

**ZTEST Electronics Inc.**

**Unaudited Interim Consolidated Financial Statements**

**(In Canadian Dollars)**

**September 30, 2001**

**ZTEST Electronics Inc.**Unaudited Interim Consolidated Balance Sheet  
(Canadian Dollars)  
September 30, 2001

|  | <u>Sept. 30, 2001</u> | <u>June 30, 2001</u> |
|--|-----------------------|----------------------|
| <b>Assets</b>                            |                       |                      |
| <b>Current Assets</b>                    |                       |                      |
| Cash and cash equivalents                | \$ 91,206             | \$ 128,601           |
| Accounts receivable                      | 941,586               | 686,582              |
| Inventories                              | 164,194               | 172,641              |
| Prepaid expenses and other assets        | <u>74,602</u>         | <u>66,661</u>        |
|  | 1,271,588             | 1,054,485            |
| Funds held in trust                      | 3,101                 | 3,154                |
| Capital assets                           | 748,155               | 792,891              |
| Investments and advances                 | 4                     | 4                    |
| Mineral Properties                       | 50,000                | 50,000               |
| Goodwill                                 | <u>197,965</u>        | <u>201,531</u>       |
|  | <u>\$ 2,270,813</u>   | <u>\$ 2,102,065</u>  |
| <b>Liabilities</b>                       |                       |                      |
| <b>Current liabilities</b>               |                       |                      |
| Bank indebtedness                        | \$ 259,059            | \$ 233,080           |
| Accounts payable and accrued liabilities | 1,729,931             | 1,519,944            |
| Current portion of long-term debt        | 128,990               | 138,840              |
| Current portion of lease obligation      | 23,380                | 26,127               |
| Notes payable and other advances         | <u>104,000</u>        | <u>132,000</u>       |
|  | 2,245,360             | 2,049,991            |
| Long-term debt                           | 148,240               | 186,176              |
| Obligation under capital leases          | 14,401                | 17,951               |
| Preferred shares                         | <u>1,471,908</u>      | <u>1,471,908</u>     |
|  | <u>3,879,909</u>      | <u>3,726,026</u>     |
| Non-controlling interest in subsidiary   | 26,728                | 26,992               |
| Commitments                              | -                     | -                    |
| <b>Deficiency in assets</b>              |                       |                      |
| Share Capital                            | 18,794,206            | 18,468,436           |
| Deficit                                  | <u>(20,430,030)</u>   | <u>(20,119,389)</u>  |
|  | <u>(1,635,824)</u>    | <u>(1,650,953)</u>   |
|  | <u>\$ 2,270,813</u>   | <u>\$ 2,102,065</u>  |

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

**ZTEST Electronics Inc.**

## Unaudited Interim Consolidated Statement of Operations and Deficit

(Canadian Dollars)

For the Three Month Periods Ended September 30

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|  | <u>2001</u>            | <u>2000</u>            |
|--|------------------------|------------------------|
| <b>Revenue</b>   |                        |                        |
| Design services  | \$ -                   | \$ 17,040              |
| Product sales  | 1,113,447              | 1,091,423              |
| Other  | <u>4,451</u>           | <u>133,900</u>         |
|  | <u>1,117,898</u>       | <u>1,242,363</u>       |
| <b>Expenses</b>  |                        |                        |
| Amortization of capital assets                         | 37,124                 | 36,186                 |
| Amortization of goodwill                               | 3,566                  | 23,546                 |
| Cost of product sales                                  | 867,346                | 688,929                |
| Dividends on preferred shares                          | 2,740                  | 2,740                  |
| Interest expense - long term                           | 3,795                  | 7,048                  |
| - other  | 13,409                 | 43,935                 |
| Selling, general and administrative                    | <u>541,342</u>         | <u>337,400</u>         |
|  | <u>1,469,322</u>       | <u>1,139,784</u>       |
| <b>(Loss) income from operations</b>                   | (351,424)              | 102,579                |
| Minority interest in income of subsidiary              | 264                    | (43,299)               |
| Gain on sale of capital and other assets               | 43,002                 | -                      |
| Loss on decline in value of investment                 | <u>(2,000)</u>         | <u>-</u>               |
| <b>(Loss) income before provision for income taxes</b> | (310,158)              | 59,280                 |
| Provision for income taxes                             | <u>-</u>               | <u>-</u>               |
| <b>(Loss) income for the period</b>                    | (310,158)              | 59,280                 |
| <b>Deficit, beginning of period</b>                    | (20,119,389)           | (11,309,562)           |
| Dividends on preferred shares                          | <u>(483)</u>           | <u>(483)</u>           |
| <b>Deficit, end of period</b>                          | <u>\$ (20,430,030)</u> | <u>\$ (11,250,765)</u> |
| <b>Net (loss) earnings per share</b>                   | <u>\$ (0.0132)</u>     | <u>\$ 0.0028</u>       |
| <b>Weighted average shares outstanding</b>             | <u>23,491,457</u>      | <u>21,138,112</u>      |

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

**ZTEST Electronics Inc.**

Unaudited Interim Consolidated Statement of Cash Flows  
(Canadian Dollars)  
For the Three Month Periods Ended September 30

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|  | <u>2001</u>      | <u>2000</u>       |
|--|------------------|-------------------|
| <b>Cash flow from operating activities</b> |                  |                   |
| Net (loss) income for the period           | \$ (310,158)     | \$ 59,280         |
| Items not involving cash                   |                  |                   |
| Amortization of capital assets             | 44,736           | 36,186            |
| Gain on sale of other assets               | (43,002)         | -                 |
| Amortization of goodwill                   | 3,566            | 23,546            |
| Minority interest in income of subsidiary  | (264)            | 43,299            |
| Loss on decline in value of investments    | 2,000            | -                 |
| Changes in non-cash working capital items: |                  |                   |
| Accounts receivable                        | (255,004)        | (945,103)         |
| Inventories                                | 8,447            | 94,795            |
| Prepaid expenses and other assets          | (7,941)          | (24,627)          |
| Accounts payable and accrued liabilities   | 209,987          | 110,626           |
| Customer deposits                          | -                | (203,679)         |
|  | <u>(347,633)</u> | <u>(805,677)</u>  |
| <b>Cash flow from investing activities</b> |                  |                   |
| Funds held in trust                        | 53               | -                 |
| Goodwill acquired                          | -                | (214,085)         |
| Proceeds from sale of other assets         | 43,002           | -                 |
| Purchase of capital assets (net)           | -                | (186,404)         |
| Investments and advances                   | (2,000)          | (28,611)          |
| Amounts receivable                         | -                | 1,240             |
|  | <u>41,055</u>    | <u>(427,860)</u>  |
| <b>Cash flow from financing activities</b> |                  |                   |
| Increase in bank indebtedness              | 25,979           | 120,030           |
| Capital lease obligation                   | (6,297)          | (4,749)           |
| Long-term debt and notes payable           | (75,786)         | 79,138            |
| Payment of commitment                      | -                | (300,000)         |
| Dividends on preferred shares              | (483)            | (483)             |
| Issuance of preferred shares in subsidiary | 175,770          | -                 |
| Issuance of common shares                  | 150,000          | 871,960           |
|  | <u>269,183</u>   | <u>765,896</u>    |
| <b>(Decrease) increase in cash</b>         | (37,395)         | (467,641)         |
| <b>Cash, beginning of period</b>           | <u>128,601</u>   | <u>575,406</u>    |
| <b>Cash, end of period</b>                 | <u>\$ 91,206</u> | <u>\$ 107,765</u> |

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

## ZTEST Electronics Inc.

Notes to the Unaudited Interim Consolidated Financial Statements  
(Canadian Dollars)  
September 30, 2001

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### NOTE 1 Basis of Presentation

These Unaudited Interim Consolidated Financial Statements have been compiled by management in compliance with BC Form 51-901F. They have been prepared using the same accounting policies and methods as the audited financial statements as at June 30, 2001.

These financial statements include certain disclosures pertaining to the financial position of the company as at September 30, 2001 and the results of operations for the three month period then ended however they do not conform, in all respects, to the disclosure requirements of generally accepted accounting principles for annual financial statements. Accordingly, these unaudited interim consolidated financial statements should only be read in conjunction with the consolidated financial statements as at June 20, 2001.

### NOTE 2 Information on Operating Segments

The Company's subsidiaries are organized into operating segments based on the nature of products and services provided. The Company's operations can be classified into two reportable operating segments: Electronic Manufacturing and Development ("EM&D") and Network Security ("NS").

The EM&D segment carries on business manufacturing, selling, designing and developing electronic equipment. The NS segment provides integrated application specific hardware and software solutions in the data security and e-commerce market place.

The accounting policies of the segments are the same as those disclosed in the annual financial statements. The Company evaluates financial performance based on measures of gross revenue and profit or loss from operations before income taxes. The following tables set forth information by operating segment as at, and for the three-month periods ended September 30, 2001 and September 30, 2000.

| <b>September 30, 2001</b>              | <b><u>EM&amp;D</u></b> | <b><u>NS</u></b> | <b><u>TOTAL</u></b> |
|--|------------------------|------------------|---------------------|
| Revenue                                | \$ 380,882             | \$ 737,016       | \$ 1,117,898        |
| Interest expense                       | 16,216                 | 988              | 17,204              |
| Amortization of capital assets         | 34,383                 | 10,353           | 44,736              |
| Loss on decline in value of investment | 2,000                  | -                | 2,000               |
| Loss for the period                    | (242,455)              | (67,703)         | (310,158)           |
| Total assets                           | 1,625,393              | 655,420          | 2,270,813           |
| Capital assets                         | 664,049                | 84,106           | 748,155             |
| Capital asset additions                | -                      | -                | -                   |
| Goodwill additions                     | -                      | -                | -                   |

**ZTEST Electronics Inc.**

Notes to the Unaudited Interim Consolidated Financial Statements  
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**NOTE 2 Information on Operating Segments (Continued)**

| <b>September 30, 2000</b>              | <b><u>EM&amp;D</u></b> | <b><u>NS</u></b> | <b><u>TOTAL</u></b> |
|--|------------------------|------------------|---------------------|
| Revenue                                | \$ 961,178             | \$ 281,185       | \$ 1,242,363        |
| Interest expense                       | 47,476                 | 3,507            | 50,983              |
| Amortization of capital assets         | 31,052                 | 5,134            | 36,186              |
| Loss on decline in value of investment | -                      | -                | -                   |
| Income for the period                  | 29,027                 | 30,253           | 59,280              |
| Total assets                           | 9,424,387              | 488,681          | 9,913,068           |
| Capital assets                         | 573,801                | 115,692          | 689,493             |
| Capital asset additions                | 181,724                | 4,680            | 186,404             |
| Goodwill additions                     | 214,085                | 1,958,600        | 2,172,685           |

**NOTE 3 Related Party Transactions**

During the three month period ended September 30, 2001 the Company reported no operating revenues or expenses resulting from transactions with related parties.

In accordance with the assessment made in completing the June 30, 2001 annual financial statements, the investment in and advances to Gametele were written down to their estimated net realizable value of \$NIL. During the current period the Company paid \$2,000 representing the remaining amount due under a \$150,000 purchase option which resulted in the acquisition of an additional 750,000 common shares of Gametele. This amount has been written off in the current period.

**NOTE 4 Share Capital****(A) Authorized**

Unlimited Common Shares

Unlimited Non-voting, non-participating Class A Special Shares redeemable by the Company or the holders on a one-for-one basis for common shares of Northern Cross Minerals Inc., whose primary assets are mineral properties.

175,770 Class "A" voting preference shares of a subsidiary company, retractable, redeemable at \$1 per share.

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**NOTE 4 Share Capital (Continued)**

Unlimited Preference shares, in one or more series of which the following four series have been authorized to date:

Series A, non-voting shares bear cumulative monthly dividends payable at a rate of 8% per annum, are redeemable and all outstanding shares must be repurchased on May 21, 2004. These shares can be converted into common shares of the Company at a rate of 1 common share for each 1.25 Series A shares until May 2002 and then at a rate of one common share for each 1.40625 Series A shares until May 2004.

Series B shares were authorized, issued and subsequently converted to common shares. No further shares in this series may be issued.

Series C non-voting shares bear cumulative monthly dividends payable at a rate of 7% per annum, are redeemable after November 1, 2002 and all outstanding shares must be repurchased on May 1, 2007. These shares can be converted into common shares of the Company at a rate of 1 common share for each 1.4286 Series C shares until May 2004 and then at a rate of one common share for each 1.7143 Series C shares until May 2007.

Series D non-voting shares bear cumulative monthly dividends payable at a rate of 7% per annum, are redeemable after December 1, 2002 and all outstanding shares must be repurchased on June 1, 2007. These shares can be converted into common shares of the Company at a rate of 1 common share for each 1.40845 Series D shares until June 2004 and then at a rate of one common share for each 1.6432 Series D shares until June 2007.

**(B) Issued**

|   | <b><u>Number</u></b> | <b><u>Value</u></b>  |
|---|----------------------|----------------------|
| Common shares as at June 30, 2001                         | 22,737,824           | 18,368,436           |
| Private placement – Aug 9, 2001                           | <u>1,333,333</u>     | <u>150,000</u>       |
|   | <u>24,071,157</u>    | 18,518,436           |
| Class “A” Preferred shares of subsidiary – September 2001 | 175,770              | 175,770              |
| Class A Special shares - unchanged                        | 1,193,442            | <u>100,000</u>       |
|   |                      | <u>\$ 18,794,206</u> |

On August 9, 2001 the company completed a private placement whereby 1,333,333 units were issued in exchange for a cash payment of \$150,000. Each unit is comprised of one common share and 0.7 share purchase warrants with each complete warrant entitling the holder to acquire an additional common share at \$0.15 until August 9, 2003.

**ZTEST Electronics Inc.**

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**NOTE 4 Share Capital (Continued)**

(C) Details of warrants outstanding are as follows:

| <b><u>Number of Warrants</u></b> | <b><u>Exercise Price</u></b> | <b><u>Expiry Date</u></b> |
|----------------------------------|------------------------------|---------------------------|
| 452,400                          | \$3.00/\$3.50                | Dec 28, 2001              |
| 1,200,000                        | \$0.55                       | Feb 2, 2002               |
| 21,000                           | \$4.35                       | Apr 13, 2002              |
| 149,400                          | \$2.40                       | Aug 7, 2002               |
| 80,000                           | \$2.00                       | Oct 7, 2002               |
| 383,000                          | \$2.10/\$2.60                | Jun 30, 2003              |
| 145,000                          | \$2.10/\$2.60                | July 14, 2003             |
| <u>933,333</u>                   | \$0.15                       | Aug 9, 2003               |
| <u>3,363,333</u>                 |                              |                           |

During the three month period ended September 30, 2001 583,001 warrants expired without being exercised and 933,333 new warrants were issued in connection with a private placement.

(D) Details of options outstanding are as follows:

| <b><u>Number of Options</u></b> | <b><u>Exercise Price</u></b> | <b><u>Expiry Date</u></b> |
|---------------------------------|------------------------------|---------------------------|
| 100,000                         | \$2.00                       | Oct 1, 2001               |
| 6,500                           | \$0.62                       | Feb 5, 2002               |
| 569,000 (1)                     | \$1.45                       | July 1, 2002              |
| 40,000                          | \$1.60                       | Aug 11, 2002              |
| 80,000                          | \$1.05                       | Jan 8, 2003               |
| 10,000                          | \$1.55                       | Feb 26, 2003              |
| 145,000 (1)                     | \$1.60                       | Mar 16, 2003              |
| 7,500                           | \$1.45                       | Aug 3, 2003               |
| 20,000                          | \$0.90                       | Dec 29, 2003              |
| 28,000                          | \$0.85                       | Apr 14, 2004              |
| 36,000                          | \$4.40                       | June 30, 2004             |
| 200,000                         | \$2.95                       | Nov 22, 2004              |
| 150,000                         | \$2.35                       | June 19, 2005             |
| 150,000                         | \$2.70                       | July 31, 2005             |
| 75,000                          | \$2.35                       | Aug 16, 2005              |
| 457,500                         | \$0.89                       | Jan 23, 2006              |
| 400,000 (2)                     | \$1.00                       | Unknown                   |

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Notes to the Unaudited Interim Consolidated Financial Statements  
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### NOTE 4 Share Capital (Continued)

- (1) These options are held by directors and senior officers of the Company
- (2) These options will vest only upon the occurrence of an event that has not yet occurred, provided it occurs before February 2002. The expiry date is defined as being two years from the vesting date.
- (3) During the three month period ended September 30, 2001 165,000 options expired without being exercised and no additional share purchase options were granted.

### NOTE 5 Subsequent Events

Subsequent to the balance sheet date the following transaction or events occurred:

1. Dion Entertainment Inc. ("Dion"), a public company that trades under the symbol DIO on the Toronto Stock Exchange, has made an offer to acquire at least 91% of the outstanding shares of Gametele systems Inc. ("Gametele"). The transaction, which has received all necessary regulatory and shareholder approvals, is scheduled to close on November 26, 2001.

In accordance with the offer, the shareholders of Gametele will receive 1 common share of Dion for each 5 shares of Gametele that are tendered. The common shares of Dion that are issued will be subject to a trading restriction that prohibits their sale for one year from the closing date of the transaction and an escrow arrangement that will result in the release of shares as follows:

| <u>Quantity</u> | <u>Date of Release</u>      |
|-----------------|-----------------------------|
| 10%             | Closing date                |
| 40%             | One year after closing      |
| 30%             | Two years after closing     |
| 20%             | Thirty months after closing |

In accordance with an agreement negotiated as a part of the takeover bid ZTEST has agreed to the following:

- To cause an option granted on shares of Gametele to be cancelled.
- To convert a debenture valued at \$250,000 into 3,000,000 common shares of Gametele and to tender these shares, in conjunction with the 1,420,000 common shares already held, to the takeover bid. The 884,000 shares of Dion that ZTEST is to receive will be subject to the trading restriction and escrow agreement described above.
- To convert all remaining debentures and accounts receivable due from Gametele into a single new debenture in the amount of \$4,964,615 secured by all of the

## **ZTEST Electronics Inc.**

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assets of Gametele. Dion will have the right to settle this debenture, at its discretion, through the issuance of common shares at a rate of 1 common share for each \$1.2412 converted. ZTEST will have the right to require Dion to settle any overdue amounts at the same conversion rate. On the closing date ZTEST will receive 400,000 shares of Dion representing payment of 10% of this new debenture. These shares will be subject to the trading restriction described above.

- To surrender all unexercised share purchase warrants.

As at June 30, 2001 ZTEST wrote down the investment in and advances to Gametele to the estimated net realizable value of \$1 on the basis that this transaction had not yet closed and that Gametele is not currently operating. Furthermore, had the transaction with Dion closed, there remains no assurance that ZTEST would be able to liquidate its shares in Dion in a reasonable period of time at any particular price. Dion shares have traded at prices ranging from \$0.17 to \$0.64 per share over the past 52-week period. As a result of this write-down all amounts received in the future, if any, will be taken into income at the time of receipt.

2. The Company continues to negotiate for the acquisition of the remaining outstanding shares of Permotech Electronics Corp. ZTEST currently holds a 60% interest in Permotech. The terms of this proposed acquisition have not been determined with certainty at this time.
3. Internet Commerce Solutions Inc., a company in which ZTEST holds a 58.9% interest, has been served with notice that their financial institution is demanding repayment of their operating loan. This notice also advises that certain minority shareholders of Internet commerce Solutions Inc., that act as guarantors for this loan facility, have agreed to repay the Company's indebtedness to the bank in its entirety in exchange for a transfer of the security currently pledged to the financial institution. The President of Internet Commerce Solutions Inc. has tendered his resignation and the Board of Directors has laid off most of the remaining staff.