# ZTEST Electronics Inc.

## Consolidated Financial Statements

## June 30, 2010 and 2009

## Auditors' Report

To the Shareholders of ZTEST Electronics Inc.

We have audited the consolidated balance sheets of ZTEST Electronics Inc. as at June 30, 2010 and 2009, 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, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

MSCM LLP

**Chartered Accountants**

**Licensed Public Accountants**

Toronto, Ontario
September 20, 2010

## Consolidated Balance Sheets
*June 30, 2010 and 2009*

| | 2010 | 2009 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | $ **395,767** | $ 81,805 |
| Accounts receivable | **510,198** | 436,740 |
| Inventories *(note 4)* | **273,512** | 279,909 |
| Prepaid expenses and other assets | **34,564** | 35,395 |
| | **1,214,041** | 833,849 |
| Equipment *(note 5)* | **1,041,662** | 1,285,850 |
| | $ **2,255,703** | $ 2,119,699 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Customer deposits and deferred revenue | $ **7,896** | $ 38,450 |
| Accounts payable and accrued liabilities | **546,752** | 510,108 |
| Dividends payable | **268,201** | 268,201 |
| Notes payable *(note 6)* | **-** | 116,572 |
| Current portion of long-term debt *(note 7)* | **137,563** | 240,311 |
| Preferred shares *(note 9)* | **473,855** | 473,855 |
| | **1,434,267** | 1,647,497 |
| Long-term debt *(note 7)* | **1,352,187** | 1,390,403 |
| | **2,786,454** | 3,037,900 |
| **Deficiency in assets** | | |
| Share capital *(note 9)* | **21,973,055** | 21,973,055 |
| Contributed surplus *(note 9)* | **416,755** | 409,918 |
| Deficit | **(22,920,561)** | (23,301,174) |
| | **(530,751)** | (918,201) |
| | $ **2,255,703** | $ 2,119,699 |

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

Approved by the Board:

Director

Director

## Consolidated Statements of Income, Comprehensive Income and Deficit
*For the years ended June 30, 2010 and 2009*

| | 2010 | 2009 |
|---|---|---|
| **Product sales** | **$ 3,837,630** | $ 3,435,283 |
| **Cost of product sales** *(note 4)* | **2,272,935** | 2,393,437 |
| | **1,564,695** | 1,041,846 |
| **Expenses** | | |
| Selling, general and administrative | **1,112,964** | 1,094,596 |
| Interest expense - long-term debt *(note 10)* | **160,123** | 79,582 |
| Interest expense - other *(note 10)* | **11,147** | 15,107 |
| Amortization of equipment | **12,119** | 13,017 |
| Foreign exchange loss | **2,132** | 4,846 |
| | **1,298,485** | 1,207,148 |
| **Income (loss) from operations** | **266,210** | (165,302) |
| Gain on disposal of mineral resource properties *(note 12)* | **114,403** | - |
| Loss on disposal of equipment | **-** | (31,354) |
| **Income (loss) before provision for income taxes** | **380,613** | (196,656) |
| Provision for income taxes *(note 11)* | **-** | - |
| **Net income (loss) and comprehensive income (loss) for the year** | **380,613** | (196,656) |
| **Deficit, beginning of year** | **(23,301,174)** | (23,104,518) |
| **Deficit, end of year** | **$ (22,920,561)** | $ (23,301,174) |
| **Net income (loss) per share - basic** | **$ 0.072** | $ (0.003) |
| **- fully diluted** | **$ 0.072** | $ (0.003) |
| **Weighted average shares outstanding – basic and fully diluted** *(note 9)* | **5,262,488** | 60,581,626 |

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

## Consolidated Statements of Cash Flows

*For the years ended June 30, 2010 and 2009*

| | 2010 | 2009 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Net income (loss) for the years | $ **380,613** | $ (196,656) |
| Items not involving cash | | |
| Amortization of equipment | **264,091** | 212,911 |
| Gain on disposal of mineral resource properties | **(114,403)** | - |
| Loss on disposal of equipment | **-** | 31,354 |
| Stock based compensation | **732** | 2,834 |
| Interest accretion | **18,711** | 3,084 |
| Changes in non-cash working capital items | | |
| Accounts receivable | **(73,458)** | 172,730 |
| Inventories | **6,397** | 71,729 |
| Prepaid expenses and other assets | **831** | (3,234) |
| Customer deposits and deferred revenue | **(30,554)** | 38,450 |
| Accounts payable and accrued liabilities | **81,360** | (54,880) |
| | **534,320** | 278,322 |
| **Cash flow from investing activities** | | |
| Purchase of equipment | **(19,903)** | (956,194) |
| Proceeds on disposal of mineral resource properties | **114,403** | - |
| | **94,500** | (956,194) |
| **Cash flow from financing activities** | | |
| Proceeds of notes payable | **206,500** | 165,000 |
| Proceeds of long-term debt | **7,132** | 1,029,500 |
| Repayment of notes payable | **(300,680)** | (184,892) |
| Repayment of long-term debt | **(227,810)** | (274,137) |
| | **(314,858)** | 735,471 |
| **Increase in cash** | **313,962** | 57,599 |
| **Cash, beginning of year** | **81,805** | 24,206 |
| **Cash, end of year** | $ **395,767** | $ 81,805 |

### Supplemental Disclosure of Cash Flow Information

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

| | 2010 | 2009 |
|---|---|---|
| Interest | $ **133,754** | $ 71,852 |
| 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, 2010 the Company has a deficit, to date, of $22,920,561 and working capital deficiency of $220,226. 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) |

### 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.

### 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, 2010 and June 30, 2009 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.

## 2. Significant Accounting Policies - continued

### 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 |

Equipment is reviewed for possible impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

### Investments

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 to which 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.

### 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.

### 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. Although early adoption is permissible the Company has determined that it will commence reporting under these new standards for its fiscal year ended June 30, 2012 in accordance with the implementation deadline. While all aspects of the implementation are not yet known with certainty it is anticipated that the financial reporting impact of the transition to IFRS will be minimal.

## 2. Significant Accounting Policies - continued

### 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.

## 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, customer deposits, deferred revenue, 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, customer deposits and deferred revenue, accounts payable and accrued liabilities, and notes payable approximate their fair values due to the short-term maturities of these instruments. Long-terms debts are recognized initially at fair value. Whenever there is a difference between face value and fair value that difference is amortized on a straight line basis over the remaining term of the debt. It is not practicable to determine the fair value of preferred shares or dividends payable since the timing of cash flows are not known.

### Risks

The Company is exposed to credit risk, concentration of credit risk, liquidity risk, currency risk, and interest rate 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 year, one of the Company's customers accounted for more than 20% (22%) of total revenue (2009 – 1 customer at 20%). Amounts due from this customer accounted for 1% of the Company's accounts receivable at June 30, 2010 (2009 - 4%). The loss of this customer or significant curtailment of purchases by such customer could have a material adverse affect on the Company's results of operations and financial condition. The Company monitors the relationship with this customer closely and ensures that every customer is subject to the same risk management criteria.

*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 $220,226 (2009 - $813,648). This includes a long-term debt, preferred shares and dividends payable, with an aggregate carrying value of $781,656 (2009 - $781,656), that are each past due. The Company manages its liquidity risk through the management of its capital (see Note 13) 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.

## 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 $2,132 (2009 – $4,846).

*Interest rate risk:*

Interest rate risk represents the possibility that future cash flows arising from financial instruments may fluctuate because of changes in the market rate of interest. The Company has certain long-term debts for which the interest rate is reset periodically in accordance with the prime lending rate of its financial institution. The future monthly payments on these debts will increase or decrease in correlation with the change, if any, in the prime lending rate. The Company manages this risk by establishing fixed interest rates whenever possible.

## 4. Inventories

The carrying value of inventory is comprised of:

| | **2010** | 2009 |
|---|---|---|
| Raw materials | **$ 228,419** | $ 217,183 |
| Work in process | **33,110** | 23,472 |
| Finished goods | **11,983** | 39,254 |
| | **$ 273,512** | $ 279,909 |

Inventory utilization during the period was as follows:

| | **2010** | 2009 |
|---|---|---|
| Raw materials and supplies used | **$ 984,481** | $ 1,202,232 |
| Labour costs | **889,884** | 880,560 |
| Amortization of equipment | **251,972** | 201,148 |
| Other costs | **128,965** | 114,798 |
| Net change in finished goods and work in process | **17,633** | (5,301) |
| Cost of product sales | **$ 2,272,935** | $ 2,393,437 |

## 5. Equipment

| **2010** | **Cost** | **Accumulated Amortization** | **Net Book Value** |
|---|---|---|---|
| Computer equipment | **$ 166,880** | **$ 157,124** | **$ 9,756** |
| Office equipment and furniture | **70,287** | **62,736** | **7,551** |
| Manufacturing equipment [1] | **2,259,510** | **1,239,947** | **1,019,563** |
| Leasehold improvements | **61,003** | **56,211** | **4,792** |
| | **$ 2,557,680** | **$ 1,516,018** | **$ 1,041,662** |

| 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 |

(1) Equipment with net book value of $688,460 (2009 - $1,163,609) is pledged as security (Note 7).

## 6. Notes payable

| Interest | Security | Terms | 2010 | 2009 |
|---|---|---|---|---|
| 12% | Unsecured | No repayment terms [1] | $ - | $ 116,572 |

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

## 7. Long-Term Debt

| | 2010 | 2009 |
|---|---|---|
| Non interest bearing debenture has matured. [1] | **$ 39,600** | $ 39,600 |
| Term loans bearing interest at 8.0%, unsecured, were scheduled to mature May 2011 but Company opted to repay early. Blended monthly principal and interest payments of $3,296 were required. | - | 70,061 |
| Term loans bearing interest at 12.0%, secured by specific equipment were scheduled to mature August 2011 but Company opted to repay early. Blended monthly principal and interest payments of $3,559 were required. [2, 3] | - | 49,447 |
| Term loans bearing interest at 8.0%, unsecured, were scheduled to mature November 2011 but the Company opted to repay early. Blended monthly principal and interest payments of $3,750 were required. [4] | - | 64,788 |
| Term loan bearing interest at 12.0%, unsecured, was scheduled to mature June 2013 but Company opted to repay early. Blended monthly principal and interest payments of $2,064 were required. [2] | - | 60,929 |
| Term loan bearing interest at 12.0%, unsecured, was scheduled to mature June 2013 but Company opted to repay early. Blended monthly principal and interest payments of $2,064 were required. [3] | - | 51,007 |
| Term loan bearing interest at at the prime lending rate plus 4.75%, fixed annually each September 30,secured by a general security agreement covering the assets of Permatech Electronics Corporation, matures September 2013. Repayment is to be made by way of monthly payments of $4,375 until September 2010, followed by twelve monthly payments of $6,621, twelve monthly payments of $8,692, and twelve monthly payments of $13,411. Each of these payments is blended as to principal and interest. [5] | **312,694** | 369,074 |
| Debenture, bearing interest at 10.5%, secured on a pro-rata basis with another debenture by specific equipment having a net book value of $688,460 (2009 - $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 pre-consolidation common shares of the Company as additional compensation for having advanced the funds. | **711,751** | 708,135 |
| Balance forward | **1,064,045** | 1,413,041 |

## 7. Long-Term Debt - continued

| | 2010 | 2009 |
|---|---|---|
| Balance forward | **1,064,045** | 1,413,041 |
| Debenture, bearing interest at 4.5%, secured on a pro-rata basis with another debenture by specific equipment having a net book value of $688,460 (2009- $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. | **232,565** | 217,673 |
| Term loan with face value of $199,042 bearing interest at the prime lending rate plus 8%, fixed semi-annually each April 30 and October 31, secured by a general security agreement covering the assets of Permatech Electronics Corporation, and matures April 2015. Repayment is to be made by way of monthly payments of $2,185 until April 2011, followed by twelve monthly payments of $2,611, twelve monthly payments of $3,462, twelve monthly payments of $4,211 and twelve monthly payments of $10,740. Each of these payments is blended as to principal and interest. The holder of this debenture was granted an option to acquire a 24% interest in Permatech Electronics Corporation for $200,000 on or before May 1, 2015 as additional compensation for having advanced the funds. (2) | **193,140** | - |
| Total long-term debt | **1,489,750** | 1,630,714 |
| Less: Current portion | **137,563** | 240,311 |
| | **$ 1,352,187** | $ 1,390,403 |

(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) Included an amount (2009 - $37,971) payable to Officers of the Company and/or their spouses.
(5) The repayment terms of this loan were renegotiated during the year.

The minimum annual future principal repayments are as follows:

| | |
|---|---|
| 2011 | $ 137,563 |
| 2012 | 204,804 |
| 2013 | 288,937 |
| 2014 | 756,942 |
| 2015 | 101,504 |
| | $ 1,489,750 |

## 8. Commitments

### Operating leases

The Company leases its operating facility under a lease that is due to expire February 2011 and requires minimum monthly rental payments of $9,054. The Company is currently engaged in negotiations and anticipates a new lease agreement being executed in advance of this scheduled expiry.

The minimum payments due under this lease are approximately as follows:

| | |
|---|---|
| 2011 | $ 72,432 |

## 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 | 60,351,804 | $ 21,856,332 |
| Shares issued during the year | 2,800,000 | 16,723 |
| Common shares June 30, 2009 | 63,151,804 | 21,873,055 |
| Share consolidation completed during the year (12:1) | (57,889,316) | - |
| Common shares June 30, 2010 | 5,262,488 | 21,873,055 |
| Class A special shares June 30, 2010 and June 30, 2009 | 1,193,442 | 100,000 |
| Balance June 30, 2010 | | $ 21,973,055 |

During the year the Company undertook a share consolidation transaction whereby each 12 common shares outstanding immediately prior to the transaction were replaced by 1 post-consolidation common share. In addition to the change in the number of shares outstanding this transaction also results in the number of stock options outstanding being reduced on the same 1:12 basis. In addition, the exercise prices of the post-consolidation stock options are twelve times the pre-consolidation exercise price.

Earnings per share figures for the current year have been presented on a post-consolidation basis having given effect to the consolidation transaction as if it had occurred prior to the start of the fiscal year. The loss per share figures presented for the comparative period remains on a pre-consolidation basis as initially presented. Had the comparative amounts been computed on a post-consolidation basis then the loss per share would have equated to $0.037 per share, both basic and fully diluted, based upon a weighted average of 5,262,488 shares outstanding.

## 9. Share Capital - continued

**Preferred Shares:**

| | Current | Other | Total |
|---|---|---|---|
| Balance June 30, 2010 and June 30, 2009 | $ 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, 2010 and 2009 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 |
|---|---|---|---|
| 4,167 (1) | 4,167 | $1.86 | July 10, 2010 |
| 75,000 (2) | 75,000 | $2.04 | June 27, 2011 |
| 79,167 | 79,167 | | |

| | Common Shares Under Option | Weighted Average Price/Option | Weighted Average Expiry Date |
|---|---|---|---|
| Beginning of year | 1,950,000 | $0.144 | September 7, 2010 |
| Expired during year | (200,000) | $0.120 | December 17, 2009 |
| Expired during year | (800,000)(2) | $0.120 | December 17, 2009 |
| Pre-consolidation | 950,000 | $0.168 | June 8, 2011 |
| Consolidation | (874,833) | | |
| End of year | 79,167 | $2.016 | June 8, 2011 |

(1) These options expired subsequent to the balance sheet date without having been exercised.
(2) 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:

| | **2010** | 2009 |
|---|---|---|
| Contributed surplus, beginning of period | **$ 409,918** | $ 338,208 |
| Compensation expense related to stock options granted in prior periods | **732** | 2,834 |
| Value attributed to option on Permatech Electronics Corporation *(note 7)* | **6,105** | 68,876 |
| Contributed surplus, end of period | **$ 416,755** | $ 409,918 |

## 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.

## 10. Related Party Transactions - continued

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

| Description | Related Party | | 2010 | | 2009 |
|---|---|---|---|---|---|
| Interest expense - long-term | 1114377 | $ | **11,680** | $ | 6,902 |
| Interest expense - long-term | Directors/Officers | $ | **11,274** | $ | 14,079 |
| Interest expense - other | Directors/Officers | $ | **9,002** | $ | 14,588 |

## 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% (2009 – 33.25%) is as follows:

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Income (loss) before income taxes | $ | **380,613** | $ | (196,656) |
| Income taxes at statutory rates | $ | **123,715** | $ | (65,388) |
| Expenses not deductible for income tax purposes | | **376,380** | | 2,610 |
| Capital cost allowance claimed in excess of accounting amortization | | **(755,366)** | | 70,792 |
| Accounting loss on disposal of equipment | | **(24,665)** | | 10,425 |
| Expenses of prior years claimed for income tax purposes | | **(82,461)** | | (4,630) |
| | | **(362,397)** | | 13,809 |
| Non-capital losses (utilized) | | **362,397** | | (13,809) |
| 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 | |
|---|---|
| 2014 | $ 114,285 |
| 2027 | 253,037 |
| 2029 | 67,017 |
| 2030 | 1,379,162 |
| | $ 1,813,501 |

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 $1,399,668 have been recorded in the accounts but have not yet been claimed for income tax purposes and capital losses of approximately $15,593,000 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:

| | 2010 | 2009 |
|---|---|---|
| Resource related expenditures | **$ 87,263** | $ 87,263 |
| Scientific research and experimental development | **262,867** | 262,867 |
| Reserves claimed | **-** | 2,932,164 |
| Undepreciated capital cost | **325,249** | 313,975 |
| Non-capital losses | **480,013** | 224,345 |
| Capital losses | **1,949,124** | 766,960 |
| Future income tax assets, before valuation allowance | **3,104,516** | 4,587,574 |
| Valuation allowance | **(3,104,516)** | (4,587,574) |
| 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 Disposal Of Mineral Resource Properties

During the 2004 fiscal year the Company foreclosed on a loan payable from its subsidiary, Northern Cross Minerals Inc., and seized the mineral resource properties that had been pledged as security. The carrying value of these mineral resource properties had previously been reduced to $NIL. Prior to the end of the year the Company was successful in selling the rights to these properties and realized net proceeds in the amount of $114,403.

## 13. 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 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:

| | 2010 | 2009 |
|---|---|---|
| Long-term debt (1) | **$ 545,434** | $ 704,906 |
| Share Capital | **21,973,055** | 21,973,055 |
| Contributed surplus | **416,755** | 409,918 |
| Deficit | **(22,920,561)** | (23,301,174) |
| Net capital (deficiency) under management | **$ 14,683** | $ (213,295) |

(1) Excludes long-term debts that are both secured by specific equipment and due to unrelated parties.