

ZTEST Electronics Inc.

Unaudited Interim Consolidated Financial Statements

(In Canadian Dollars)

March 31, 2002

ZTEST Electronics Inc.

Unaudited Interim Consolidated Balance Sheet

(Canadian Dollars)

March 31, 2002

	<u>Mar. 31, 2002</u>	<u>June 30, 2001</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 86,105	\$ 128,601
Accounts receivable	116,592	686,582
Inventories	145,914	172,641
Prepaid expenses and other assets	66,438	66,661
Current portion of amounts receivable (Note 4)	<u>78,500</u>	<u>-</u>
	493,549	1,054,485
Funds held in trust	3,101	3,154
Amounts receivable (Notes 3,4)	190,812	-
Capital assets	1,149,570	792,891
Investments and advances (Note 9)	4	4
Mineral Properties	50,000	50,000
Goodwill (Note 9)	<u>792,038</u>	<u>201,531</u>
	<u>\$ 2,679,074</u>	<u>\$ 2,102,065</u>
Liabilities		
Current liabilities		
Bank indebtedness	\$ -	\$ 233,080
Accounts payable and accrued liabilities	573,639	1,519,944
Notes payable and other advances (Note 5)	73,692	132,000
Current portion of long-term debt (Note 6)	73,029	138,840
Current portion of obligation under capital leases (Note 7)	<u>138,895</u>	<u>26,127</u>
	857,255	2,049,991
Long-term debt (Note 6)	1,243,906	186,176
Obligation under capital leases (Note 7)	425,996	17,951
Preferred shares (Note 8)	<u>1,471,908</u>	<u>1,471,908</u>
	<u>3,999,065</u>	<u>3,726,026</u>
Non-controlling interest in subsidiary	26,242	26,992
Commitments	-	-
Deficiency in assets		
Share Capital (Note 8)	19,522,286	18,468,436
Deficit	<u>(20,868,519)</u>	<u>(20,119,389)</u>
	<u>(1,346,233)</u>	<u>(1,650,953)</u>
	<u>\$ 2,679,074</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 March 31

	<u>2002</u> 3 months	<u>2002</u> 9 months	<u>2001</u> 3 months	<u>2001</u> 9 months
Revenue				
Design services	\$ -	\$ -	\$ 29,610	\$ 83,105
Product sales	301,783	1,069,832	377,921	2,006,115
Other	<u>18,255</u>	<u>22,175</u>	<u>500,022</u>	<u>841,989</u>
	<u>320,038</u>	<u>1,092,007</u>	<u>907,553</u>	<u>2,931,209</u>
Expenses				
Amortization of capital assets	21,573	69,115	36,200	99,734
Amortization of goodwill	12,035	19,168	36,211	95,968
Cost of product sales	246,717	773,268	299,889	1,454,135
Dividends on preferred shares	2,680	8,161	2,677	8,158
Interest expense - long term	16,091	26,466	7,040	21,433
- other	30,710	59,788	1,466	44,517
Selling, general and administrative	<u>345,539</u>	<u>991,466</u>	<u>329,936</u>	<u>569,550</u>
	<u>675,345</u>	<u>1,947,432</u>	<u>692,310</u>	<u>2,602,322</u>
(Loss) income from operations	(355,307)	(855,425)	215,243	328,887
Minority interest in loss (income) of subsidiary	240	750	29,873	-
Loss on sale of capital and other assets (Note 3)	-	(84,905)	-	-
Loss from discontinued operations	-	(201,709)	(29,752)	(89,774)
Gain from discontinuance	408,181	408,181		
Loss on decline in value of investment	<u>(8,420)</u>	<u>(10,420)</u>	<u>118,257</u>	<u>118,257</u>
Income (loss) before provision for income taxes	44,694	(742,848)	333,621	357,370
Provision for income taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income (loss) for the period	44,694	(742,848)	333,621	357,370
Deficit, beginning of period	(20,912,307)	(20,119,389)	(11,286,779)	(11,309,562)
Dividends on preferred shares	<u>(906)</u>	<u>(6,302)</u>	<u>(472)</u>	<u>(1,438)</u>
Deficit, end of period	<u>\$ (20,868,519)</u>	<u>\$ (20,868,519)</u>	<u>\$ (10,953,630)</u>	<u>\$ (10,953,630)</u>
Net (loss) earnings per share:				
Continuing operations	<u>\$ (0.0120)</u>	<u>\$ (0.0367)</u>	<u>\$ 0.0163</u>	<u>\$ 0.0206</u>
Discontinued operations	<u>\$ 0.0135</u>	<u>\$ 0.0080</u>	<u>\$ (0.0013)</u>	<u>\$ (0.0041)</u>
Weighted average shares outstanding	<u>30,175,035</u>	<u>25,898,726</u>	<u>22,297,834</u>	<u>21,666,833</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 March 31

	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	<u>3 months</u>	<u>9 months</u>	<u>3 months</u>	<u>9 months</u>
Cash flow from operating activities				
Net income (loss) for the period	\$ 44,694	\$ (742,848)	\$ 333,621	\$ 357,370
Items not involving cash				
Amortization of capital assets	59,803	143,230	43,965	120,397
Loss on sale of other assets	-	84,205	-	-
Amortization of goodwill	12,035	19,168	36,211	95,968
Minority interest in subsidiary	(240)	(750)	(29,873)	-
Decline in value of investments	8,420	10,420	-	-
Discontinuance of subsidiary	(408,181)	(408,181)	-	-
Changes in non-cash working capital items:				
Accounts receivable	(8,596)	500,061	(462,178)	(2,384,971)
Inventories	(9,407)	19,001	(8,020)	440,663
Prepaid expenses and other assets	15,542	223	(74,325)	(136,864)
Accounts payable	15,389	(326,720)	(32,234)	334,064
Customer deposits	-	-	(3,689)	(405,033)
	<u>(270,541)</u>	<u>(702,171)</u>	<u>(196,522)</u>	<u>(1,578,406)</u>
Cash flow from investing activities				
Funds held in trust	-	53	-	-
Goodwill acquired	-	-	-	(214,085)
Proceeds from sale of capital and other assets	-	52,087	-	-
Purchase of capital assets (net)	(32,813)	(37,074)	(98,734)	(302,140)
Investments and advances	(8,420)	(10,420)	5,051	(45,981)
Amounts receivable	-	-	-	181,487
	<u>(41,233)</u>	<u>4,646</u>	<u>(93,683)</u>	<u>(380,719)</u>
Cash flow from financing activities				
Increase in bank indebtedness	(7,141)	(225,703)	(44,587)	135,613
Capital lease obligation	(2,464)	(13,828)	(9,934)	(24,470)
Long-term debt and notes payable	227,177	670,092	(189,276)	201,363
Payment of commitment	-	-	-	(300,000)
Dividends on preferred shares	(906)	(6,302)	(472)	(1,438)
Issuance of preferred shares in subsidiary	-	175,770	-	-
Issuance of common shares	-	55,000	576,000	1,447,960
	<u>216,666</u>	<u>655,029</u>	<u>331,731</u>	<u>1,459,028</u>
Increase (decrease) in cash	(95,108)	(42,496)	41,526	(500,097)
Cash, beginning of period	<u>181,213</u>	<u>128,601</u>	<u>33,783</u>	<u>575,406</u>
Cash, end of period	<u>\$ 86,105</u>	<u>\$ 86,105</u>	<u>\$ 75,309</u>	<u>\$ 75,309</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)

March 31, 2002

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 March 31, 2002 and the results of operations for the nine 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 have been organized into operating segments based on the nature of products and services provided. The Company's operations have previously been 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 previously provided integrated application specific hardware and software solutions in the data security and e-commerce market place. During the current nine-month period the operations of the NS segment were discontinued and during the current three-month period the segment went through a liquidation process. As a result, all of the reported amounts for revenues, expenses, assets and liabilities as at March 31, 2002 relate exclusively to the EM&D segment and accordingly the preparation and disclosure of segmented information is no longer applicable to these financial statements.

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 an officer and director 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 9). 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 Systems Inc. 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 that resulted in the acquisition of an additional 750,000 common shares of Gametele, and \$8,420 in expenses on behalf of Gametele. These amounts have been written off in the current period.

ZTEST Electronics Inc.

Notes to the Unaudited Interim Consolidated Financial Statements

(Canadian Dollars)

March 31, 2002

NOTE 4 Amounts receivable

	<u>Mar. 31, 2002</u>	<u>June 30, 2001</u>
Promissory note receivable from a company controlled by the spouse of an officer and director 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 (See note 3).	190,812	-
Notes receivable, interest at 9.5%, unsecured, due on demand	<u>78,500</u>	<u>-</u>
	269,312	-
Less: current portion	<u>78,500</u>	<u>-</u>
	<u>\$ 190,812</u>	<u>\$ -</u>

NOTE 5 Notes Payable

<u>Interest</u>	<u>Security</u>	<u>Terms</u>	<u>Mar. 31, 2002</u>	<u>June 30, 2001</u>
9.0%	Unsecured	None	\$ -	\$ 8,000
Nil	Unsecured	None	2,000	40,000
12.0%	Unsecured	On Demand *	-	84,000
8.0%	Unsecured	On Demand *	12,000	-
P + 2.0%	Unsecured	None *	<u>59,692</u>	<u>-</u>
			<u>\$ 73,692</u>	<u>\$ 132,000</u>

* Each of these notes are payable to an officer and director of the Company

NOTE 6 Long-term Debt

	<u>Mar. 31, 2002</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 including interest are required	\$ 84,767	\$ 124,078
Business improvement loan, interest at prime + 3.75%, was to mature April 2002. Monthly payments of \$3,693 are scheduled however if funds are not readily available then payment is cancelled resulting in an extension of the maturity date.	<u>14,649</u>	<u>35,678</u>
Sub-total	<u>99,416</u>	<u>159,756</u>

ZTEST Electronics Inc.

Notes to the Unaudited Interim Consolidated Financial Statements

(Canadian Dollars)

March 31, 2002

NOTE 6 Long-term Debt (Continued)

Balance forward	<u>99,416</u>	<u>159,756</u>
Loans from a relative of the non-controlling shareholder of Permatest, interest at 9.5%, unsecured, due on demand.	-	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 an officer and director 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 (See note 3).	318,019	-
Convertible two-year debentures, interest at 8.0%, unsecured, and begin to mature Feb, 2004. Monthly interest payments are required. Debentures may be converted at any time prior to maturity at the rate of one unit for each \$0.125 converted. Each unit is comprised of one common share and one share purchase warrant entitling the holder to acquire an additional common share for a period being the lesser of two years from the issue date of the debenture or six months from the date of conversion. The warrants are exercisable at a rate of \$0.125 per share if conversion occurs within the first 12 months of the debenture term or at \$0.15 if converted in the second year. (2)	300,000	-
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. (1)	<u>599,500</u>	<u>-</u>
	\$ 1,316,935	\$ 325,016
Less: current portion	<u>73,029</u>	<u>138,840</u>
	<u>\$ 1,243,906</u>	<u>\$ 186,176</u>

(1) 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 another officer and director.

(2) A convertible debenture in the amount of \$31,875 is payable to an officer and director of the Company and a further \$11,875 is payable to the spouse of another officer and director.

ZTEST Electronics Inc.

Notes to the Unaudited Interim Consolidated Financial Statements

(Canadian Dollars)

March 31, 2002

NOTE 7 Obligation under capital leases

	<u>Mar. 31, 2002</u>	<u>June 30, 2001</u>
Interest at 13.83%, matures July 2002. Blended monthly payments of \$573 are required.	\$ 3,820	\$ 8,314
Interest at 14.31%, matures Sept. 2003. Blended monthly payments of \$113 are required	1,736	2,522
Interest at 9.8%, matures Jan. 2005. Blended monthly payments of \$289 are required.	8,566	10,465
Interest at 13.10%, matures Aug. 2004. Blended monthly payments of \$25,097 commence Aug. 2002	550,769	-
Interest at 15.38%, matures Aug. 2002. Blended monthly payments of \$942 are required.	-	8,433
Interest at 16.28%, matures Oct. 2002. Blended monthly payments of \$243 are required.	-	3,482
Interest at 15.69%, matures Dec 2002. Blended monthly payments of \$152 are required.	-	2,428
Interest at 13.69%, matures Feb. 2003. Blended monthly payments of \$474 are required.	<u>-</u>	<u>8,434</u>
	564,891	44,078
Less: current portion	<u>138,895</u>	<u>26,127</u>
	<u>\$ 425,996</u>	<u>\$ 17,951</u>
The future minimum payments are:		
2003	\$ 210,141	
2004	305,101	
2005	<u>174,299</u>	
	689,541	
Less: imputed interest	<u>124,650</u>	
	<u>\$ 564,891</u>	

ZTEST Electronics Inc.

Notes to the Unaudited Interim Consolidated Financial Statements

(Canadian Dollars)

March 31, 2002

NOTE 8 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 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.

* Each series of preference shares contain a provision whereby they will become voting shares in the event that the cumulative monthly dividends are not paid for 12 consecutive months and they remain voting so long as the arrears are not rectified. As at March 31, 2002 all of the outstanding preference shares had dividend arrears in excess of 12 months and as such had the right to vote at any and all shareholder meetings.

ZTEST Electronics Inc.

Notes to the Unaudited Interim Consolidated Financial Statements

(Canadian Dollars)

March 31, 2002

NOTE 8 Share Capital (Continued)**(B) Issued**

	<u>Number</u>	<u>Value</u>
Common shares as at June 30, 2001	22,737,834	18,368,436
Private placement – Aug 9, 2001	1,333,333	150,000
Debt settlement – Dec 21, 2001	143,529	18,300
Business acquisition – Jan 15, 2002	7,140,407	785,445
Debt settlement – Mar 7, 2002	37,500	9,000
Debt settlement – Mar 31, 2002	<u>379,607</u>	<u>91,105</u>
	<u>31,772,210</u>	19,422,286
Preferred shares of subsidiary –August 2001	175,770	175,770
Less amount reacquired – January 2002		(175,770)
Class A Special shares - unchanged	1,193,442	<u>100,000</u>
		<u>\$ 19,522,286</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.
- On December 21, 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.
- On January 15, 2002 the Company issued 7,140,407 common shares valued at \$785,445 to acquire 175,770 preference shares and 40 common shares of Permotech Electronics Corporation.
- On March 7, 2002 and March 31, 2002 the Company issued 37,500 common shares and 379,607 common shares respectively in settlement of debts valued at \$9,000 and \$91,105.

First Preferred Shares

	<u>Number</u>	<u>Value</u>
Series A – unchanged	166,667	\$ 160,000
Series C – unchanged	431,858	755,752
Series D – unchanged	583,640	<u>1,243,153</u>
		2,158,905
Less: Paid in capital		<u>(686,997)</u>
		<u>\$ 1,471,908</u>

ZTEST Electronics Inc.

Notes to the Unaudited Interim Consolidated Financial Statements
(Canadian Dollars)
March 31, 2002

NOTE 8 Share Capital (Continued)

(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>2,911,733</u>		

During the nine month period ended March 31, 2002 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>
569,000 (1)	\$1.45	July 1, 2002
80,000	\$1.05	Jan 8, 2003
145,000 (1)	\$1.60	Mar 16, 2003
7,500	\$1.45	Aug 3, 2003
20,000	\$0.90	Dec 29, 2003
16,000	\$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
75,000	\$2.35	Aug 16, 2005
400,500	\$0.89	Jan 23, 2006
100,000 (1)	\$0.17	Nov 27, 2006
<u>900,000 (1)</u>	\$0.24	Feb 19, 2007
<u>2,699,000</u>		

(1) These options are held by directors and senior officers of the Company

(2) During the nine-month period ended March 31, 2002 940,500 options expired without being exercised and 1,000,000 new share purchase options were granted.

ZTEST Electronics Inc.

Notes to the Unaudited Interim Consolidated Financial Statements

(Canadian Dollars)

March 31, 2002

NOTE 9 Investments and Advances

The following transactions occurred during the three-month period ended March 31, 2002:

1. Dion Entertainment Inc. ("Dion"), a public company that trades under the symbol DIO on the Toronto Stock Exchange, acquired the 5,170,000 common shares of Gametele Systems Inc. ("Gametele") that had previously been held by ZTEST on the basis of 1 common share of Dion for each 5 shares of Gametele surrendered. The 1,034,000 common shares of Dion that were issued are 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%	February 14, 2002
40%	December 27, 2002
30%	December 27, 2003
20%	June 27, 2004

In accordance with the terms of this transaction ZTEST also agreed to and completed 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 received are 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 assets of Gametele. Dion has 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. At the time of closing ZTEST received 400,000 common shares of Dion representing payment of 10% of this debenture. These shares will be subject to the trading restriction described above but are not subject to the escrow arrangement.
- 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 was 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.

ZTEST Electronics Inc.

Notes to the Unaudited Interim Consolidated Financial Statements

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NOTE 9 Investments and Advances (Continued)

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.

As at the date of acquisition the key components of Permotech were as follows:

Current assets	\$	194,383
Capital assets		<u>320,320</u>
Total assets	\$	<u>514,703</u>
Current liabilities	\$	399,024
Long-term liabilities		<u>653,598</u>
Total liabilities		1,052,622
Deficiency in Assets		<u>(537,919)</u>
	\$	<u>514,703</u>

The goodwill arising on the acquisition, which will be amortized over a 15 year period in accordance with Company policy, has been determined as follows:

Gross consideration paid	\$	785,445
Less preferred shares acquired		<u>(175,770)</u>
Net consideration paid		609,675
Net assets acquired		<u>-</u>
Goodwill acquired	\$	<u>609,675</u>

NOTE 10 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.

ZTEST Electronics Inc.

Notes to the Unaudited Interim Consolidated Financial Statements

(Canadian Dollars)

March 31, 2002

NOTE 10 Discontinued Operations (Continued)

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.

Prior to the balance sheet date the secured creditors of Internet Commerce Solutions Inc. acted on their security and seized the remaining assets of the Company. Since ZTEST has no further guarantees associated with this company and has no control over the assets, be they tangible or otherwise, it was determined to no longer be appropriate to consolidate the accounts of the company.

As at the date of discontinuance the company had been reporting the following amounts:

Current assets	\$	77,655
Capital assets		<u>78,839</u>
Total assets	\$	<u>156,494</u>
Current liabilities	\$	508,557
Notes payable		40,000
Loan payable to parent		35,000
Capital lease obligation		<u>16,118</u>
Total liabilities	\$	599,675
Total assets		<u>156,494</u>
Deficiency recovered	\$	443,181
Less loan payable to parent		(35,000)
Less provision for future losses		<u>(0)</u>
	\$	<u>408,181</u>