

**ZTEST Electronics Inc.**

**Unaudited Interim Consolidated Financial Statements**

**(In Canadian Dollars)**

**September 30, 2002**

**ZTEST Electronics Inc.**Unaudited Interim Consolidated Balance Sheet  
(Canadian Dollars)  
September 30, 2002

	<u>Sept. 30, 2002</u>	<u>June 30, 2002</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 34,227	\$ 9,198
Accounts receivable (Note 5)	247,773	263,967
Inventories	103,948	72,721
Prepaid expenses and other assets	36,862	51,990
Current portion of amounts receivable (Note 4)	<u>80,087</u>	<u>66,000</u>
	502,897	463,876
Amounts receivable (Note 4)	176,725	190,812
Capital assets	1,059,288	963,284
Investments and advances	<u>4</u>	<u>4</u>
	<u>\$ 1,738,914</u>	<u>\$ 1,617,976</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 1,036,631	\$ 723,888
Current portion of long-term debt (Note 6)	80,289	63,560
Current portion of lease obligation (Note 7)	230,209	202,189
Notes payable and other advances (Note 5)	<u>214,400</u>	<u>202,251</u>
	1,561,529	1,191,888
Long-term debt (Note 6)	1,435,514	1,352,460
Obligations under capital lease (Note 7)	281,691	341,996
Preferred shares	<u>1,471,908</u>	<u>1,471,908</u>
	<u>4,750,642</u>	<u>4,358,252</u>
Commitments	-	-
<b>Deficiency in assets</b>		
Share Capital (Note 8)	19,522,287	19,522,287
Deficit	<u>(22,534,015)</u>	<u>(22,262,563)</u>
	<u>(3,011,728)</u>	<u>(2,740,276)</u>
	<u>\$ 1,738,914</u>	<u>\$ 1,617,976</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

	<u>2002</u>	<u>2001</u>
<b>Revenue</b>		
Product sales	\$ 346,489	\$ 376,431
Other	<u>7,229</u>	<u>4,451</u>
	<u>353,718</u>	<u>380,882</u>
<b>Expenses</b>		
Amortization of capital assets	12,702	26,771
Amortization of goodwill	-	3,566
Cost of product sales	293,350	249,886
Dividends on preferred shares	26,311	2,740
Interest expense - long term	27,071	3,800
- other	30,260	12,416
Selling, general and administrative	<u>223,295</u>	<u>365,424</u>
	<u>612,989</u>	<u>664,603</u>
<b>(Loss) income from operations</b>	(259,271)	(283,721)
Loss from discontinued operations	-	(67,703)
Minority interest in income of subsidiary	-	264
Gain on sale of capital and other assets	-	43,002
Loss on decline in value of investment	<u>-</u>	<u>(2,000)</u>
<b>(Loss) income before provision for income taxes</b>	(259,271)	(310,158)
Provision for income taxes	<u>-</u>	<u>-</u>
<b>(Loss) income for the period</b>	(259,271)	(310,158)
<b>Deficit, beginning of period</b>	(22,262,563)	(20,119,389)
Dividends on preferred shares	<u>(12,181)</u>	<u>(483)</u>
<b>Deficit, end of period</b>	<u>\$ (22,534,015)</u>	<u>\$ (20,430,030)</u>
<b>Net (loss) earnings per share:</b>		
Continuing operations	\$ (0.0082)	\$ (0.0103)
Discontinued operations	<u>0.0000</u>	<u>(0.0029)</u>
	<u>\$ (0.0082)</u>	<u>\$ (0.0132)</u>
<b>Weighted average shares outstanding</b>	<u>31,772,210</u>	<u>23,491,457</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

	<u>2002</u>	<u>2001</u>
<b>Cash flow from operating activities</b>		
Net loss for the period	\$ (259,271)	\$ (310,158)
Items not involving cash		
Amortization of capital assets	46,355	44,736
Gain on sale of other assets	-	(43,002)
Amortization of goodwill	-	3,566
Minority interest in income of subsidiary	-	(264)
Loss on decline in value of investments	-	2,000
Changes in non-cash working capital items:		
Accounts receivable	16,194	(255,004)
Inventories	(31,227)	8,447
Prepaid expenses and other assets	15,128	(7,941)
Accounts payable and accrued liabilities	<u>300,562</u>	<u>209,987</u>
	<u>87,741</u>	<u>(347,633)</u>
<b>Cash flow from investing activities</b>		
Funds held in trust	-	53
Proceeds from sale of other assets	-	43,002
Purchase of capital assets	(142,359)	-
Investments and advances	<u>-</u>	<u>(2,000)</u>
	<u>(142,359)</u>	<u>41,055</u>
<b>Cash flow from financing activities</b>		
Increase in bank indebtedness	-	25,979
Repayment of capital lease obligation	(32,285)	(6,297)
Proceeds of long-term debt and notes payable	132,149	-
Repayment of long-term debt and notes payable	(21,217)	(75,786)
Dividends paid on preferred shares	-	(483)
Issuance of preferred shares in subsidiary	-	175,770
Issuance of common shares	<u>-</u>	<u>150,000</u>
	<u>79,647</u>	<u>269,183</u>
<b>Increase (decrease) in cash</b>	25,029	(37,395)
<b>Cash, beginning of period</b>	<u>9,198</u>	<u>128,601</u>
<b>Cash, end of period</b>	<u>\$ 34,227</u>	<u>\$ 91,206</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, 2002

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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, 2002.

These financial statements include certain disclosures pertaining to the financial position of the company as at September 30, 2002 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 30, 2002.

**NOTE 2 Information on Operating Segments**

The Company has only one definable operating segment, Electronic Manufacturing and Development, which carries on business manufacturing, selling, designing and developing electronic equipment. Accordingly, there are no additional disclosures to be provided relative to operating segments.

**NOTE 3 Related Party Transactions**

During the three month period ended September 30, 2002 the Company reported the following revenues and expenses resulting from transactions with related parties:

<u>Description</u>	<u>Related Party</u>	<u>Amount</u>
Revenue – other	1114377	\$ 4,088
Interest expense	Nu-Way	\$ 7,506
Interest expense	1114377	\$ 6,813
Interest expense	Directors/Officers	\$ 3,795
Consulting fees	James Lalonde	\$ 6,000

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**NOTE 4 Amounts receivable**

	<u>Sept. 30, 2002</u>	<u>June 30, 2002</u>
Promissory note receivable from a company controlled by the spouse of a Director of the Company, unsecured, interest at 8.5%. Interest accrues without payment until Oct. 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.	190,812	190,812
Demand promissory notes bearing interest at 9.5% per Annum with no fixed maturity dates.	<u>66,000</u>	<u>66,000</u>
	256,812	256,812
Less: current portion	<u>80,087</u>	<u>66,000</u>
	<u>\$ 176,725</u>	<u>\$ 190,812</u>

**NOTE 5 Notes Payable**

<u>Interest</u>	<u>Security</u>	<u>Terms</u>	<u>Sept. 30, 2002</u>	<u>June 30, 2002</u>
6.0%	Unsecured	On Demand	\$ 16,767	\$ 16,767
8.0%	Unsecured	None	15,000	35,000
0.0%	Unsecured	None	2,000	2,000
33.0%	Accts Receivable	Collection of A/R*	98,941	78,792
8.0%	Unsecured	On Demand*	12,000	12,000
P+2.0%	Unsecured	None*	<u>69,692</u>	<u>57,692</u>
			<u>\$ 214,400</u>	<u>\$ 202,251</u>

\* Each of these obligations are payable to a related party.

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**NOTE 6 Long-term Debt**

	<u>Sept. 30, 2002</u>	<u>June 30, 2002</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	\$ 57,283	\$ 71,058
Convertible debentures bearing interest at 10.5% and mature Dec. 3, 2003. Monthly interest payments are required. Convertible, in whole or in part, into units of the Company at the rate of one unit for each \$0.11 converted. Each unit consists of one common share and one share purchase warrant which entitles the holder to acquire an additional common share for \$0.11 for a period of two years from the date of conversion. The Company may redeem these debentures, in whole or in part, any time after June 3, 2003. <sup>(1)</sup>	599,500	599,500
Convertible debentures bearing interest at 8% and mature Feb 14, 2004. Monthly interest payments are required. Convertible, in whole or in part, into units of the Company at the rate of one unit for each \$0.125 converted. Each unit consists of one common share and one share purchase warrant which entitles the holder to acquire an additional common share for a period which is the lesser of two years from the date date of issuance of the debenture and six months following conversion. The exercise price is \$0.125 until Feb 15, 2003 then \$0.15 thereafter. The Company may redeem these debentures, in whole or in part, any time after Aug 15, 2003. <sup>(2)</sup>	300,000	300,000
Convertible debentures bearing interest at 8% and mature May 21, 2004. Monthly interest payments are required. Convertible, in whole or in part, into units of the Company at the rate of one unit for each \$0.16 converted. Each unit consists of one common share and one share purchase warrant which entitles the holder to acquire an additional common share for \$0.18 for a period which is the lesser of two years from the date of issuance of the debenture and six months following conversion. The Company may redeem these debentures, in whole or in part, any time after Nov 21, 2003.	120,000	120,000

**ZTEST Electronics Inc.**

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**NOTE 6 Long-term Debt (Continued)**

Convertible debentures bearing interest at 8% and mature July 12, 2004. Monthly interest payments are required. Convertible, in whole or in part, into units of the Company at the rate of one unit for each \$0.15 converted. Each unit consists of one common share and one share purchase warrant which entitles the holder to acquire an additional common share for \$0.15 for a period which is the lesser of two years from the date of issuance of the debenture and six months following conversion. The Company may redeem these debentures, in whole or in part, any time after Jan 12, 2004. <sup>(3)</sup>	56,000	-
Convertible debentures bearing interest at 8% and mature September 9, 2004. Monthly interest payments are required. Convertible, in whole or in part, into units of the Company at the rate of one unit for each \$0.10 converted. Each unit consists of one common share and one share purchase warrant which entitles the holder to acquire an additional common share for \$0.10 for a period which is the lesser of two years from the date of issuance of the debenture and six months following conversion. The Company may redeem these debentures, in whole or in part, any time after March 9, 2004.	65,000	-
Note payable to a company controlled by the spouse of a Director of the Company, unsecured, interest at 8.5%. No payments until Oct, 2002 then six months as to interest only then blended monthly payments of \$6,025 are required.	318,020	318,020
Business improvement loan, interest at prime + 3.75%, due on demand. Monthly interest payments are required.	-	7,442
	1,515,803	1,416,020
Less: current portion	80,289	63,560
	<u>\$ 1,435,514</u>	<u>\$ 1,352,460</u>

<sup>(1)</sup> Includes \$49,500 payable to Officers of the Company and/or their spouses

<sup>(2)</sup> Includes \$42,750 payable to Officers of the Company and/or their spouses

<sup>(3)</sup> Includes \$21,000 payable to an Officer of the Company



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**NOTE 7 Obligations under capital lease**

	<u>Sept. 30, 2002</u>	<u>June 30, 2002</u>
Interest at 13.83%, matures July 2002. Blended monthly payments of \$573 are required.	\$ -	\$ 2,217
Interest at 14.31%, matures Sept. 2003. Blended monthly payments of \$113 are required	1,163	1,454
Interest at 9.8%, matures Jan. 2005. Blended monthly payments of \$289 are required.	7,224	7,906
Interest at 13.10%, matures Aug. 2004. Blended monthly payments of \$25,097 commence Aug. 2002	<u>503,513</u>	<u>532,608</u>
	511,900	544,185
Less: current portion	<u>230,209</u>	<u>202,189</u>
	<u>\$ 281,691</u>	<u>\$ 341,996</u>

**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.

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

Series A, voting<sup>(1)</sup> shares bear 8% cumulative monthly dividends, 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 1.40625 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 voting<sup>(1)</sup> shares bear 7% cumulative monthly dividends, are redeemable after Nov 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.

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**NOTE 8 Share Capital – Continued**

Series D voting<sup>(1)</sup> shares bear 7% cumulative monthly dividends, are redeemable after Dec. 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.

<sup>(1)</sup> All shares carry the right to vote at any meeting of common shareholders in the event that the cumulative dividends are at least 12 months in arrears. As at the balance sheet date the dividends on Series A, C and D shares were all at least 12 months in arrears.

**(B) Issued**

	<b><u>Number</u></b>	<b><u>Value</u></b>
Common shares - unchanged	31,772,210	19,422,287
Class A Special shares - unchanged	1,193,442	<u>100,000</u>
		<u>\$ 19,522,287</u>

**(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>
80,000 <sup>(1)</sup>	\$2.00	Oct 7, 2002
1,200,000	\$0.55	Feb 2, 2003
383,000	\$2.60	Jun 30, 2003
145,000	\$2.60	July 14, 2003
<u>933,333</u>	<u>\$0.15</u>	<u>Aug 9, 2003</u>
<u>2,741,333</u>		

During the period ended September 30, 2002 149,400 warrants expired without being exercised and an additional <sup>(1)</sup>80,000 have expired subsequent to the balance sheet date.

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Notes to the Unaudited Interim Consolidated Financial Statements  
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**NOTE 8 Share Capital – Continued**

(D) Details of options outstanding are as follows:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
80,000 <sup>(1)</sup>	\$1.05	Jan 8, 2003
145,000 <sup>(1)</sup>	\$1.60	Mar 16, 2003
7,500	\$1.45	Aug 3, 2003
20,000 <sup>(1)</sup>	\$0.90	Dec 29, 2003
16,000	\$0.85	Apr 14, 2004
36,000	\$4.40	June 30, 2004
150,000 <sup>(1)</sup>	\$2.95	Nov 22, 2004
120,000	\$0.21	Apr 1, 2005
150,000	\$2.35	June 19, 2005
45,000 <sup>(1)</sup>	\$2.35	Aug 16, 2005
30,000	\$2.35	Aug 16, 2005
260,500 <sup>(1)</sup>	\$0.89	Jan 23, 2006
30,000	\$0.89	Jan 23, 2006
100,000 <sup>(1)</sup>	\$0.17	Nov 27, 2006
900,000 <sup>(1)</sup>	\$0.24	Feb 19, 2007
200,000 <sup>(1)</sup>	\$0.135	Apr 30, 2007

<sup>(1)</sup> These options are held by Directors and/or Officers of the Company

During the three month period ended September 30, 2002 a total of 435,000 options that were held by Directors and/or Officers expired without being exercised. No additional share purchase options were granted.