ZTEST Electronics Inc.

Consolidated Financial Statements

June 30, 2009 and 2008

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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, 2009 and 2008, and the consolidated statements of income, comprehensive income and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 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, 2009 and 2008 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 24, 2009

Consolidated Balance Sheets
June 30, 2009 and 2008

	2009	2008
Assets		
Current assets		
Cash	**$ 81,805**	$ 24,206
Accounts receivable	**436,740**	609,470
Inventories *(note 4)*	**279,909**	351,638
Prepaid expenses and other assets	**35,395**	32,161
	833,849	1,017,475
Equipment *(note 5)*	**1,285,850**	573,921
	$ 2,119,699	$ 1,591,396
Liabilities		
Current liabilities		
Customer deposits and deferred revenue	**$ 38,450**	$ -
Accounts payable and accrued liabilities	**510,108**	598,005
Dividends payable	**268,201**	268,201
Notes payable *(note 6)*	**116,572**	126,270
Current portion of long-term debt *(note 7)*	**240,311**	437,199
Preferred shares *(note 9)*	**473,855**	473,855
	1,647,497	1,903,530
Long-term debt *(note 7)*	**1,390,403**	497,844
	3,037,900	2,401,374
Deficiency in assets		
Share capital *(note 9)*	**21,973,055**	21,956,332
Contributed surplus *(note 9)*	**409,918**	338,208
Deficit	**(23,301,174)**	(23,104,518)
	(918,201)	(809,978)
	$ 2,119,699	$ 1,591,396

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

Approved by the Board:

Signed: "John Perreault" — Director

Signed: "Wojciech Drzazga" — Director

Consolidated Statements of Income, Comprehensive Income and Deficit
For the years ended June 30, 2009 and 2008

		2009		2008
Revenue				
Product sales	**$**	**3,435,283**	$	4,066,836
Interest and other		**-**		66
		3,435,283		4,066,902
Expenses				
Cost of product sales		**2,393,437**		2,485,650
Selling, general and administrative		**1,094,596**		1,218,653
Interest expense - long-term debt *(note 10)*		**79,582**		81,623
Interest expense - other *(note 10)*		**15,107**		14,875
Amortization of equipment		**13,017**		14,576
Foreign exchange loss		**4,846**		562
		3,600,585		3,815,939
(Loss) income from operations		**(165,302)**		250,963
(Loss) on disposal of equipment		**(31,354)**		(13,005)
(Loss) income before provision for income taxes		**(196,656)**		237,958
Provision for income taxes *(note 11)*		**-**		-
Net (loss) income and comprehensive (loss) income for the year		**(196,656)**		237,958
Deficit, beginning of year		**(23,104,518)**		(23,342,476)
Deficit, end of year	**$**	**(23,301,174)**	$	(23,104,518)
Net (loss) income per share - basic	**$**	**(0.003)**	$	0.004
- fully diluted	**$**	**(0.003)**	$	0.004
Weighted average shares outstanding – basic and fully diluted		**60,581,626**		60,351,804

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

Consolidated Statements of Cash Flows
For the years ended June 30, 2009 and 2008

		2009		2008
Cash flow from operating activities				
Net (loss) income for the years	$	(196,656)	$	237,958
Items not involving cash				
Amortization of equipment		212,911		136,626
Loss on disposal of equipment		31,354		13,005
Stock based compensation		2,834		7,328
Interest accretion		3,084		-
Changes in non-cash working capital items				
Accounts receivable		172,730		(158,282)
Inventories		71,729		(110,171)
Prepaid expenses and other assets		(3,234)		1,275
Customer deposits and deferred revenue		38,450		(5,129)
Accounts payable and accrued liabilities		(54,880)		124,156
		278,322		246,776
Cash flow from investing activities				
Proceeds from sale of equipment		-		191
Purchase of equipment		(956,194)		(14,200)
		(956,194)		(14,009)
Cash flow from financing activities				
Proceeds of notes payable		165,000		226,500
Proceeds of long-term debt		1,029,500		20,000
Repayment of notes payable		(184,892)		(200,664)
Repayment of long-term debt		(274,137)		(369,901)
		735,471		(324,065)
Increase (decrease) in cash		57,599		(91,298)
Cash, beginning of year		24,206		115,504
Cash, end of year	$	81,805	$	24,206

Supplemental Disclosure of Cash Flow Information

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

		2009		2008
Interest	$	71,852	$	96,389
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 applicable to a “going concern”. This assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.. 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, 2009 the Company has a deficit, to date, of $23,301,174 and working capital deficiency of $813,648. The Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and its ability to generate positive cash flow from operations. If the going concern assumption were not appropriate for these consolidated financial statements then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

Basis of 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 (see note 7)
Northern Cross Minerals Inc.	-	66.7 %	owned (inactive)

Adoption of new accounting standards

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

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

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

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

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

Measurement uncertainty

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

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, 2009 and June 30, 2008 there were no cash equivalents on hand.

Inventories

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

Equipment

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

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

Investments

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

Future income taxes

The Company accounts for income taxes using the asset and liability method of accounting. Under this method, future income tax assets and future income tax liabilities are recorded based on temporary differences between the financial reporting basis of the Company's assets and liabilities and their corresponding tax basis. The future benefits of each income tax asset, including unused tax losses, is recognized subject to a valuation allowance that is predicated upon the extent that it is more likely than not that such assets will be realized and losses will be utilized. These future income tax assets and liabilities are measured using 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 to directors, officers, consultants and employees are accounted for using the fair value-based method. Fair value is calculated using the Black Scholes model and is added to contributed surplus over the vesting period for the options. Consideration paid on the exercise of stock options is credited to share capital together with any associated contributed surplus.

Segment Disclosure

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

Future accounting pronouncements

International reporting standards:

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

3. Financial instruments

The Company has determined the most appropriate classification for its financial instruments such that cash is classified as held for trading and is measured at fair value. Accounts receivable has been classified as loans and receivables and accounts payable, accrued liabilities, dividends payable, notes payable, long-term debt and preferred shares are classified as other financial liabilities, which are measured at amortized cost. These classifications have remained unchanged since initial recognition.

Fair Values

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

Risks

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

Credit risk;

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

Concentration of credit risk:

Concentration of credit risk arises when a significant portion of the financial assets subject to credit risk arise from a single or limited number of sources. During the current period, one of the Company's customers accounted for 20% of revenue (2008 – 22.4%). Amounts due from this customer accounted for 4% of the Company's accounts receivable at June 30, 2009 (2008 - 51%). The loss of this customer or significant curtailment of purchases by such customer could have a material adverse affect on the Company's results of operations and financial condition. The Company monitors the relationship with this customer closely and ensures that every customer is subject to the same risk management criteria.

3. Financial instruments - continued

Currency risk:

Currency risk is the risk that the amount of future cash flows of cash, accounts receivables, accounts payable and accrued liabilities that are denominated in US dollars will fluctuate because of changes in foreign exchange rates. The Company purchases some inventory components and makes some of its product sales in US dollars. The Company monitors its exposure to, but does not actively manage this risk. During the current period the Company reported a net loss on foreign exchange of $4,846 (2008 – $562).

Interest rate risk:

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

Liquidity risk:

Liquidity risk represents the potential difficulties that the Company may encounter in meeting obligations associated with financial liabilities. The Company is reporting a working capital deficiency of $813,648 (2008 - $886,055). This includes a long-term debt, preferred shares and dividends payable, with an aggregate carrying value of $781,656 (2008 - $781,656), that are each past due. The Company manages its liquidity risk through the management of its capital (see Note 12) which incorporates the continuous monitoring of actual and projected cash flows to ensure that it has sufficient liquidity to meet its operating commitments without incurring unacceptable losses or risking damage to the Company's reputation.

4. Inventories

The carrying value of inventory is comprised of:

	2009	2008
Raw materials	$ 217,183	$ 294,212
Work in process	23,472	27,008
Finished goods	39,254	30,418
	$ 279,909	$ 351,638

Inventory utilization during the period was as follows:

	2009	2008
Raw materials and supplies used	$ 1,202,232	$ 1,234,533
Labour costs	880,560	981,348
Amortization of equipment	201,148	122,060
Other costs	114,798	131,015
Net change in finished goods and work in process	(5,301)	16,694
Cost of product sales	$ 2,393,437	$ 2,485,650

5. Equipment

2009	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 161,518	$ 154,093	$ 7,425
Office equipment and furniture	70,287	60,849	9,438
Manufacturing equipment (1)	2,244,970	986,875	1,258,095
Leasehold improvements	61,003	50,111	10,892
	$ 2,537,778	$ 1,251,928	$ 1,285,850

5. Equipment - continued

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

[1] Specific equipment having an aggregate net book value of $1,163,609 (2008 - $363,070) have been pledged as security for long-term debts (Note 7).

6. Notes payable

Interest	Security	Terms	2009	2008
Prime + 2%	Unsecured	No repayment terms [1]	**$ -**	$ 16,192
12%	Unsecured	No repayment terms [1]	**116,572**	110,078
			$ 116,572	$ 126,270

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

7. Long-Term Debt

	2009	2008
Non interest bearing debenture has matured. [1]	**$ 39,600**	**$** 39,600
Term loan bearing interest at 9.5%, was secured by specific equipment having a net book value of $108,544 (2008 - $135,681) and matured April 2009. Blended monthly principal and interest payments of $6,510 were required.	**-**	62,350
Term loan bearing interest at 8.5%, was unsecured, and was repaid April 2009 in advance of its scheduled maturity in June 2009. Blended monthly principal and interest payments of $1,561 were required. [2]	**-**	17,898
Term loans bearing interest at 9.5%, were secured by specific equipment having a net book value of $115,129 (2008 - $143,911) and matured June 2009. Blended monthly principal and interest payments of $5,099 were required.	**-**	58,153
Term loan bearing interest at 12.0%, unsecured, and matures in March 2011. No payments are required from April 2009 to March 2010 after which all accrued interest will be added to the loan balance. Blended monthly principal and interest payments of $6,037 will commence April 2010 and continue until maturity. [2, 5]	**60,929**	33,424
Term loan bearing interest at 12.0%, unsecured, and matures in March 2011. No payments are required from April 2009 to March 2010 after which all accrued interest will be added to the loan balance. Blended monthly principal and interest payments of $5,076 will commence April 2010 and continue until maturity. [3, 5]	**51,007**	45,068
Term loans bearing interest at 8.0%, unsecured, and mature May 2011. Blended monthly principal and interest payments of $3,296 are required.	**70,061**	102,578
Balance forward	**221,597**	359,071

7. Long-Term Debt - continued

	2009	2008
Balance forward	**221,597**	359,071
Term loans bearing interest at 12.0%, secured by specific equipment having a net book value of $66,782 (2008 - $83,478), and mature in August 2011. No payments are required from April 2009 to March 2010 after which all accrued interest will be added to the loan balances. Blended monthly principal and interest payments of $3,559 will commence April 2010 and continue until maturity. (2, 3, 5)	**49,447**	72,428
Term loans bearing interest at 8.0%, unsecured, and mature November 2011. No payments are required from April 2009 to March 2010 after which all accrued interest will be added to the loan balances. Blended monthly principal and interest payments of $3,750 will commence April 2010 and continue until maturity. (4, 5)	**64,788**	91,249
Term loan bearing interest at 6.0%, secured by a general security agreement covering the assets of Permatech Electronics Corporation, matures December 2011. Blended principal and interest payments of $13,446 are required each month until maturity.	**369,074**	412,295
Debenture, bearing interest at 10.5%, secured on a pro-rata basis with another debenture by specific equipment having a net book value of $855,000, matures December 2013. The debenture has a face value of $724,256 and may be repaid, in whole or in part, at any time at the Company's discretion. Payments as to interest only are required until December 2010, followed by blended principal and interest payments of $15,865 each month until December 2011, and then blended principal and interest payments of $16,171 each month until maturity. The holder of this debenture was issued 2,800,000 common shares of the Company as additional compensation for having advanced the funds. (6)	**708,135**	-
Debenture, bearing interest at 4.5%, secured on a pro-rata basis with another debenture by specific equipment having a net book value of $855,000, matures December 2013. The debenture has a face value of $284,067 and may be repaid, in whole or in part, at any time at the Company's discretion. Payments as to interest only are required until maturity. The holder of this debenture was granted an option to acquire a 24% interest in Permatech Electronics Corporation for $200,000 on or before June 15, 2012 as additional compensation for having advanced the funds. (6)	**217,673**	-
Total long-term debt	**1,630,714**	935,043
Less: Current portion	**240,311**	437,199
	$ 1,390,403	$ 497,844

(1) The debenture has matured but no means of settlement has yet been reached. The balance payable remains as an element of the current portion of long-term debt pending settlement.

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

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

(4) Includes $37,971 (2008 - $58,446) payable to Officers of the Company and/or their spouses.

(5) The repayment terms of these loans were renegotiated during the period such that payments were deferred and, in some cases, maturity dates were extended.

(6) The fair value of the debenture was determined using the discounted cash flow method. The value of the additional compensation was calculated as the residual balance between the fair value and face value of the debenture. This resulted in the addition of $16,723 to share capital and $68,876 to contributed surplus.

7. Long-Term Debt - continued

The minimum annual future principal repayments are as follows:

2010	$ 240,311
2011	383,683
2012	212,135
2013	125,923
2014	668,662
	$ 1,630,714

8. Commitments

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

2010	$ 108,648
2011	72,432
	$ 181,080

9. Share Capital

(a) Authorized

Unlimited Common shares

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

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

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

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

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

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

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

(b) Issued

	Number of Shares	**Amount**
Common shares June 30, 2008 and June 30, 2007	60,351,804	$ 21,856,332
Shares issued during the year *(note 7)*	2,800,000	16,723
Common shares June 30, 2009	63,151,804	21,873,055
Class A special shares June 30, 2009 and June 30, 2008	1,193,442	100,000
Balance June 30, 2009		$ 21,973,055

9. Share Capital - continued

(b) Issued - continued

Preferred Shares:

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

(c) Details of warrants outstanding are as follows:

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

(d) Details of options outstanding are as follows:

Common Shares Under Option	Number of Options Vested	Price/Option	Expiry Date
200,000	200,000	$0.120	December 17, 2009
800,000 [1]	800,000	$0.120	December 17, 2009
50,000	50,000	$0.155	July 10, 2010
900,000 [1]	720,000	$0.170	June 27, 2011
1,950,000	1,770,000		

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

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

(e) Contributed Surplus:

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

	2009	2008
Contributed surplus, beginning of period	**$ 338,208**	$ 330,880
Compensation expense related to stock options granted in prior periods	**2,834**	7,328
Value attributed to option on Permatech Electronics Corporation *(note 7)*	**68,876**	-
Contributed surplus, end of period	**$ 409,918**	$ 338,208

10. Related Party Transactions

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

1114377 Ontario Inc. ("1114377")
A shareholder, which is controlled by the spouse of a Director of the Company.

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

Description	Related Party	2009	2008
Interest expense - long-term	1114377	**$ 6,902**	$ 4,857
Interest expense - other	1114377	**$ -**	$ 2,632
Interest expense - long-term	Directors/Officers	**$ 14,079**	$ 9,249
Interest expense - other	Directors/Officers	**$ 14,588**	$ 10,783

11. Income Taxes

Current Income Taxes

A reconciliation of combined federal and provincial corporate income taxes at the Company's effective tax rate of 33.25% (2008 – 34.82%) is as follows:

	2009	2008
(Loss) income before income taxes	**$ (196,656)**	$ 237,958
Income taxes at statutory rates	**$ (65,388)**	$ 82,857
Expenses not deductible for income tax purposes	**2,610**	3,562
Accounting amortization in excess of capital cost allowance claimed	**70,792**	46,060
Accounting loss on disposal of equipment	**10,425**	4,528
Expenses of prior years claimed for income tax purposes	**(4,630)**	(4,847)
	13,809	132,160
Non-capital losses of prior years utilized	**(13,809)**	(132,160)
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 these consolidated 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	
2010	$ 417,232
2014	114,285
2027	287,896
2029	67,017
	$ 886,430

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.

11. Income Taxes - continued

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:

	2009	2008
Resource related expenditures	**$ 87,263**	$ 101,225
Scientific research and experimental development	**262,867**	304,679
Reserves claimed	**2,932,164**	3,400,976
Undepreciated capital cost	**313,975**	329,024
Non-capital losses	**224,345**	392,227
Capital losses	**766,960**	889,674
Future income tax assets, before valuation allowance	**4,587,574**	5,417,805
Valuation allowance	**(4,587,574)**	(5,417,805)
Net future tax assets	**$ -**	$ -

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

12. Capital Management

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

Management includes the following items in its definition of capital:

	2009	2008
Long-term debt [1, 2]	**$ 704,906**	$ 814,540
Share capital	**21,973,055**	21,956,332
Contributed surplus	**409,918**	338,208
Deficit	**(23,301,174)**	(23,104,518)
Net capital (deficiency) under management	**$ (213,295)**	$ 4,562

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

General

The following Management Discussion and Analysis ("MD&A") has been prepared by the Company's management to accompany the consolidated financial statements of the Company as at June 30, 2009 and should only be read in conjunction with those financial statements. Additional information about the Company can be found at www.sedar.com.

Forward-looking Information

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

The Company

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

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

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

Corporate Performance

The 2009 fiscal year was a challenging year for the Company but also one that created optimism for the future. The challenges endured are attributed to the global economic downturn which took a fairly large toll on many parties including the Company and the market in which it operates. Although unsubstantiated, the feedback that management has received indicates that market demand has declined by as much as 40% over the past year. Even if this figure is somewhat overstated it would seem reasonable to assume that the 15.5% decline in total annual revenue that the Company sustained is less than the industry average. This better-than-average result is interpreted by management to indicate the strength of the Company's customer base and the Company's reputation in the marketplace. Both of these concepts are considered reasons to be optimistic that the Company will fare well as the economy stabilizes and improves.

Another reason for optimism is that, despite the prevailing economic climate, the Company was able to finance and acquire a new line of equipment. Management pursued this acquisition with the expectation that it would allow the Company to increase market share. This was based upon the knowledge that the new line would provide the Company with significantly increased production capacity and enable it to produce a broader range of products. Since acquisition in May the Company has already received product orders it would not otherwise have been able to accommodate and product orders from new customers who otherwise would not be utilizing the Company's services. Management now believes that this new line will provide the stimulus necessary to be at the leading edge of the economic recovery, if and when it occurs.

Additional optimism is derived from the Company's stability through these tumultuous economic times. In fact there were many achievements during the 2009 fiscal year that management is quite proud of. These accomplishments include the realization of a 100% collection rate on amounts billed to customers, the utilization of available work-share programs to retain its personnel, and its ability to restructure debt repayments. The collection results not only speak to the quality of the Company's customers but also to the effectiveness of the Company's risk management systems. With high quality customers, trained personnel and reduced pressure on cash flows it is again believed that the Company is in good position to take advantage of its opportunity to increase market share and grow its business.

The Company reported total revenues of $3,435,283 for 2009 including $785,581 which arose during the final quarter. These figures are 15.5% and 21.7% lower, respectively, in comparison to the same periods one year earlier. The decline in annual revenues represents an end to the growth trend that the Company had been realizing over the previous seven years. The fourth quarter results mean that there have now been four consecutive quarters in which revenues have declined. The revenue declines experienced throughout the 2009 fiscal year started slowly for the Company with a decline of less than 5% in Q1, then a decline of more than 11% in Q2, and followed by a decline of more than 26% in Q3. The fact that the rate of decline is slowing, that Q4 revenues are almost 14% higher than Q3 revenues and that the Company is receiving a higher volume of requests for quotation each suggest that the bottom of the economic downturn may now be behind us and the slow climb to recovery has begun.

Management has previously reported that in order to be profitable it is necessary for revenues to approximate $1,000,000 per quarter. While steps were taken to reduce costs during the downturn the reductions were not sufficient to overcome the fact that 2009 revenues were approximately 14% below this theoretical threshold. During the final quarter of 2009 the Company sustained losses from operations of $180,183. This offset modest income realized during the first three quarters to result in an annual operating loss of $165,302. This represents the second consecutive quarter for which operating losses were sustained after having reported operating income in seven of the preceding eight quarters.

The fourth quarter operating loss was accentuated by the additional financing costs and amortization expense arising from the purchase of the new line of equipment. The total amortization and interest on long term debt recorded in the fourth quarter was more than $110,000 higher than the average amounts recorded during the first three quarters of the year. While this higher level of expenses makes comparisons to prior periods more difficult it is representative of what can be expected in future periods. Management believes however that other efficiencies that have been realized will serve to maintain the threshold to profitability at or near $1,000,000 in quarterly revenue.

Corporate Performance - continued

When the Company acquired the new line of equipment it disposed of other items that were seldom used. This disposal resulted in the recognition of a loss in the amount of $31,354 which represents the difference, for both the quarter and the year, between the losses from operations and the losses before income taxes. There had been a similar loss of $13,005 that arose from the disposal of assets during Q3-2008. While the Company has no immediate plans to add more equipment it is reasonable to assume that future additions will coincide with the retirement of older items and that further losses of this nature could arise.

During the third quarter the Company had successfully renegotiated the repayment terms of a number of its long-term debts. When the financing for the new equipment was being negotiated management continued to recognize the need to preserve cash in order to finance anticipated revenue growth. These negotiations concluded during the fourth quarter and the Company succeeded in obtaining favourable interest rates and repayment terms in exchange for the issuance of 2,800,000 common shares and the granting of an option to acquire up to a 24% interest in Permatech Electronics Corporation for $200,000 on or before June 15, 2012. While this additional compensation is certainly significant, management believes that the acquisition and utilization of this equipment will be a key element in the Company's future success and that the benefit will far exceed the cost.

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

	For the fiscal years ended:		
	June 09	June 08	June 07
Total Revenues	3,435,283	4,066,902	3,436,846
Net income (loss) from operations	(165,302)	250,963	(107,196)
Per share	(0.003)	0.004	(0. 002)
Net income (loss) for the period	(196,656)	237,958	259,441
Per share	(0. 003)	0.004	0.004
Total assets	2,119,699	1,591,396	1,469,148
Total long-term financial liabilities	1,390,403	497,844	744,523
Total liabilities	3,037,900	2,401,374	2,524,412
Cash dividends [1] – preferred shares	NIL	NIL	75,697

	For the three month periods ended:				
	June 09	Mar. 09	Dec. 08	Sept. 08	June 08
Total Revenues	785,581	690,777	928,499	1,030,426	1,003,130
Net income (loss) from operations	(180,183)	(26,845)	601	41,125	66,121
Per share	(0.003)	(0.000)	0.000	0.001	0.001
Net income (loss) for the period	(211,537)	(26,845)	601	41,125	66,121
Per share	(0.003)	(0.000)	0.000	0.001	0.001
Total assets	2,119,699	1,291,890	1,322,065	1,566,082	1,591,396
Total long-term financial liabilities	1,390,403	474,187	414,131	442,318	497,844
Total liabilities	3,037,900	2,084,721	2,088,625	2,334,073	2,401,374
Cash dividends [1] – preferred shares	NIL	NIL	NIL	NIL	NIL

	For the three month periods ended:				
	Mar. 08	Dec. 07	Sept. 07	June 07	Mar. 07
Total Revenues	937,253	1,042,894	1,083,625	955,765	933,985
Net income (loss) from operations	34,490	70,072	80,280	(4,590)	34,292
Per share	0.001	0.001	0.001	(0.000)	0.001
Net income (loss) for the period	21,845	70,072	80,280	259,260	42,676
Per share	0.001	0.001	0.001	0.004	0.001
Total assets	1,456,980	1,450,155	1,463,341	1,469,148	1,487,014
Total long-term financial liabilities	571,435	588,927	667,504	744,523	405,839
Total liabilities	2,334,463	2,350,741	2,436,131	2,542,412	2,683,279
Cash dividends [1] – preferred shares	NIL	NIL	NIL	11,657	21,501

[1] Cash dividends were being accrued rather than paid

Results of Operations

As noted previously, revenues for the fourth quarter amounted to $785,581 representing a decline of almost 22% in comparison to Q4-2008. Although this represents the fourth consecutive quarter that revenues have declined it is noteworthy that this trend follows immediately after a period of eight consecutive quarters whereby revenues had increased. The timing by which this new trend commenced and the fact that it followed a prolonged growth period leads management to attribute these declines to the global economic downturn. The Company is confident that it has taken the steps necessary to minimize the revenue decline and to maximize the growth that is expected to occur as the economy stabilizes.

The gross margin realized during the 2009 fiscal year amounted to $1,041,846 or 30.3% of sales. This is significantly lower than the $1,581,186, or almost 39% of sales, realized during fiscal 2008. The results appear even more dramatic when comparing fourth quarter results as the current year figures are $127,329 or 16.21% of sales as compared to the Q4-2008 results of $355,910 or 35.5% of sales. During the fourth quarter of 2009 the Company incurred amortization charges that were $94,366 higher than the average quarterly amount recorded previously during the year. This incremental charge, which arose as a result of having acquired the new assembly line, represents just over 12% of sales for the quarter and 2.75% of annual sales. The remaining decline in quarterly and annual margins is attributed to having excess capacity as a consequence of lower market demand. Management will continue to take steps to stimulate demand in order to utilize available capacity and to take advantage of the increased efficiency of the new assembly line. While the Company appears poised to be at the leading edge of the economic recovery it remains impossible to predict when that recovery will occur.

As with each and every prior period, the two largest elements of the cost of product sales continue to be the cost of components and the cost of labour. These two costs account for 77.3% of total cost of sales for the quarter and 83.1% of the total for the year. During the 2008 fiscal year these costs accounted for 84.8% of the total including 84.9% in the fourth quarter. Once again the current period percentages have declined as a consequence of the jump in amortization costs.

Component costs for 2009 amounted to $1,107,433 or only marginally lower than the $1,126,224 recorded during 2008. The fourth quarter figures are even more similar with the 2009 figure of $322,388 being slightly more than the 2008 total of $319,717. Management has long promoted the supply of components, or turnkey process, as a cost effective solution for the Company's customers and recent results suggest that many customers concur. In eight of the last nine quarters component costs have represented at least 40% of total cost of sales with the annual figures being more than 45% in each of the past two years. This increased demand for components not only translates into increased economies of scale but also allows the Company to have greater insight into the timing of component deliveries which, in turn, helps to simplify production scheduling. It is anticipated that the demand for turnkey production will remain fairly high for the foreseeable future.

Labour costs for 2009 amounted to $880,560 representing a decline of approximately 10.3% from the 2008 figure of 2008 $981,348. These figures include a fourth quarter drop of 12.5% when costs fell from $212,952 to $186,377. Throughout 2009 production demand was inconsistent thereby leaving management in the constant struggle between having excess capacity and maintaining the ability to satisfy customer requirements. The desire not to impair the Company's reputation for reliability and high quality production combined with the desire to avoid the training costs that accompany hiring of new personnel led to declines in labour costs that lagged behind the drop in revenues. The Company sought and obtained government approval for a work-share program that enabled it to retain its trained production staff on a reduced work-hour basis. This investment in the future is expected to allow the Company to react quickly if and/or when the anticipated economic recovery commences and production demand increases.

Results of Operations - continued

Equipment costs, which include amortization as well as repairs and maintenance, rose dramatically from $132,510 in 2008 to $231,670 in 2009. As noted previously a large portion of this increase arose in the fourth quarter when costs jumped from $33,963 to $137,851. While the increase in amortization costs has been well documented it should also be noted that the Company took advantage of its excess capacity to conduct both necessary and preventative maintenance. The bulk of this work took place during the fourth quarter when $17,103 of the annual cost of $31,776 was incurred. In comparison the 2008 totals were $1,565 and $10,450 respectively. While maintenance is an ongoing issue it is believed that the level of investment made during the fourth quarter will not recur in the immediate future. It also ensures that the Company is able to ramp up its production capacity very quickly should the active pursuit of increased production demand prove to be effective.

Production supplies is the expense caption that encompasses all items consumed in the production process which do not warrant specific tracking by individual assembly or production job. While some, or possibly many, of these items could be tracked it has long been maintained that the cost of doing so far exceeds the potential benefit. The total of this expense category for 2009 was $94,799 or just less than 4% of the total cost of sales. The comparative total for 2008 was $108,310 or approximately 4.4% of cost of sales. Many of these supply items are purchased in bulk on a just-in-time basis and are considered costs of the period in which they are acquired so the expense total and the percentages may vary according to the timing of orders. Management is in process of automating some of the reordering processes but there is no intent to increase the cost tracking detail.

The remainder of costs of sales is made up of freight costs, tooling costs and the cost of packaging supplies. The aggregate of these costs represents less than 5% of the quarterly and annual cost of sales totals in both 2009 and 2008. These expenses are continuously monitored by management and do not warrant 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 amounted to $1,094,596 in 2009. This represents a reduction of $124,057, or almost 10.2%, in comparison to 2008 levels even though fourth quarter totals for the two years are almost identical. Management continuously strives to minimize these costs but certain elements, like rent for example, are relatively fixed in nature and have no correlation with operating volumes.

Employee and consultant remuneration in Q4-2009 was $147,265 which brought the total for the year to $641,107. Both periodic amounts are lower than the 2008 figures when quarterly costs were $156,277 and annual charges were $774,756. The lower figures for Q4-2009 are reflective of pay reductions resulting from reduced work hours as there was no overall reduction in the number of personnel. The decline in annual costs also includes the final phase out of the former bonus plan for key personnel. The discontinued bonus plan required that the Company be profitable during a quarter for the bonuses to accrue and that it satisfy future cash-flow constraints in order for accrued amounts to be paid. During the first two quarters of 2008, the last periods in which the bonus plan was in effect, the Company was sufficiently profitable to cause bonuses to be accrued. The future cash flow constraint was not satisfied however, and this led to the reversal of these costs during the third quarter of 2009. There is no commitment to introduce a new bonus structure although management intends to pay its personnel on a competitive basis.

Occupancy costs consist primarily of rent and utility charges and are the second largest component of SG&A. The base rent has remained consistent throughout the 2008 and 2009 periods but additional rent charges for realty taxes and maintenance tend to rise each year. The utility usage and rates also continue to vary with the trend being for costs to rise each year. During 2009 the total occupancy charges amounted to $308,663 including $74,842 incurred during the fourth quarter. The fourth quarter costs of $74,376 incurred for 2008 were almost identical to 2009 levels but the annual total was a little lower at $299,361. The lease for the Company's operating facility continues at the same basic rental rate through February 2011 so these costs, subject to the fluctuations like those experienced in 2009 or other unforeseen events, will remain both consistent and predictable for that period.

Results of Operations - continued

Professional fees and regulatory fees are the only other elements of SG&A that individually represent more than 2% of the total. Professional fees, which consist of legal fees and the cost of the annual financial statement audit, amounted to $62,477 for 2009 and $63,989 for 2008 with each component also reflecting very little change from one year to the next. Regulatory costs, which include all stock exchange and transfer agent fees, also remained fairly consistent. In fact the 2009 total of $25,233 is only marginally higher than the $22,175 incurred in 2008 and even the 2007 total of $24,108. 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 2010 fiscal period.

The remaining elements of SG&A are insignificant both individually and in aggregate. These expenses are continuously monitored by management and do not warrant detailed investigation or elaboration.

The Company's cost of financing, which is comprised of interest on long-term debt and other interest, had been reflecting a fairly continual decline however the third quarter renegotiation of repayment terms for certain obligations and the new financing that was finalized during the fourth quarter to fund the acquisition of the new assembly line has brought this trend to an end. It is expected that these transactions will result in higher financing costs over the next few periods.

Interest on long-term debt amounted to $31,809 during Q4-2009. This represents the first fiscal quarter since Q1-2008 where these interest costs exceed the total for the immediately preceding quarter. Even with this jump in the final quarter however the fiscal 2009 total of $79,582 was still marginally lower than the 2008 total of $81,623. Total long term debt has risen from $935,043 at June 30, 2008 to $1,630,704 at June 30, 2009 so it is certainly anticipated that interest costs will be higher over future periods.

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. 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 $4,050 in Q4-2009 and $15,107 for the year. In comparison the interest incurred in Q4-2008 was $2,814 but the annual total was a very similar $14,875. This indicates that the Company utilized approximately the same amount of short term debt in each year although the timing for the debts varied somewhat. Short term cash needs can, have and will continue to vary from period to period therefore it is expected that this associated interest expense will also fluctuate accordingly.

Liquidity

While the Company continues, even under current economic conditions, to show improvements in its liquidity it also continues to report a working capital deficiency. The deficiency at June 30, 2009 is $813,648 representing the third consecutive year where the deficiency has been reduced. The previous deficiencies reported over this period were $886,055 in 2008, $938,294 in 2007 and $1,658,155 in 2006. The 2009 balance is the lowest annual deficiency reported since the Company embarked on the current business model in 2001. To further eliminate this deficiency, and improve its liquidity, the Company must continue to generate positive cash flows from operations and to pay down its current obligations.

It should be noted that there is a balance of $742,056 included in current liabilities on account of preferred shares that have matured and the dividends thereon that have accrued but have not yet been paid. This balance has not changed since the final quarter of 2007.

The Company currently utilizes long term debt as a means of financing new equipment acquisitions and of settling other obligations whenever suitable terms can be negotiated. 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.

Liquidity - continued

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

During the fourth quarter the Company completed a transaction whereby it issued two debentures having an aggregate face value of $997,500 and utilized the proceeds to purchase a number of pieces of equipment that together constitute a second production line. Aside from that transaction 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.

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

	2009	2008	2007
Note payable at prime +2%	-	16,192	29,192
Notes payable at 12.0%	116,572	110,078	72,539
Term loan at 8.0%	37,971	58,446	72,766
Term loans at 12.0%	151,383	168,818	34,342

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

	2009	2008	2007
Interest expense – long term	20,981	14,106	9,929
Interest expense – other	14,588	13,415	18,527

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

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

An additional 750,000 stock options that had been held by Directors and/or Officers of the Company expired during the 2009 fiscal year.

Convertible Instruments and Other Securities

As at June 30, 2009, and as at the date of this document, the Company had the following securities issued and outstanding:

Description	Quantity	Amount
Common shares	63,151,804	$ 21,681,409
Paid in capital of preferred shares		191,646
Class A special shares	1,193,442	100,000
		$ 21,973,055
Series A preferred shares	166,667	160,000
Series C preferred shares	288,858	505,501
		665,501
Less: amount accounted for as paid in capital		191,646
Liability element of preferred shares		473,855
Less: amount reported as a current liability		(473,855)
Equity element of preferred shares		$ -

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

Description	Expiry Date	Number of Common shares
Stock options @ $0.12 per share	December 2009	1,000,000
Share options @ $0.155 per share	July 2010	50,000
Stock options @ $0.17 per share	June 2011	900,000
		1,950,000

Additional disclosures relative to these options are as follows:

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

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

Changes in Accounting Policy

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

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

(a) CICA Handbook Sections 3862, "Financial Instruments – Disclosures" and 3863, "Financial Instruments – Presentation" which revise and enhance the disclosure requirements, and carry forward unchanged the presentation requirements relative to financial instruments. The Company's comprehensive income for the current period is equal to its net income and there is no balance to be reported as accumulated other comprehensive income.

Changes in Accounting Policy - continued

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

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

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

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

International reporting standards:

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

Financial Instruments

The Company has determined the most appropriate classification for its financial instruments such that cash is classified as held for trading and is measured at fair value. Accounts receivable has been classified as loans and receivables and accounts payable, accrued liabilities, dividends payable, notes payable, long-term debt and preferred shares are classified as other financial liabilities, which are measured at amortized cost. These classifications have remained unchanged since initial recognition.

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

Risk Factors

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

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

Risk Factors - continued

Credit risk;

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

Concentration of credit risk:

Concentration of credit risk arises when a significant portion of the financial assets subject to credit risk arise from a single or limited number of sources. During the current year, one of the Company's customers accounted for 20% of revenue (2008 – 22.4%). Amounts due from this customer accounted for 4% of the Company's accounts receivable at June 30, 2009 (2008 - 51%). The loss of this customer or significant curtailment of purchases by such customer could have a material adverse affect on the Company's results of operations and financial condition. The Company monitors the relationship with this customer closely and ensures that every customer is subject to the same risk management criteria.

Currency risk:

Currency risk is the risk that the amount of future cash flows of one or more financial instruments will fluctuate because of changes in foreign exchange rates. The Company purchases some inventory components and makes some of its product sales in US dollars. The Company monitors its exposure to, but does not actively manage this risk. During the current period the Company reported a net loss on foreign exchange of $4,846 (2008 – loss of $562).

Interest rate risk:

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

Liquidity risk:

Liquidity risk represents the potential difficulties that the Company may encounter in meeting obligations associated with financial liabilities. The Company is reporting a working capital deficiency of $813,648 (2008 - $886,055). This includes a long-term debt, preferred shares and dividends payable, with an aggregate carrying value of $781,656 (2008 - $781,656), that are each past due. The Company manages its liquidity risk through the management of its capital (see Note 12 of the consolidated financial statements) which incorporates the continuous monitoring of actual and projected cash flows to ensure that it has sufficient liquidity to meet its operating commitments without incurring unacceptable losses or risking damage to the Company's reputation.