

ZTEST Electronics Inc.

Unaudited Interim Consolidated Financial Statements

(In Canadian Dollars)

December 31, 2001

ZTEST Electronics Inc.

Unaudited Interim Consolidated Balance Sheet
(Canadian Dollars)
December 31, 2001

	<u>Dec. 31, 2001</u>	<u>June 30, 2001</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 181,213	\$ 128,601
Accounts receivable	177,925	686,582
Inventories	144,233	172,641
Prepaid expenses and other assets	<u>81,980</u>	<u>66,661</u>
	585,351	1,054,485
Funds held in trust	3,101	3,154
Amounts receivable (Note 3)	190,812	-
Capital assets	704,640	792,891
Investments and advances	4	4
Mineral Properties	50,000	50,000
Goodwill	<u>194,398</u>	<u>201,531</u>
	<u>\$ 1,728,306</u>	<u>\$ 2,102,065</u>
Liabilities		
Current liabilities		
Bank indebtedness	\$ 14,518	\$ 233,080
Accounts payable and accrued liabilities	1,159,535	1,519,944
Current portion of long-term debt (Note 5)	91,953	138,840
Current portion of lease obligation	20,614	26,127
Notes payable and other advances (Note 4)	<u>73,000</u>	<u>132,000</u>
	1,359,620	2,049,991
Long-term debt (Note 5)	957,997	186,176
Obligation under capital leases	12,100	17,951
Preferred shares	<u>1,632,450</u>	<u>1,471,908</u>
	<u>3,962,167</u>	<u>3,726,026</u>
Non-controlling interest in subsidiary	26,482	26,992
Commitments	-	-
Deficiency in assets		
Share Capital (Note 6)	18,651,964	18,468,436
Deficit	<u>(20,912,307)</u>	<u>(20,119,389)</u>
	<u>(2,260,343)</u>	<u>(1,650,953)</u>
	<u>\$ 1,728,306</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 Periods Ended December 31

	<u>2001</u> 3 months	<u>2001</u> 6 months	<u>2000</u> 3 months	<u>2000</u> 6 months
Revenue				
Design services	\$ -	\$ -	\$ 36,455	\$ 53,495
Product sales	391,618	768,049	817,956	1,628,194
Other	<u>(531)</u>	<u>3,920</u>	<u>208,067</u>	<u>341,967</u>
	<u>391,087</u>	<u>771,969</u>	<u>1,062,478</u>	<u>2,023,656</u>
Expenses				
Amortization of capital assets	20,771	47,542	32,482	63,534
Amortization of goodwill	3,567	7,133	36,211	59,757
Cost of product sales	276,664	526,551	584,052	1,154,246
Dividends on preferred shares	2,741	5,481	2,741	5,481
Interest expense - long term	6,575	10,375	8,995	14,393
- other	16,662	29,078	973	43,051
Selling, general and administrative	<u>280,503</u>	<u>645,927</u>	<u>329,936</u>	<u>569,550</u>
	<u>607,483</u>	<u>1,272,087</u>	<u>995,390</u>	<u>1,910,012</u>
(Loss) income from operations	(216,396)	(500,118)	67,088	113,644
Minority interest in loss (income) of subsidiary	246	510	13,426	(29,873)
Loss on sale of capital and other assets (Note 3)	(127,207)	(84,205)	-	-
Loss from discontinued operations	(134,007)	(201,709)	(116,045)	(60,022)
Loss on decline in value of investment	<u>-</u>	<u>(2,000)</u>	<u>-</u>	<u>-</u>
(Loss) income before provision for income taxes	(477,364)	(787,522)	(35,531)	23,749
Provision for income taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(Loss) income for the period	(477,364)	(787,522)	(35,531)	23,749
Deficit, beginning of period	(20,430,030)	(20,119,389)	(11,250,765)	(11,309,562)
Dividends on preferred shares	<u>(4,913)</u>	<u>(5,396)</u>	<u>(483)</u>	<u>(966)</u>
Deficit, end of period	<u>\$ (20,912,307)</u>	<u>\$ (20,912,307)</u>	<u>\$ (11,286,779)</u>	<u>\$ (11,286,779)</u>
Net (loss) earnings per share:				
Continuing operations	<u>\$ (0.0142)</u>	<u>\$ (0.0246)</u>	<u>\$ 0.0037</u>	<u>\$ 0.0039</u>
Discontinued operations	<u>\$ (0.0056)</u>	<u>\$ (0.0085)</u>	<u>\$ (0.0054)</u>	<u>\$ (0.0028)</u>
Weighted average shares outstanding	<u>24,122,650</u>	<u>23,807,054</u>	<u>21,537,834</u>	<u>21,277,973</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 Periods Ended December 31

	<u>2001</u> 3 months	<u>2001</u> 6 months	<u>2000</u> 3 months	<u>2000</u> 6 months
Cash flow from operating activities				
Net (loss) income for the period	\$ (477,364)	\$ (787,522)	\$ (35,531)	\$ 23,749
Items not involving cash				
Amortization of capital assets	38,691	83,427	40,246	76,432
Loss on sale of other assets	127,207	84,205	-	-
Amortization of goodwill	3,567	7,133	36,211	59,757
Minority interest in subsidiary	(246)	(510)	(13,426)	29,873
Decline in value of investments	-	2,000	-	-
Changes in non-cash working capital items:				
Accounts receivable	763,661	508,657	(977,690)	(1,922,793)
Inventories	19,961	28,408	353,888	448,683
Prepaid expenses and other assets	(7,378)	(15,319)	(37,912)	(62,539)
Accounts payable	(552,086)	(342,109)	255,672	366,298
Customer deposits	-	-	(197,665)	(401,344)
	<u>(83,987)</u>	<u>(431,630)</u>	<u>(576,207)</u>	<u>(1,381,884)</u>
Cash flow from investing activities				
Funds held in trust	-	53	-	-
Goodwill acquired	-	-	-	(214,085)
Proceeds from sale of capital and other assets	9,085	52,087	-	-
Purchase of capital assets (net)	(4,261)	(4,261)	(17,002)	(203,406)
Investments and advances	-	(2,000)	(22,421)	(51,032)
Amounts receivable	-	-	180,247	181,487
	<u>4,824</u>	<u>45,879</u>	<u>140,824</u>	<u>(287,036)</u>
Cash flow from financing activities				
Increase in bank indebtedness	(244,541)	(218,562)	(193,376)	(73,346)
Capital lease obligation	(5,067)	(11,364)	(9,787)	(14,536)
Long-term debt and notes payable	423,701	442,915	311,501	390,639
Payment of commitment	-	-	-	(300,000)
Dividends on preferred shares	(4,913)	(5,396)	(483)	(966)
Issuance of preferred shares in subsidiary	-	175,770	-	-
Issuance of common shares	-	55,000	-	871,960
	<u>169,170</u>	<u>438,363</u>	<u>107,855</u>	<u>873,751</u>
Increase (decrease) in cash	90,007	52,612	(327,528)	(795,169)
Cash, beginning of period	<u>91,206</u>	<u>128,601</u>	<u>107,765</u>	<u>575,406</u>
Cash, end of period	<u>\$ 181,213</u>	<u>\$ 181,213</u>	<u>\$ (219,763)</u>	<u>\$ (219,763)</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)
December 31, 2001

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 December 31, 2001 and the results of operations for the six 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. During the current period the operations of the NS segment were discontinued and accordingly the revenues and expenses applicable to this segment were only reported as a component of the loss from discontinued operations.

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 six-month periods ended December 31, 2001 and December 31, 2000.

December 31, 2001	<u>EM&D</u>	<u>NS</u>	<u>TOTAL</u>
Revenue	\$ 771,969	\$ -	\$ 771,969
Interest expense	39,453	-	39,453
Amortization of capital assets	47,542	-	47,542
Loss on decline in value of investment	(2,000)	-	(2,000)
Loss for the period	(499,407)	(201,709)	(701,116)
Total assets	1,571,324	156,494	1,727,818
Capital assets	626,496	78,839	705,335
Capital asset additions	-	-	-
Goodwill additions	-	-	-

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

December 31, 2000	<u>EM&D</u>	<u>NS</u>	<u>TOTAL</u>
Revenue	\$ 2,023,656	\$ -	\$ 2,023,656
Interest expense	57,444	-	57,444
Amortization of capital assets	63,534	-	63,534
Loss on decline in value of investment	-	-	-
Income for the period	83,771	(60,022)	23,749
Total assets	9,550,089	669,647	10,249,736
Capital assets	557,261	108,988	666,249
Capital asset additions	198,726	4,680	203,406
Goodwill additions	214,085	1,958,600	2,172,685

NOTE 3 Related Party Transactions

During the current period ZTEST sold a note receivable from Permatest Electronics Inc., having a face value of \$318,019, to a company that is controlled by the spouse of the CEO and Chairman of ZTEST. As consideration the Company received a note receivable from the purchaser in the amount of \$190,812, having all the same terms and conditions as the note that was sold, along with the surrender of an option the purchaser held on shares of Gametele Systems Inc. Negotiating the surrender of this option was necessary in order to enable the takeover of Gametele Systems Inc. to proceed (see Note 5). The Company has reported a loss in the amount of \$127,207 as a direct result of this transaction.

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 Notes Payable

<u>Interest</u>	<u>Security</u>	<u>Terms</u>	<u>Dec. 31, 2001</u>	<u>June 30, 2001</u>
9.0%	Unsecured	None	\$ -	\$ 8,000
Nil	Unsecured	None	42,000	40,000
12.0%	Unsecured	On Demand *	<u>31,000</u>	<u>84,000</u>
			<u>\$ 73,000</u>	<u>\$ 132,000</u>

* Note payable to an officer and director of the Company

ZTEST Electronics Inc.

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NOTE 5 Long-term Debt

	<u>Dec. 31, 2001</u>	<u>June 30, 2001</u>
Bank loan, interest at Bank of Montreal prime + ½%, secured by a related party guarantee, matures Oct 2003. Monthly payments of \$4,865 plus interest are required	\$ 98,856	\$ 124,078
Business improvement loan, interest at prime + 3.75%, matures April 2002. Monthly payments of \$3,693 are required.	21,754	35,678
Loans from a relative of the non-controlling shareholder of Permotech, interest at 9.5%, unsecured, due on demand.	11,820	70,260
Convertible promissory notes, interest at 12.5%, unsecured, matures May 2003. Convertible into units of ZTEST at the option of the lender in increments of \$150,000 or more.	-	95,000
Promissory note payable to a company controlled by the spouse of a director and officer of the Company, unsecured, interest at 8.5%. Interest accrues without payment until Sept. 2002 then payments of interest only are due monthly until June 2003, followed by blended monthly payments of principal and interest until maturity June 2006	318,020	-
Convertible debentures, interest at 10.5%, unsecured, and mature Dec. 2003. Monthly interest payments are required. Debentures may be converted at any time prior to maturity at the rate of one unit for each \$0.11 converted. Each unit is comprised of one common share and one share purchase warrant entitling the holder to acquire an additional common share for \$0.11 for a period of two years from the date of conversion.	<u>599,500</u>	<u>-</u>
	\$ 1,049,950	\$ 325,016
Less: current portion	<u>91,953</u>	<u>138,840</u>
	<u>\$ 957,997</u>	<u>\$ 186,176</u>

A convertible debenture in the amount of \$24,750 is payable to an officer and director of the Company and a further \$24,750 is payable to the spouse of the non-controlling shareholder of Permotech.

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NOTE 6 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.

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

	<u>Number</u>	<u>Value</u>
Common shares as at June 30, 2001	22,737,824	18,368,436
Private placement – Aug 9, 2001	1,333,333	150,000
Debt settlement – Nov 28, 2001	<u>143,529</u>	<u>18,300</u>
	<u>24,214,686</u>	18,536,736
Class "A" Preferred shares of subsidiary –August 2001	175,770	175,770
Less amount classified as liability		(160,542)
Class A Special shares - unchanged	1,193,442	<u>100,000</u>
		<u>\$ 18,651,964</u>

ZTEST Electronics Inc.

Notes to the Unaudited Interim Consolidated Financial Statements
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NOTE 6 Share Capital (Continued)

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.

On November 28, 2001 the Company issued 143,529 common shares in settlement of debts valued at \$18,300. These shares were issued to Directors of the Corporation.

(C) Details of warrants outstanding are as follows:

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
21,000	\$4.35	Apr 13, 2002
149,400	\$2.40	Aug 7, 2002
80,000	\$2.00	Oct 7, 2002
1,200,000	\$0.55	Feb 2, 2003
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 six month period ended December 31, 2001 1,035,401 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:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
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
100,000 (1)	\$0.17	Nov 27, 2006
400,000 (2)	\$1.00	Unknown

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(Canadian Dollars)
December 31, 2001

NOTE 6 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 January 26 2002. This vesting did not occur and accordingly these options expired subsequent to the balance sheet date.
- (3) During the six month period ended December 31, 2001 265,000 options expired without being exercised and no additional share purchase options were granted.

NOTE 7 Subsequent Events

Subsequent to the balance sheet date the following transactions or events have 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, closed on February 14, 2002. No provision has been made in these financial statements for the effects of this transaction.

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 (see Note 3)
- 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 2,170,000 common shares already held, to the takeover bid. The 1,034,000 shares of Dion that ZTEST is to receive will be subject to the trading restriction and escrow agreement described above.

ZTEST Electronics Inc.

Notes to the Unaudited Interim Consolidated Financial Statements
(Canadian Dollars)
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NOTE 7 Subsequent Events – continued

- 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 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 \$0.15 to \$0.59 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 concluded negotiations and acquired the remaining 40% of the outstanding common shares and 100% of the outstanding preferred shares of Permotech Electronics Corp. Following this transaction, which closed January 15, 2002, ZTEST holds 100% of the issued and outstanding shares of all classes of stock of Permotech. No provision has been made in these financial statements for the acquisition of this additional interest.

NOTE 8 Discontinued Operations

Internet Commerce Solutions Inc., a company in which ZTEST holds a 58.9% interest, was served with notice that their financial institution was demanding repayment of their operating loan. This notice also advised that certain minority shareholders of Internet Commerce Solutions Inc., that act as guarantors for the loan facility, agreed to repay the Company's indebtedness to the bank in its entirety in exchange for a transfer of the security pledged to the financial institution. At the time the notice was received the President of Internet Commerce Solutions Inc. tendered his resignation.

Negotiations with the minority shareholders proved to be ineffective and as a result the Board of Directors of Internet Commerce Solutions Inc. determined that the only course of action available to it was to discontinue the operations and begin the process of realizing its assets and discharging its liabilities, a process that continued beyond the date of this interim balance sheet.

Subsequent to the interim balance sheet date, the minority shareholders have acted on their security and seized the remaining assets of the Company. The Company has made no provision for the losses, if any, which may arise if the secured creditors are unable to realize the carrying value of the remaining assets.