ZTEST Electronics Inc.

Unaudited Interim Consolidated Financial Statements

March 31, 2011

Be advised that these Unaudited Interim Consolidated Financial Statements have been compiled by the Company's management and they have not been examined, in any manner, by the Company's auditors.

ZTEST Electronics Inc.

Unaudited Interim Consolidated Balance Sheet
March 31, 2011

		Mar. 31 2011		(Audited) June 30 2010
Assets				
Cash	**$**	**441,432**	$	395,767
Accounts receivable		**531,094**		510,198
Inventories (note 4)		**340,475**		273,512
Prepaid expenses		**99,126**		34,564
		1,412,127		1,214,041
Equipment (note 5)		**887,083**		1,041,662
	$	**2,299,219**	$	2,255,703
Liabilities				
Current liabilities				
Customer deposits and deferred revenue	**$**	**48,818**	$	7,896
Accounts payable and accrued liabilities		**517,563**		546,752
Dividends payable		**268,201**		268,201
Current portion of long-term debt (note 6)		**230,160**		137,563
Preferred shares (note 8)		**473,855**		473,855
		1,538,597		1,434,267
Long-term debt (note 6)		**1,173,917**		1,352,187
		2,712,514		2,786,454
Deficiency in assets				
Share Capital (note 8)		**22,103,855**		21,973,055
Contributed surplus (note 8)		**485,451**		416,755
Deficit		**(23,002,601)**		(22,920,561)
		(413,295)		(530,751)
	$	**2,299,219**	$	2,255,703

The accompanying notes are an integral part of these interim financial statements

Approved by the Board:

Signed: "John Perreault"
Director

Signed: "Wojciech Drzazga"
Director

ZTEST Electronics Inc.

Unaudited Interim Consolidated Statement Income, Comprehensive Income and Deficit
For the periods ended March 31

	Three months ended		Nine months ended	
	2011	2010	**2011**	2010
Product sales	**$ 820,976**	$ 888,849	**$ 3,052,251**	$ 2,428,861
Cost of product sales (Note 4)	**591,104**	543,009	**2,019,146**	1,510,420
	229,872	345,840	**1,033,105**	918,441
Expenses				
Selling, general and administrative	**305,237**	256,434	**988,291**	779,110
Interest expense - long term (Note 9)	**36,723**	39,661	**111,802**	120,205
Interest expense - other (Note 9)	**149**	3,273	**149**	10,682
Loss (gain) on foreign exchange	**1,640**	(4,463)	**1,734**	909
Amortization of equipment	**3,277**	2,830	**9,030**	8,487
	347,026	297,735	**1,111,006**	919,393
(Loss) income from operations	**(117,154)**	48,105	**(77,901)**	(952)
Loss on disposal of equipment	**-**	-	**(4,138)**	-
(Loss) income before provision for income taxes	**(117,154)**	48,105	**(82,039)**	(952)
Provision for income taxes	**-**	-	**-**	-
Net (loss) income and comprehensive (loss) income for the period	**(117,154)**	48,105	**(82,039)**	(952)
Deficit, beginning of period	**(22,885,447)**	(23,350,231)	**(22,920,562)**	(23,301,174)
Deficit, end of period	**$ (23,002,601)**	$ (23,302,126)	**$ (23,002,601)**	$ (23,302,126)
Net (loss) income per share - basic	**$ (0.022)**	$ 0.009	**$ (0.015)**	$ (0.000)
- fully diluted	**$ (0.022)**	$ 0.009	**$ (0.015)**	$ (0.000)
Weighted average shares outstanding	**5,402,488**	5,262,488	**5,308,473**	5,262,488

The accompanying notes are an integral part of these interim financial statements

Unaudited Interim Consolidated Statement of Cash Flows
For the periods ended March 31

	Three months ended		Nine months ended	
	2011	2010	**2011**	2010
Cash flow from operating activities				
Net (loss) income for the period	**$ (117,154)**	$ 48,105	**$ (82,039)**	$ (952)
Items not involving cash				
Amortization of equipment	**54,005**	65,459	**160,973**	196,375
Loss on disposal of equipment	**-**	-	**4,138**	-
Interest accretion	**4,932**	4,627	**14,797**	13,881
Stock option compensation	**-**	181	**68,696**	555
Changes in non-cash working capital items:				
Accounts receivable	**(655)**	(37,773)	**(20,896)**	(11,005)
Inventories	**(45,938)**	(8,388)	**(66,963)**	5,256
Prepaid expenses and other assets	**(4,876)**	(4,115)	**(64,562)**	(2,584)
Customer deposits and deferred revenue	**41,990**	9,647	**40,922**	(28,803)
Accounts payable and accrued liabilities	**71,115**	(18,892)	**(29,190)**	(83,222)
	3,419	58,851	**25,876**	89,501
Cash flow from investing activities				
Proceeds from disposal of equipment	**-**	-	**1,151**	-
Purchase of equipment	**(9,550)**	-	**(11,692)**	-
	(9,550)	-	**(10,541)**	-
Cash flow from financing activities				
Proceeds of share issuance	**130,800**	-	**130,800**	-
Proceeds of notes payable	**-**	47,500	**-**	206,500
Repayment of notes payable	**-**	(97,000)	**-**	(256,750)
Repayment of long-term debt	**(45,230)**	(16,323)	**(100,470)**	(74,963)
	85,570	(65,823)	**30,330**	(125,213)
Increase (decrease) in cash	**79,439**	(6,972)	**45,665**	(35,712)
Cash, beginning of period	**361,993**	53,065	**395,767**	81,805
Cash, end of period	**$ 441,432**	$ 46,093	**$ 441,432**	$ 46,093

Supplemental Disclosure of Cash Flow Information

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

Cash paid for interest	**$ 32,372**	$ 31,286	**$ 98,197**	$ 98,559
Cash paid for income taxes	**$ -**	$ -	**$ -**	$ -

The accompanying notes are an integral part of these interim 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 unaudited interim 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 March 31, 2011 the Company has a deficit, to date, of $23,002,601 and working capital deficiency of $126,470. 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 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 consolidation

These unaudited interim consolidated financial statements have been compiled by management using the same accounting policies and methods as the audited financial statements as at June 30, 2010 and should be read in conjunction with those statements.

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

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

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 March 31, 2011 and June 30, 2010 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 are 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

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 substantially enacted tax rates and laws that are expected to apply when the tax assets or liabilities are to be settled or realized.

Revenue recognition

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

Earnings per share

Basic earnings per share are calculated using the weighted average number of common shares outstanding throughout the period. Diluted (loss) earnings per share are computed using the treasury stock method. Stock options and warrants outstanding are not included in the computation of diluted earnings 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 year end 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. 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 and concentration of 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. 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. As at March 31, 2001 one of the Company's customers accounted for more than 20% of accounts receivable (2010 – none). In an effort to mitigate these risks, management actively manages and monitors its receivables and obtains pre-payments where warranted. Bad debt experience has not been significant and it has been determined that no allowance is required for amounts that may be uncollectible.

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 $126,470 (June 2010 - $220,226). This includes a long-term debt, preferred shares and dividends payable, with an aggregate carrying value of $781,656 (June 2010 - $781,656), that are each past due. The Company manages its liquidity risk through the management of its capital (see note 11) 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.

Currency risk:

Currency risk is the risk that the amount of future cash flows of cash, accounts receivable, 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 $1,734 (Mar. 2010 – loss of $909).

3. Financial instruments - continued

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:

	Mar. 31 2011	June 30 2010
Raw materials and supplies	**$ 306,563**	$ 228,419
Work in process	**31,222**	33,110
Finished goods	**2,690**	11,983
	$ 340,475	$ 273,512

Inventory utilization during the period was as follows:

	Mar. 31 2011	Mar. 31 2010
Raw materials and supplies used	**$ 903,717**	$ 607,770
Labour costs	**833,059**	624,644
Amortization	**151,943**	187,889
Other costs	**119,248**	83,622
Net change in finished goods and work in process	**11,180**	6,495
Cost of product sales	**$ 2,019,147**	$ 1,510,420

5. Equipment

Mar. 31, 2011	**Cost**	**Accumulated Amortization**	**Net Book Value**
Computer equipment	$ **168,449**	**$ 159,496**	**$ 8,953**
Office equipment and furniture	**71,277**	**63,942**	**7,335**
Manufacturing equipment [1]	**2,250,093**	**1,379,289**	**870,804**
Leasehold improvements	**61,003**	**61,003**	**-**
	$ 2,550,822	**$ 1,663,730**	**$ 887,092**

June 30, 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	1,018,563
Leasehold improvements	61,003	56,211	4,792
	$ 2,557,680	$ 1,516,018	$ 1,041,662

(1) Specific with net book value of $585,191 (June 2010 - $688,460) is pledged as security (note 6).

6. Long-Term Debt

	Mar. 31 2011	June 30 2010
Non interest bearing debenture has matured. [(1)]	$ 39,600	$ 39,600
Term loan bearing interest at the prime lending rate plus 4.75%, fixed annually each September 30 and currently at 7.75%, 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, blended as to principal and interest, of $6,601 until September 2011, followed by twelve monthly payments of $8,626, and twelve monthly payments of $10,859.	245,576	312,694
Debenture, bearing interest at 10.5%, secured on a pro-rata basis with another debenture by specific equipment having a net book value of $585,191 (June 2010 - $688,460), matures December 2013. The debenture has a face value of $695,421 and may be repaid, in whole or in part, at any time at the Company's discretion. Monthly payments, blended as to principal and interest of $15,865 are required until December 2011, and then $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.	685,629	711,751
Debenture, bearing interest at 4.5%, secured on a pro-rata basis with another debenture by specific equipment having a net book value of $585,191 (June 2010 - $688,460), 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.	243,734	232,565
Term loan bearing interest at the prime lending rate plus 8%, fixed semi-annually each April 30 and currently at 10.25%, secured by a general security agreement covering the assets of Permatech Electronics Corporation, matures April 2015. The loan has a face value of $194,524 and may be repaid, in whole or in part, at any time at the Company's discretion. Repayment is to be made by way of monthly payments, blended as to principal and interest, of $2,185 until April 2011, then $2,611 until April 2012, then $3,462 until April 2013, then $4,211 until April 2014 and then $10,740 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 May 1, 2015 as additional compensation for having advanced the funds. [(2)]	189,538	193,140
	1,404,077	1,489,750
Less: Current portion	230,160	137,563
	$ 1,173,917	$ 1,352,187

(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.

6. Long-Term Debt - continued

The minimum annual future principal repayments are as follows:

2012	$ 230,160
2013	251,089
2014	799,008
2015	113,272
2016	10,548
	$ 1,404,077

7. Commitments

Operating leases
The Company leases its operating facility under a lease that is due to expire March 31, 2021 and requires minimum monthly rental payments ranging from $6,791 to $8,979 over the term of the lease as follows:.

2012	$ 82,391
2013	85,787
2014	88,277
2015	90,314
2016	94,162
Remaining	524,453
	$ 965,384

8. 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 shares were to be repurchased May 2004. [1]

Series B shares may no longer be issued and none remain outstanding.

Series C redeemable, voting shares were to be repurchased May 2007. [1]

Series D redeemable, voting shares were to be repurchased June 2007. [1]

[1] The right to vote at the meeting of common shareholders arises because the associated dividends are more than 12 months in arrears. Settlement of the repurchase price and the associated dividends payable has yet to be negotiated.

(b) Issued

	Mar. 31 2011	June 30 2010
Common shares	**$ 21,965,037**	$ 21,873,055
Class A special shares (1,193,442 outstanding)	**100,000**	100,000
Warrants not yet exercised	**38,818**	-
Share capital	**$ 22,103,855**	$ 21,973,055

	Mar. 31 2011	June 30 2010
Preferred shares	**$ 473,855**	$ 473,855

8. Share Capital - continued

(b) Issued - continued

Common shares:	Number of Shares	Amount
Balance June 30, 2009	63,151,804	$ 21,873,055
Share consolidation completed (12:1)	(57,889,316)	-
Balance June 30, 2010	5,262,488	21,873,055
Private placement	1,800,000	91,982
Balance March 31, 2011	7,062,488	21,965,037

Warrants not yet exercised:	Number of Warrants	Amount
Balance June 30, 2010 and June 30, 2009	-	$ -
Value attributed to warrants issued through private placement	900,000	38,818
Balance March 31, 2011	900,000	38,818

During the period the Company completed a private placement financing whereby it issued 1,800,000 units, at a price of $0.075 per unit, for gross proceeds of $135,000. Each unit was comprised of 1 common share and ½ share purchase warrant with each full warrant entitling the holder to acquire 1 common share of the Company at a price of $0.10 until March 24, 2016. Related parties subscribed for 1,400,000 units and paid gross proceeds of $105,000. The Company paid finders' fees of $4,200 related to this financing.

During the 2010 fiscal 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. This transaction also results in the number of stock options outstanding being reduced on the same 1:12 basis and the exercise prices of the post-consolidation stock options are twelve times the pre-consolidation exercise price.

(c) Details of options outstanding are as follows:

Common Shares Under Option	Number of Options Vested	Price/Option	Expiry Date
75,000	75,000	$2.04	June 27, 2011
900,000	900,000	$0.10	Nov. 30, 2015
975,000 [(1)]	975,000		

	Common Shares Under Option	Weighted Average Price/Option	Weighted Average Expiry Date
Beginning of period	79,167	$2.031	June 8, 2011
Expired during period	(4,167)	$1.860	July 10, 2010
Granted during period	900,000	$0.100	Nov. 30, 2015
End of period	975,000	$0.250	July 28, 2015

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

(d) Details of warrants outstanding are as follows:

	Number of warrants	Price/Warrant	Expiry Date
Beginning of period	-	-	-
Issued during period	900,000	$0.10	Mar. 24, 2016
End of period	900,000	$0.10	Mar. 24, 2016

Subsequent to the balance sheet date the Company issued 500,000 warrants to an individual in exchange for providing a loan guarantee (Note 12). Each warrant may be exercised at a price of $0.135 for the greater of two years and the period for which the guarantee is in place.

8. Share Capital - continued

(d) Details of warrants outstanding - continued:

The following weighted average assumptions were used to calculate the fair value of the warrants issued during the period:

	Mar. 31 2011	June 30 2010
Dividend yield	**Nil**	Nil
Risk free interest rate (%)	**2.66**	None issued
Expected stock volatility (%)	**123.68**	None issued
Expected life (years)	**5**	None issued

(e) Stock based compensation and 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:

	Mar. 31 2011	June 30 2010
Contributed surplus, beginning of period	**$ 416,755**	$ 409,918
Compensation expense related to stock options	**68,696**	732
Value attributed to option on Permatech Electronics Corporation	**-**	6,105
Contributed surplus, beginning of period	**$ 485,451**	$ 416,755

The following weighted average assumptions were used to calculate the fair value of the warrants issued during the period:

	Mar. 31 2011	June 30 2010
Dividend yield	**Nil**	Nil
Risk free interest rate (%)	**2.34**	None granted
Expected stock volatility (%)	**127.90**	None granted
Expected life (years)	**5**	None granted

9. Related Party Transactions

In addition to the Directors and Officers, the following related party 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**	**Mar. 31 2011**	Mar. 31 2010
Interest expense - long term	1114377	**$ 16,065**	$ 6,569
Interest expense - long term	Directors/Officers	**$ -**	$ 9,908
Interest expense - other	Directors/Officers	**$ -**	$ 8,715

10. Income Taxes

Future Income Taxes

The approximate tax effect of each type of temporary difference that gives rise to the Company's future income tax assets (liabilities) is as follows:

	Mar. 31 2011	June 30 2010
Resource related expenditures	**$ 87,263**	$ 87,263
Scientific research and experimental development	**262,655**	262,867
Undepreciated capital cost	**321,130**	325,249
Non-capital losses	**465,068**	480,013
Capital losses	**1,949,124**	1,949,125
Future income tax assets, before valuation allowance	**3,085,240**	3,104,516
Valuation allowance	**(3,085,240)**	(3,104,516)
Net future tax assets	**$ -**	$ -

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

Tax Loss Carry-Forwards

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

Year	
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. 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:

	Mar. 31 2011	June 30 2010
Long-term debt [1]	**$ 474,714**	$ 545,434
Share Capital	**22,103,855**	21,973,055
Contributed surplus	**485,451**	416,755
Deficit	**(23,002,601)**	(22,920,561)
Net capital under management	**$ 61,419**	$ 14,683

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

12. Subsequent events

Subsequent to the end of the period the Company finalized negotiations whereby it obtained a $250,000 revolving line of credit from its financial institution. The loan bears interest at the prime lending rate plus 0.5%, is due upon demand, matures May 13, 2013, and is secured by a general security agreement covering the assets of Permatech Electronics Corporation and by the personal guarantee of an individual who is not related to the Company. In exchange for granting the personal guarantee the Company issued 500,000 share purchase warrants with each warrant entitling the guarantor to acquire one common share of the Company at a price of $0.135 until the earlier of May 18, 2013 and the date when the guarantee is removed by the Company. If the borrowing limit of the credit line is reduced, in any manner, prior to May 18, 2012 then the number of warrants will be reduced on a pro rata basis within thirty days of the reduction. So long as the guarantee remains in place, the guarantor will also be paid a fee of $800 per month and will receive interest, based upon the amount drawn from time to time on this line of credit, equal to 10% less the interest at prime plus 0.5% that is payable to the Company's financial institution.