 and June 30, 2007 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	-	10yrs	straight-line

Investments

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

Future income taxes

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

2. Significant Accounting Policies - continued

Stock based compensation

The Company has in effect a Stock Option Plan. Stock options awarded are accounted for using the fair value-based method. Fair value is calculated using the Black-Scholes model and is added to contributed surplus over the vesting period for the options. Consideration paid on the exercise of stock options is credited to share capital together with any associated contributed surplus.

Segment Disclosure

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

Future accounting pronouncements

Financial instruments – Disclosure and presentation:

CICA Handbook Sections 3862, "Financial Instruments – Disclosures" and 3863, "Financial Instruments – Presentation" replace Handbook Section 3861, "Financial Instruments - Disclosure and Presentation", revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. These standards are effective for interim and annual financial statements relating to fiscal periods beginning on or after October 1, 2007. The adoption of these sections is not expected to have a significant impact on the Company's consolidated financial statements.

Capital disclosures:

CICA Handbook Section 1535, "Capital Disclosures", requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The adoption of these sections is not expected to have a significant impact on the Company's consolidated financial statements.

Inventories:

CICA Handbook Section 3031 "Inventories" replaces Handbook Section 3030 "Inventories," and is based on International Financial Reporting Standard IAS 2, "Inventories". The Section prescribes the accounting treatment for inventories and applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. Earlier adoption is encouraged. The Company is currently evaluating the impact of this standard on its financial position, results of operations and cash flows. The Company does not anticipate that the application of Section 3031 will have a material impact on its consolidated financial statements.

International reporting standards:

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

3. Financial instruments

Fair Values:

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

3. Financial instruments - continued

Credit risk and concentration of credit risk:

The Company is subject to credit risk however, in an effort to mitigate this, it actively manages and monitors its receivables and obtains pre-payments where warranted. Bad debt experience has not been significant.

During the current year there was one individual customer that accounted for more than 20% (22.4%) of total revenue (2007 – two customers aggregating 42.9%). The significant curtailment of purchases from this customer could have a material adverse effect on the Company's results of operations and financial condition.

Foreign exchange/Currency risk:

The Company purchases some inventory components in US dollars and earns most of its revenues in Canadian dollars. As a result it is subject to risk due to the fluctuations in the exchange rates between the two currencies and it does not actively manage this risk. During the current period the Company reported a net loss on foreign exchange of $562 (2007 – $1,781).

Interest rate risk:

The Company has certain borrowings that are subject to interest rates that float in accordance with the prime lending rate of its financial institution. This may have an impact on the income and/or cash flows of future periods.

4. Inventories

	2008	2007
Raw materials	**$ 294,212**	$ 167,348
Work in process	**27,008**	24,526
Finished goods	**30,418**	49,593
	$ 351,638	$ 241,467

5. Equipment

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

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

6. Notes payable

Interest	Security	Terms	2008	2007
Prime + 2%	Unsecured	No repayment terms [1]	$ **16,192**	$ 29,192
12%	Unsecured	No repayment terms [1]	**110,078**	72,539
12%	Unsecured	No repayment terms [2]	-	30,000
12%	Unsecured	No repayment terms	-	25,000
			$ **126,270**	$ 156,731

[1] Payable to Officers of the Company and/or their spouses.
[2] Payable to a corporate shareholder that is controlled by the spouse of a Director of the Company.

7. Long-Term Debt

	2008	2007
Non interest bearing debenture matured December 1, 2005. [1]	$ **39,600**	$ 39,600
Term loan bearing interest at the TD Canada Trust prime lending rate plus 11%, was secured by a general security agreement, matured June 30, 2008. Blended monthly principal and interest payments of $10,816 were required.	-	119,754
Term loan bearing interest at 9.5%, secured by specific equipment and matures in April 2009. Blended monthly principal and interest payments of $6,510 are required.	**62,350**	130,962
Term loan bearing interest at 8.5%, unsecured, and matures in June 2009. Blended monthly principal and interest payments of $1,561 are required. [2]	**17,898**	34,342
Term loans bearing interest at 9.5%, are secured by specific equipment and mature in June 2009. Blended monthly principal and interest payments of $5,099 are required.	**58,153**	111,054
Term loan bearing interest at 12.0%, unsecured, and matures in September 2009. Monthly payments as to interest only are required until July 31, 2008 after which blended monthly principal and interest payments of $2,570 are required. [2]	**33,424**	-
Term loan bearing interest at 12.0%, unsecured, and matures in September 2009. Monthly payments as to interest only are required until July 31, 2008 after which blended monthly principal and interest payments of $3,466 are required. [3]	**45,068**	-
Term loans bearing interest at 12.0%, secured by specific equipment, and mature in August 2010. Blended monthly principal and interest payments of $3,177 are required. [2,3]	**72,428**	-
Term loans bearing interest at 8.0%, unsecured, and mature November 2010. Blended monthly principal and interest payments of $3,471 are required. [4]	**91,249**	124,157
Term loans bearing interest at 8.0%, unsecured, and mature May 2011. Blended monthly principal and interest payments of $3,296 are required.	**102,578**	132,605
Term loan bearing interest at 6.0%, secured by a general security agreement covering the assets of Permatech, matures December 2011. Blended principal and interest payments of $4,000 are required each month until May 2008, then $10,000 per month until May 2009, then $11,265 per month until maturity.	**412,295**	440,470
Total long-term debt	**935,043**	1,132,944
Less: Current portion	**437,199**	388,421
	$ **497,844**	$ 744,523

7. Long-Term Debt- continued

(1) The debenture has matured but the Company has not been able to contact the holder in order to settle the balance due. The balance payable remains as an element of the current portion of long-term debt.
(2) Payable to a corporate shareholder that is controlled by the spouse of a Director of the Company.
(3) Payable to Officers of the Company and/or their spouses.
(4) Includes $58,446 (2007 - $72,766) payable to Officers of the Company and/or their spouses.

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

2009	$ 437,199
2010	246,273
2011	185,147
2012	66,424
	$ 935,043

8. Commitments

Operating leases

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

2009	$ 108,648
2010	108,648
2011	72,432
	$ 289,728

9. Share Capital

(a) Authorized

Unlimited Common shares

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

Unlimited Preferred shares in one or more series. The following four series have been authorized to date:

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

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

Series C redeemable, voting [1] shares were to be repurchased May 2007. Negotiations as to a means of settlement are ongoing.

Series D redeemable, voting [1] shares were to be repurchased June 2007. Negotiations as to a means of settlement are ongoing.

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

9. Share Capital - continued

(b) Issued

	Number of Shares	Amount
Common shares June 30, 2006	61,010,288	$ 22,104,366
Equity portion of preferred shares repurchased during year	-	(232,185)
Shares surrendered for cancellation *(note 12)*	(500,000)	-
Shares surrendered for cancellation [(1)]	(158,484)	(15,849)
Common shares June 30, 2008 and June 30, 2007	60,351,804	20,856,332
Class A special shares June 30, 2008 and June 30, 2007	1,193,442	100,000
Balance June 30, 2008 and June 30, 2007		$ 21,956,332

Preferred Shares:

	Current	Other	Total
Balance June 30, 2008 and 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:

During the period no warrants were granted or exercised however 3,380,200 warrants expired, including 766,800 that were held by a related party that holds in excess of 10% of the issued common shares of the Company. As at June 30, 2008 there were no warrants outstanding.

(d) Details of options outstanding are as follows:

Common Shares Under Option	Number of Options Vested	Price/Option	Expiry Date
750,000 [(1)]	750,000	$0.12	December 18, 2008
150,000	150,000	$0.12	December 18, 2008
200,000	160,000	$0.12	December 17, 2009
800,000 [(1)]	640,000	$0.12	December 17, 2009
50,000	50,000	$0.155	July 10, 2010
900,000 [(1)]	360,000	$0.17	June 27, 2011
2,850,000	2,110,000		

	Common Shares Under Option	Weighted Average Price/Option	Weighted Average Expiry Date
Beginning of year	3,600,000	$0.13	September 8, 2009
Expired during year	750,000 [(1)]	$0.10	December 18, 2007
End of year	2,850,000	$0.14	February 21, 2010

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

9. Share Capital - continued

(e) Contributed Surplus:

The Company has a stock option plan. The aggregate number of common shares reserved for issuance under this plan cannot exceed 20% of the aggregate number of common shares of the Company that are issued and outstanding. The Company has granted options for the purchase of common shares to employees, directors, officers and other service providers. The fair values of stock options granted have been determined using the Black-Scholes model and are added to contributed surplus as follows:

	2008	2007
Contributed surplus, beginning of period	**$ 305,417**	$ 108,228
Compensation expense related to stock options granted in prior periods	**7,328**	16,749
Gain on settlement of obligations classified as equity	**-**	180,440
Contributed surplus, end of period	**$ 312,745**	$ 305,417

10. Related Party Transactions

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

1114377 Ontario Inc. ("1114377")

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

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

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

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

Description	**Related Party**	**2008**	2007
Interest expense - long-term	1114377	**$ 4,857**	$ 3,624
Interest expense - other	1114377	**$ 2,632**	$ 3,147
Interest expense - long-term	Directors/Officers	**$ 9,249**	$ 3,679
Interest expense - other	Directors/Officers	**$ 10,783**	$ 5,616
Interest expense - long-term	J.T. Risty	**$ -**	$ 2,626
Interest expense - other	J.T. Risty	**$ -**	$ 9,764

11. Income Taxes

Current Income Taxes

A reconciliation of combined federal and provincial corporate income taxes at the Company's effective tax rate of 34.82% (2007 – 36.12%) is as follows:

	2008	2007
Income before income taxes	$ 237,958	$ 259,441
Income taxes at statutory rates	$ 82,857	$ 93,710
Income not reportable for income tax purposes	-	(134,348)
Expenses not deductible for income tax purposes	3,562	29,608
Accounting amortization in excess of capital cost allowance claimed	46,060	73,273
Accounting loss on disposal of equipment	4,528	1,918
Expenses of prior years claimed for income tax purposes	(4,847)	(5,028)
	132,160	59,133
Non-capital losses of prior years utilized	(132,160)	(59,133)
Current income tax expense	$ -	$ -

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:

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

The full realization of these losses carried forward is subject to the result of audits by Canada Revenue Agency. In addition, expenses in the amount of $14,164,240 have been recorded in the accounts but have not yet been claimed for income tax purposes and capital losses of approximately $6,136,000 are available indefinitely.

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:

	2008	2007
Resource related expenditures	$ 101,225	$ 126,177
Scientific research and experimental development	304,679	379,483
Reserves claimed	3,400,976	4,241,002
Undepreciated capital cost	329,024	338,366
Non-capital losses	392,227	584,187
Capital losses	889,674	1,108,104
Future income tax assets, before valuation allowance	5,417,805	6,777,319
Valuation allowance	(5,417,805)	(6,777,319)
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.

12. Gain on Settlement of Debts

		2008		2007
Gain on unsecured note per (a)	$	-	$	8,384
Gain on preferred shares per (b)		-		363,564
Total gains realized	$		$	371,948

During the 2007 fiscal year the Company concluded negotiations 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 Permatech.

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

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, 2008 and should only be read in conjunction with those financial statements. Additional information about the Company can be found at www.sedar.com.

Forward-looking Information

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

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, 2008, 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, 2008 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 (GAAP). 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, 2008 and based on this evaluation, management has concluded that the design of internal control over financial reporting was effective as of June 30, 2008.

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.

The Company

The Company operates a single business segment involving the design, development, and assembly of printed circuit boards.

In April 2008 the Board appointed Mr. Mike Hiscott, CA to fill a vacancy thereby increasing the number of directors to four (4) and independent directors to two (2). Mr. Hiscott will serve on the audit committee, replacing Wojciech Drzazga, and the compensation committee, replacing John Perreault. Following this appointment the management of the Company is now comprised of the following individuals:

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

(1) Denotes member of audit committee
(2) Denotes member of compensation committee

Corporate Performance

The Company reported total revenues of $4,066,902 for the fiscal year ended June 30, 2008. This represents the sixth time in the past seven years that annual revenues have increased and the first time that revenue from circuit board assembly has exceeded $4,000,000. The previous revenue peak of $3,436,846 was achieved in the 2007 fiscal year.

Revenues earned in the final quarter of 2008 were $1,003,130. This marks the third time in the Company's history that quarterly revenues from circuit board assembly have exceeded $1,000,000. This also marks the third time during the 2008 fiscal year that revenues reached this level. Following the fourth quarter of 2007 management had asserted that the revenue growth the Company had experienced to that point was sustainable. This claim was made even though the revenues of $955,765 were the highest quarterly revenue that the Company had realized to that point in time. The results realized throughout the 2008 fiscal year indicate that management's assertion was accurate. It is currently expected that the 2009 results, when available, will also support that the Company is very capable of sustaining, and building upon, this level of revenue.

Management has also claimed for some time that the sustained revenue growth, like that currently being experienced, was a prerequisite to achieving its stated goal of consistent profitability. Q4-2008 represents the fourth consecutive quarter, and the fifth quarter in the last six, that the Company has reported net income from operations. On the strength of four consecutive profitable quarters, 2008 is also the first fiscal year for which the Company has reported positive income from operations. These results suggest that the Company has now achieved the revenue level that corresponds with profitable operations. If, as expected, the Company sustains or builds upon the revenues realized in 2008 and management continues to manage its expenses then it is not unreasonable to expect that the Company will continue to realize positive results from operations.

Corporate Performance - continued

In Q4-2007 the Company realized gains upon the settlement of obligations that enabled it to report net income for the year in spite of the loss from operations. In Q4-2008 there were no additional gains or losses reported however a small loss from disposal of equipment that occurred in Q3-2008 resulted in net income for the year being lower than the net income from operations. It is possible that the Company will continue to report gains or losses in future periods as it continues to negotiate in an attempt to settle outstanding obligations.

The Company continues to improve its financial position. The key criteria that management considers when evaluating financial position are working capital and shareholders' equity. As at June 30, 2008 the working capital deficiency, the amount by which current liabilities exceeded current assets, amounted to $886,055. This represents an improvement of almost 6% in comparison to the deficiency of $938,294 that existed at June 30, 2007. In addition, the deficiency in assets, the amount by which total liabilities exceeded total assets, was reduced to $809,978 in 2008 from $1,055,264 in 2007. While reporting positive net income for the second consecutive year, positive cash flow from operations for the third consecutive year, and a reduction in total liabilities for the third consecutive year each have had a positive impact on these criteria management will not be satisfied until the deficiencies are rectified.

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

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

	For the three month periods ended:				
	June 08	Mar. 08	Dec. 07	Sept. 07	June 07
Total Revenues	1,003,130	937,253	1,042,894	1,083,625	955,765
Net income (loss) from operations	66,121	34,490	70,072	80,280	(4,590)
Per share	0.001	0.001	0.001	0.001	(0.000)
Net income (loss) for the period	66,121	21,485	70,072	80,280	259,260
Per share	0.001	0.001	0.001	0.001	0.004
Total assets	1,591,396	1,456,980	1,450,155	1,463,341	1,469,148
Total long-term financial liabilities	497,844	571,435	588,927	667,504	744,523
Total liabilities	2,401,374	2,334,463	2,350,741	2,436,131	2,542,412
Cash dividends [(1)] – preferred shares	NIL	NIL	NIL	NIL	11,657

	For the three month periods ended:				
	Mar. 07	Dec. 06	Sept. 06	June 06	Mar. 06
Total Revenues	933,985	936,100	610,996	720,256	730,511
Net income (loss) from operations	34,292	(16,868)	(120,030)	(47,044)	(52,863)
Per share	0.001	(0.000)	(0.002)	(0. 001)	(0. 001)
Net income (loss) for the period	42,676	77,535	(120,030)	(47,044)	(50,863)
Per share	0.001	0.001	(0.002)	(0.001)	(0.001)
Total assets	1,487,014	1,358,050	1,357,519	1,710,074	1,495,156
Total long-term financial liabilities	405,839	484,179	334,751	396,113	1,222,460
Total liabilities	2,683,279	2,593,827	2,721,764	2,947,282	2,989,490
Cash dividends [(1)] – preferred shares	21,501	21,269	21,270	21,038	20,807

[(1)] Cash dividends were being accrued rather than paid

Results of Operations

The Company operates in a highly competitive industry where customers demand the timely delivery of reliable products in a cost effective manner. The Company has been successful in growing its business by consistently demonstrating its ability to satisfy these criteria. In fiscal 2008 the Company generated $3,739,371 in sales from customers that had made purchases from it in 2007 and $327,375 from customers that had not. This means that the revenue growth that the Company realized during the 2008 year was almost equally split between new business and recurring business. A similar growth pattern occurred in 2007. Management remains committed to generating sustainable growth through both maintaining and growing its customer base and recent operating results indicate that this approach is generating success.

Revenues in Q4-2008 were almost 5% greater than were reported for Q4-2007. This represents the eighth consecutive quarter where revenues have exceeded those for the corresponding quarter in the preceding year. They also represent the third quarter in the past four that revenues have exceeded $1,000,000 and the Company has now averaged better than $1,000,000 in sales for the last five quarters. While management will now seek to build upon this revenue base it does represent achievement of a target that the Company had been striving for and one management believed it needed to reach in order to be consistently profitable.

Gross margins for the 2008 fiscal year were $1,581,186 or almost 39% of sales. This represents an increase of more than 21% over the gross margin of $1,300,519, or almost 38% of sales, that were achieved during 2007. To improve comparability, we should remove the impact of design services provided in 2007 that did not recur in 2008. This reveals gross margins arising from assemblies of $1,299,556 or 38% of assembly revenues. Margins in Q4-2008 were $355,910 representing an increase of almost 16% in comparison to the margin of $307,386 achieved from board assemblies in Q4-2007. The aforementioned design services arose in Q4-2007 and contributed an additional $963 in gross margin. The improved gross margins are testament to various efficiencies that have been achieved through utilization of existing capacity, increased automation, and reduced overall equipment costs resulting from strategic equipment acquisitions. Management continues to seek additional cost effective ways to automate assembly processes in a manner that adds to assembly capacity and enhances product quality. Successful efforts to augment the efficiency and effectiveness of assembly processes, and optimizing the timing of undertaking these enhancements, are critical for maximizing gross margins.

Since annual gross margins were approximately 39% of sales and 38% of sales it follows that the cost of product sales must have been approximately 61% of total revenues in 2008 and 62% of total revenues in 2007. The Q4-2008 total of $647,164 (65% of sales) is also quite similar to the Q4-2007 total of $642,678 (68% of sales) related to board assembly. While these percentages may seem quite comparable some fairly significant variances are revealed when we consider the individual elements of this expense category.

The two largest elements of cost of product sales continue to be the cost of components and the cost of labour. In 2007 labour was the highest single cost however the results changed in 2008 when the cost of components exceeded the cost of labour. Labour costs are incurred on every circuit board that the Company assembles but component costs only arise when the customer opts to have the Company procure components on their behalf. Management promotes this procurement, or turnkey, option as being a very cost effective alternative for all of its customers however some continue to purchase their components directly. As a result of offering customers this choice, the mix between turnkey sales and non-turnkey sales can fluctuate from period to period.

Component costs for 2008 amounted to $1,126,224 including $319,717 incurred during the fourth quarter. While the 2008 annual figure is significantly higher than the $812,190 borne during 2007, the fourth quarter amount is only 2.1% higher than the Q4-2007 total of $313,155. During the third quarter of 2007 the Company began to experience a higher propensity for customers to choose the turnkey option and this continued throughout most of 2008 leading to higher annual component costs but very similar fourth quarter figures. Recent sales suggest that customers will continue to select the turnkey option with a similar frequency, at least for the immediate future. It should be noted however, that even when customer preference remains relatively consistent the cost of components will fluctuate as a result of the nature, quantity and price of individual items.

Results of Operations - continued

Labour costs rose 6.2% in 2008 as they went from $940,255 in 2007 to $998,041. A similar increase of 6.7% is evident when comparing the Q4-2008 total of $229,645 to the cost of $215,285 from Q4-2007. While a portion of this increase can be attributed to the impact of inflation it also reflects a minor increase in the average number of personnel on hand. Management is continuously monitoring its labour requirements and strives to have the optimal number of personnel on hand according to current assembly volumes and existing or expected customer orders.

Equipment costs, which are the next largest element of cost of product sales, incorporate amortization and repairs and maintenance. They amounted to $33,963 in the recently concluded period as compared to $47,318 for Q4-2007 representing a 28% decrease. The annual figures were $168,810 for 2007 and $132,510 for 2008 representing a 22% decrease. During 2006 the Company acquired some new equipment and the phasing in of this equipment led to the retirement of certain pieces of equipment in 2007 and the disposal of other equipment in 2008. This contributed to some accelerated amortization in 2007 and a reduction of maintenance costs in 2008. These costs are generally a function of the demands placed on equipment as well as the timing and value of equipment purchases. Amortization costs will rise if the Company acquires new machines to automate processes or to enhance capacity. It is also probable that maintenance costs will rise as assembly volumes continue to increase the demand placed on existing equipment. There are no current commitments to purchase new equipment but management continues to evaluate the feasibility and benefit of additional acquisitions.

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 $63,839 for Q4-2008, $228,875 for fiscal 2008, $66,720 for Q4-2007 and $205,740 for fiscal 2007, are consistently monitored by management. Due to their natures and their relatively small values these elements can, and frequently do, reflect large percentage variances from one period to the next. 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) are best described as 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 2008 total for SG&A was $1,218,653 representing a 2.5% increase over the 2007 total of $1,189,074. The Q4-2008 total of $259,635 was 3.6% lower than the Q4-2007 amount of $269,327 which further demonstrates the variable nature of some of the components of this cost category.

Employee and consultant remuneration, which amounted to $774,755 for the 2008 fiscal year and $156,277 for the fourth quarter, continues to be the largest individual component of SG&A. During 2007 the Company hired additional personnel to keep up with the demand arising from increased operating volumes and implemented many salary adjustments to keep up with an increasingly competitive marketplace leading to costs of $739,889. The higher costs in 2008 are reflective of continued competitiveness in the employment market. In past years the Company had implemented a bonus plan for key personnel based upon quarterly profitability. While this also contributed to higher remuneration costs in the first half of the year the criteria for earning this bonus was revised after Q2-2008 leading to no bonuses being earned in the third or fourth quarters. This reduction in bonus is the primary reason why costs for the current quarter were lower than the $172,524 incurred during the three month period ended June 30, 2007.

Results of Operations - continued

Occupancy costs, consisting primarily of rent and utility charges, are the second largest component of SG&A. The base rent has remained consistent throughout the 2007 and 2008 periods but utility usage varies with production while utility rate and additional rent charges for realty taxes and maintenance vary according to market conditions. The cost for 2008 amounted to $299,361 with $74,376 arising in the final quarter. As expected, these costs were higher than charges for the comparable periods of 2007 which were $285,254 and $68,674. The Company has a lease on its operating facility that continues at the same basic rental rate through February 2011 so these costs, subject to the fluctuations experienced in 2008 or other unforeseen events, will remain both consistent and predictable for quite some time.

In addition to the items discussed above, which typically account for 86% - 90% of all SG&A, there are only two elements that individually represent 2% or more of this cost category. Professional fees, which consist of legal fees and the cost of the annual financial statement audit, amounted to $63,989 for the 2008 fiscal year which is up $6,697 from 2007 levels. Regulatory costs, which include all stock exchange and transfer agent fees, came to a total of $22,175 in 2008, down $1,933 from the $24,108 that was spent in 2007. The volume and frequency of transactions that give rise to these fees are not anticipated to change in the foreseeable future which should translate into comparable amounts being incurred over the 2009 fiscal period.

The remaining elements of SG&A are insignificant both individually and in aggregate. They are monitored closely by management and are only noteworthy in the event that something out of the ordinary arises. The only event that can be perceived as meeting this criterion is that the Company incurred a bad debt in the amount of $21,694 during Q4-2007. This represented the first bad debt that the Company has incurred in many years and there has been, and is not expected to be, any recurrence.

The Company's cost of financing, which is comprised of interest on long-term debt and other interest, continued to decline in comparison to prior years. The cost of financing also used to include the cost of dividends accrued on the portion of the preferred shares that are accounted for as a liability in accordance with Canadian GAAP. These preferred shares matured during Q4-2007 and no dividends have accrued since that time. The dividends recognized in 2007 amounted to $50,590 for the 2007 fiscal year and $7,791 in Q4-2007.

Interest on long-term debt amounted to $19,478 in Q4-2008 and $81,623 for the fiscal year. In comparison these charges amounted to $20,220 in Q4-2007 and $84,059 for the 2007 fiscal year. Despite taking on some new long term obligations during 2008, as a result of acquiring a new piece of equipment and settling some other obligations, the balance of long term debt as at June 30 2008 was almost $200,000 lower than the balance at the end of the 2007 fiscal year. In addition, the debts existing at June 30, 2007 had a weighted average interest rate of approximately 8.1% whereas the debts existing at June 30, 2008 have a weighted average interest rate of approximately 7.6%. While it is certainly conceivable that the Company will need to take on new long-term obligations, this combination of lower debt and lower average interest rates will allow the trend towards reduced interest costs to continue. There is no expectation that additional debts will arise in the immediate future.

Other interest consists almost entirely of the interest charges arising as a consequence of notes payable. These short term loans are negotiated throughout the year, almost exclusively with related parties, in order to cover temporary shortfalls in cash thereby allowing the Company to satisfy its operating requirements. The balance of notes payable goes up and down throughout each year just as a typical operating loan with a financial institution would if the Company was successful in negotiating one. Interest on these debts amounted to $2,814 in Q4-2008 and $14,875 for the 2008 fiscal year. In contrast the interest incurred in Q4-2007 was $11,308 while the total for the 2007 fiscal year was $24,468. This indicates that the Company utilized significant short term borrowing during Q4-2007 but was able to pay it down so that interest charges did not continue into the 2008 fiscal year. Since short term cash needs can fluctuate from period to period it is expected that this expense category will also continue to fluctuate even when the Company is successful in negotiating suitable commercial financing.

Liquidity

While the Company has realized some improvement, it continues to have current liabilities that exceed its current assets. This working capital deficiency, which is indicative of poor liquidity, amounted to $886,055 as at June 30, 2008. This compares favourably with the deficiencies of $938,294 as at June 30, 2007 and $1,658,155 as at June 30, 2006 however significant additional progress is required in order to remedy this situation. This progress is anticipated to come from continued positive operating results and ongoing efforts to settle other obligations. During periods of increasing business volumes, like the Company has been experiencing, it is very common to observe increases in the values of inventory, accounts receivable and accounts payable with a decline in available cash being the primary balancing factor. During the 2008 fiscal year the Company realized an aggregate increase of $268,453 in accounts receivable and inventory, an increase of $110,483 in accounts payable and a decrease of $91,298 in cash thereby accounting for virtually all of the working capital improvement. During 2007 the improvement in working capital came from the reduction of other obligations as the aggregate increase of $172,172 in accounts receivable and inventory was more than offset by an increase of $98,168 in accounts payable and a decrease of $97,706 in cash. These other obligations consist of the balance due for preferred shares, the associated dividends payable, notes payable, and the current portion of long term debts. Each of the outstanding preferred shares reached their mandatory redemption date during Q4-2007. At that time the Company realized a working capital improvement of almost $668,000 when it settled with one of the preferred shareholders and replaced $686,121 in preferred shares and dividends payable with the current portion of $28,175 of a new long term debt. This transaction left the balance of preferred shares and dividends payable at $742,056 and it has not changed since that time although there have been settlement discussions with the remaining preferred shareholders. Aside from settling other obligations the Company also uses long term debt as a means of financing new equipment acquisitions. Notes payable are the Company's source of short-term financing and the proceeds are used to satisfy short term working capital requirements. These notes are primarily payable to related parties and are repaid, in whole or in part, when cash flow permits.

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

	Due by June 2009	Due by June 2011	Due by June 2013	Due after June 2013	Total Due
Repurchase of preferred shares	665,501	-	-	-	665,501
Settlement of dividends payable	268,201	-	-	-	268,201
Debentures	39,600	-	-	-	39,600
Other long-term debt	397,599	431,420	66,424	-	895,443
Operating leases	108,648	181,080	-	-	289,728
Total	1,479,549	612,500	66,424	-	2,158,473

Capital Resources

The Company has not entered into any commitments to acquire any equipment and there are no plans to acquire any additional equipment in the immediate future.

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

Related Party Transactions

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

Related Party Transactions - continued

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

	2008	2007	2006
Note payable at prime +2%	16,192	29,192	42,192
Long-term note payable at 8.0%	17,898	34,342	49,450
Notes payable at 12.0%	110,078	72,539	15,939
3 year debentures, non-interest bearing (1)	-	-	82,447
Term loan at 8.0% (1)	58,446	72,766	-
2 year debenture at 10% (2)	-	-	134,274

(1) In accordance with Canadian GAAP, these debentures were carried on the balance sheet at an amount less than their face value and were then adjusted each period by the theoretical interest that had accrued. The face value of $83,326 was settled during the 2007 fiscal year through the issuance of a term loan.

(2) In accordance with Canadian GAAP, this debenture was carried on the balance sheet at an amount less than its face value of $135,000 and was then adjusted each period by the theoretical interest that had accrued.

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

	2008	2007	2006
Interest expense – long term	14,106	9,929	56,404
Interest expense – other	13,415	18,527	11,028

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

Description	Expiry Date	Number of Common shares
Stock options @ $0.12 per share	December 2008	750,000
Stock options @ $0.12 per share	December 2009	800,000
Stock options @ $0.17 per share	June 2011	900,000

An additional 750,000 stock options and 766,800 share purchase warrants that were held by Directors and/or Officers of the Company expired during the 2008 fiscal year.

Convertible Instruments and Other Securities

As at June 30, 2008, and as at the date of this document, the Company had the following securities issued and outstanding:

Description	Quantity	Amount
Common shares	60,351,804	$ 21,664,686
Paid in capital of preferred shares		191,646
Class A special shares	1,193,442	100,000
		$ 21,956,332
Series A preferred shares	166,667	160,000
Series C preferred shares	288,858	505,501
		665,501
Less: amount accounted for as paid in capital		191,646
Liability element of preferred shares		473,855
Less: amount reported as a current liability		(473,855)
Equity element of preferred shares		$ -

Convertible Instruments and Other Securities - continued

In addition to the shares issued and outstanding the Company has issued stock options as incentives to various parties. The following list itemizes the common shares that have been reserved to satisfy the conversions and exercise of options along with the expiry date associated therewith.

Description	Expiry Date	Number of Common shares
Stock options @ $0.12 per share	December 2008	900,000
Stock options @ $0.12 per share	December 2009	1,000,000
Share options @ $0.155 per share	July 2010	50,000
Stock options @ $0.17 per share	June 2011	900,000
		2,850,000

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

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.

Changes in Accounting Policy

The accounting policies followed by the Company are established in accordance with Canadian GAAP and once policies are established they will not, as a matter of policy, be revised unless Canadian GAAP changes.

During the 2008 fiscal year the Company adopted the new accounting standards for Financial Instruments, Equity, and Comprehensive Income as required in accordance with Canadian GAAP. These standards introduce new requirements for the recognition, measurement and disclosure of financial instruments, establish the concept of comprehensive income and the rules for reporting it, and introduce new rules for the reporting of equity and the changes therein. There were no adjustments required as a result of the adoption of these new standards. Furthermore, the Company's comprehensive income for the current period is equal to its net income and there is no balance to be reported as accumulated other comprehensive income.

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

Financial instruments – Disclosure and presentation:

CICA Handbook Sections 3862, "Financial Instruments – Disclosures" and 3863, "Financial Instruments – Presentation" replace Handbook Section 3861, "Financial Instruments - Disclosure and Presentation", revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. These standards are effective for interim and annual financial statements relating to fiscal periods beginning on or after October 1, 2007. The adoption of these sections is not expected to have a significant impact on the Company's consolidated financial statements.

Capital disclosures:

CICA Handbook Section 1535, "Capital Disclosures", requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The adoption of these sections is not expected to have a significant impact on the Company's consolidated financial statements.

Changes in Accounting Policy - continued

Inventories:

CICA Handbook Section 3031 "Inventories" replaces Handbook Section 3030 "Inventories," and is based on International Financial Reporting Standard IAS 2, "Inventories." The Section prescribes the accounting treatment for inventories and applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. Earlier adoption is encouraged. The Company is currently evaluating the impact of this standard on its financial position, results of operations and cash flows. The Company does not anticipate that the application of Section 3031 will have a material impact on its consolidated financial statements.

International reporting standards:

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

Risk Factors

There are a number of risks that could affect the Company's future cash flows, results of operations and financial position. They include the ability to obtain required financing, interest rate risk, credit risk and concentration of credit risk, and foreign exchange/currency risk.

Financial Capability and Additional Financing:

The Company is currently operating with a working capital deficiency and a deficiency in assets. Accordingly, it is dependent upon its ability to obtain adequate financing, to the extent that cash flows from operations are not sufficient, in order to settle obligations as they become due. Although the Company has been successful obtaining necessary financing in the past there can be no assurance that it will be able to obtain sufficient financing in the future, or that the terms of such financing will be sufficiently favourable, to enable it to continue as a going concern.

Interest rate risk:

The Company has certain borrowings that are subject to interest rates that float in accordance with the prime lending rate of its financial institution. This may have an impact on the income and/or cash flows of future periods.

Credit risk and concentration of credit risk:

The Company is subject to credit risk, however, in an effort to mitigate this, it actively manages and monitors its receivables and obtains pre-payments where warranted. The Company's bad debt experience has not been significant.

Foreign exchange/Currency risk:

The Company purchases some inventory components in US dollars and earns most of its revenues in Canadian dollars. As a result it is subject to risk due to the fluctuations in the exchange rates between the two currencies and it does not actively manage this risk. During the 2008 fiscal year the Company reported a net loss on foreign exchange of $562 (2007 – $1,781).