

**ZTEST Electronics Inc.**  
**Consolidated Financial Statements**  
**June 30, 2004**

# MOORE STEPHENS COOPER MOLYNEUX LLP

CHARTERED ACCOUNTANTS

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## **Auditors' Report**

To the Shareholders of ZTEST Electronics Inc.

We have audited the consolidated balance sheets of ZTEST Electronics Inc. as at June 30, 2004 and June 30, 2003, and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2004 and June 30, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Signed: *"Moore Stephens Cooper Molyneux LLP"*

**Chartered Accountants**

Toronto, Ontario  
September 30, 2004

# ZTEST Electronics Inc.

## Consolidated Balance Sheet

June 30

	2004	2003
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 36,088	\$ 8,226
Accounts receivable	486,410	284,717
Inventories (note 4)	126,344	70,217
Prepaid expenses and other assets	45,508	30,592
Current portion of amounts receivable (note 5)	-	7,290
	<b>694,350</b>	<b>401,042</b>
Capital assets (note 6)	428,645	508,418
Investments and advances (note 7)	4	4
	<b>\$ 1,122,999</b>	<b>\$ 909,464</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Customer deposits	\$ 2,584	\$ 24,835
Accounts payable and accrued liabilities	754,947	591,840
Dividends payable	489,784	339,680
Current portion of long-term debt (note 9)	109,594	1,040,051
Current portion of lease obligations (note 10)	1,971	3,334
Notes payable and other advances (note 8)	313,774	426,409
	<b>1,672,654</b>	<b>2,426,149</b>
Long-term debt (note 9)	1,533,052	325,421
Obligations under capital leases (note 10)	-	1,971
Preferred shares (note 12)	1,471,908	1,471,908
	<b>4,677,614</b>	<b>4,225,449</b>
Commitments (note 11)	-	-
<b>Deficiency in assets</b>		
Share capital (note 12)	19,627,637	19,534,887
Contributed surplus (note 12)	1,845	-
Equity portion of convertible debentures (note 9)	82,674	-
Deficit	(23,266,771)	(22,850,872)
	<b>(3,554,615)</b>	<b>(3,315,985)</b>
	<b>\$ 1,122,999</b>	<b>\$ 909,464</b>

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

Approved by the Board

Signed: "John Perrault"

Director

Signed: "Wojciech Drzazga"

Director

# ZTEST Electronics Inc.

## Consolidated Statement of Operations and Deficit for the year ended June 30

	2004	2003
<b>Revenue</b>		
Product sales	\$ 2,443,656	\$ 1,838,567
Design services	22,741	19,450
Interest and other	15,946	34,833
	<b>2,482,343</b>	<b>1,892,850</b>
<b>Expenses</b>		
Cost of product sales	1,706,385	1,441,379
Selling, general and administrative	793,586	754,633
Interest expense - other (note 14)	128,390	85,035
Dividends on preferred shares	102,397	104,638
Interest expense - long-term debt (note 14)	79,709	195,235
Amortization of capital assets	40,068	52,844
	<b>2,850,535</b>	<b>2,633,764</b>
<b>Loss from operations</b>	<b>(368,192)</b>	<b>(740,914)</b>
<b>Gain on disposal of capital and other assets</b>	<b>-</b>	<b>201,059</b>
<b>Loss before provision for income taxes</b>	<b>(368,192)</b>	<b>(539,855)</b>
Provision for income taxes (note 13)	-	-
<b>Net loss for the year</b>	<b>(368,192)</b>	<b>(539,855)</b>
<b>Deficit, beginning of year</b>	<b>(22,850,872)</b>	<b>(22,262,563)</b>
Dividends	(23,219,064) (47,707)	(22,802,418) (48,454)
<b>Deficit, end of year</b>	<b>\$ (23,266,771)</b>	<b>\$ (22,850,872)</b>
<b>Net loss per share - basic and fully diluted</b>	<b>\$ (0.011)</b>	<b>\$ (0.017)</b>
<b>Weighted average shares outstanding</b>	<b>32,257,606</b>	<b>31,800,977</b>

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

# ZTEST Electronics Inc.

## Consolidated Statement of Cash Flows for the year ended June 30

	2004	2003
<b>Cash flow from operating activities</b>		
Net loss for the year	\$ (368,192)	\$ (539,855)
Items not involving cash		
Amortization of capital assets	99,786	180,976
Dividends on preferred shares	102,397	104,638
Stock option compensation	1,845	-
Gain on disposal of capital and other assets	-	(175,487)
Interest accretion	17,270	-
Changes in non-cash working capital items		
Accounts receivable	(207,605)	(33,717)
Inventories	(56,127)	2,504
Prepaid expenses and other assets	(14,916)	21,398
Amounts receivable	-	58,710
Customer deposits	(22,251)	12,398
Accounts payable and accrued liabilities	196,082	146,690
	<b>(251,711)</b>	<b>(221,745)</b>
<b>Cash flow from investing activities</b>		
Purchase of capital assets	(20,013)	(145,046)
<b>Cash flow from financing activities</b>		
Repayments of capital lease obligations	(3,334)	(16,421)
Net proceeds on long-term debt and notes payable	302,920	382,240
	<b>299,586</b>	<b>365,819</b>
<b>Increase (decrease) in cash</b>	<b>27,862</b>	<b>(972)</b>
<b>Cash, beginning of year</b>	<b>8,226</b>	<b>9,198</b>
<b>Cash, end of year</b>	<b>\$ 36,088</b>	<b>\$ 8,226</b>

### Supplemental Disclosure of Cash Flow Information

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

Interest	\$ 178,676	\$ 95,517
Income taxes	\$ -	\$ -

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

# ZTEST Electronics Inc.

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## Notes to Consolidated Financial Statements

June 30, 2004 and June 30, 2003

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### 1. Business of the Company

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ZTEST Electronics Inc. ("the Company") amalgamated under the laws of Ontario and carries on business, designing, developing, manufacturing and selling circuit boards and other electronic equipment. The Company's shares trade on the Canadian Venture Exchange ("CDNX") under the symbol "ZTE".

### 2. Significant Accounting Policies

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#### Going concern basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. This assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. 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 June 30, 2004 the Company has incurred losses and has a deficit, to date, of \$23,266,771.

#### Basis of consolidation

These 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)

#### 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 June 30, 2004 and June 30, 2003 there were no cash equivalents on hand.

#### Inventories

Inventories are valued at the lower of cost and replacement cost. Cost is determined on the first-in, first-out basis.

#### Capital assets

Capital assets are 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 used in the year of acquisition:

Computer software	-	100	%	declining balance
Computer equipment	-	30	%	declining balance
Office equipment and furniture	-	20	%	declining balance
Manufacturing equipment	-	20	%	declining balance
Leasehold improvements	-	10	yrs	straight line

#### Investments

Investments in entities over which the Company has significant influence but not control are accounted for under the equity method of accounting. Investments in entities over which the Company has neither significant influence nor control are accounted for under the cost method. The Company currently has investments in three 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 \$1 and any further recoveries, should any arise, will be accounted for on a cash basis.

#### Financial instruments

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximates their fair value due to the short-term maturities of these instruments.

## 2. Significant Accounting Policies - continued

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### **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 income tax assets, including unused tax losses, are recognized subject to a valuation allowance, to the extent that it is more likely than not that such losses will be ultimately 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.

### **Earnings per share**

Basic earnings (loss) per share are calculated using the weighted average number of common shares outstanding throughout the year. Diluted earnings (loss) per share are computed using the treasury stock method. Stock options and warrants outstanding are not included in the computation of diluted earnings (loss) 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.

### **Use of estimates**

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. 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 granted during the year.

### **Stock based compensation**

The Company has in effect a Stock Option Plan. Stock options awarded to non-employees on or after July 1, 2002 are accounted for using the fair value-based method. Stock options awarded to employees on or after July 1, 2003 are accounted for using the fair value-based method as described in note 12. For stock options awarded to employees prior to July 1, 2003, pro forma disclosure of net earnings (loss), pro forma basic earnings (loss) per share and pro forma diluted earnings (loss) per share were provided as if these awards were accounted for using the fair value-based method. Fair value is calculated using the Black Scholes model with the assumptions described in note 12. Consideration paid on the exercise of stock options is credited to share capital.

# ZTEST Electronics Inc.

## Notes to Consolidated Financial Statements

June 30, 2004 and June 30, 2003

### 3. Change in Accounting Policies

#### *Stock-based compensation plans*

Effective July 1, 2003, the Company prospectively adopted the fair value-based method for stock-based compensation in accordance with the recommendations of Section 3870 "Stock-Based Compensation and Other Stock-Based Payments", issued by the CICA. Previously, no compensation expense was recognized for stock options granted to employees. Under the new policy, compensation expense for employee stock options is accounted for using the fair value-based method as described in note 2. The impact to net income (loss) during 2004 and contributed surplus at June 30, 2004 as a result of the change in accounting policy was \$1,730.

### 4. Inventories

	2004	2003
Raw materials and supplies	\$ 83,646	\$ 43,233
Work in process	41,320	16,595
Finished goods	1,378	10,389
	<b>\$ 126,344</b>	<b>\$ 70,217</b>

### 5. Amounts Receivable

	2004	2003
Demand promissory notes bearing interest at 9.5% per annum with no fixed maturity dates.	\$ -	\$ 7,290
Less: Current portion	-	7,290
	<b>\$ -</b>	<b>\$ -</b>

### 6. Capital Assets

			2004	2003
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer software	\$ 34,269	\$ 34,269	\$ -	\$ -
Computer equipment	258,307	242,514	15,793	20,519
Office equipment and furniture	114,847	95,317	19,530	24,410
Manufacturing equipment	983,165	631,237	351,928	415,994
Leasehold improvements	61,003	19,609	41,394	47,495
	<b>\$ 1,451,591</b>	<b>\$ 1,022,946</b>	<b>\$ 428,645</b>	<b>\$ 508,418</b>



# ZTEST Electronics Inc.

## Notes to Consolidated Financial Statements

June 30, 2004 and June 30, 2003

### 7. Investments and Advances

The Company holds various securities in the following entities, each of which has been written down to its net realizable value as they are no longer operational nor do they possess any tangible security to be acted upon:

	2004	2003
<b>Dion Entertainment Corp.</b>		
2,153,973 common shares and a debenture having a face value of \$3,574,522 which is in default.	\$ 1	\$ 1
<b>Nexsys Commtech International Inc.</b>		
5,480,314 common shares and 1,830,000 preferred shares representing a 43% voting interest. The Company also holds 4,750,000 warrants and has granted an option on 400,000 shares of Nexsys to a creditor.	-	-
<b>Uniqrypt.Com Inc.</b>		
1,900,500 common shares representing a 10.0% investment and a convertible debenture having a face value of \$318,000, which is in default.	1	1
<b>Med-Minder Enterprises Inc.</b>		
100,000 shares representing a 2.4% investment and a \$120,000 amount receivable for which the Company provided notice of intent to convert but never received the requisite shares.	1	1
<b>Chessen Group Inc.</b>		
1,705,871 Class A Preference shares.	1	1
	<b>\$ 4</b>	<b>\$ 4</b>

### 8. Notes Payable and Other Advances

			2004	2003
<u>Interest</u>	<u>Security</u>	<u>Terms</u>		
Nil	Unsecured	No repayment terms	\$ 2,000	\$ 2,000
Prime + 2%	Unsecured	No repayment terms <sup>(1)</sup>	57,692	57,692
6%	Unsecured	On demand	16,767	16,767
8%	Unsecured	No repayment terms <sup>(2)</sup>	96,430	79,545
8.5%	Unsecured	No repayment terms <sup>(3)</sup>	41,744	38,345
10%	Unsecured	No repayment terms <sup>(1)</sup>	10,922	-
12%	Unsecured	No repayment terms <sup>(4)</sup>	52,639	-
12%	Unsecured	No repayment terms <sup>(3)</sup>	8,500	-
14%	Unsecured	No repayment terms	15,000	-
16%	Unsecured	No repayment terms <sup>(1)</sup>	12,080	7,013
33%	Trade accounts receivable	Collection of security <sup>(5)</sup>	-	225,047
			<b>\$ 313,774</b>	<b>\$ 426,409</b>

(1) Payable to Officers of the Company and/or their spouses.

(2) Includes \$46,545 (2003-\$62,045) payable to Officers of the Company and/or their spouses.

(3) Payable to a company controlled by the spouse of a Director of the Company.

(4) Includes \$25,139 (2003-\$Nil) payable to Officers of the Company and/or their spouses.

(5) Payable to a corporation that is a shareholder of the Company and whose President is a Director of the Company. This note was converted into a term loan as at the balance sheet date.

# ZTEST Electronics Inc.

## Notes to Consolidated Financial Statements

June 30, 2004 and June 30, 2003

### 9. Long-Term Debt

	2004	2003
Bank loan matured October 2003.	\$ -	\$ 14,972
Convertible debentures matured December 2003. <sup>(1)</sup>	-	599,500
Convertible debentures matured February 2004. <sup>(2)</sup>	-	300,000
Convertible debentures matured May 2004. <sup>(3)</sup>	-	120,000
Convertible debentures maturing July 2004. <sup>(4)</sup>	-	56,000
Convertible debentures maturing September 2004. <sup>(5)</sup>	-	65,000
Convertible debentures bearing interest at 8% mature October 2004. <sup>(6)</sup>	-	80,000
Convertible debenture bearing interest at 8% matures January 2005. Monthly interest payments are required. Convertible, in whole or in part, into common shares of the Company at the rate of one common share for each \$0.05 converted. The holder also received 2,000,000 share purchase warrants which expired during the year.	<b>100,000</b>	100,000
Convertible non-interest bearing debentures with a face value of \$918,889 mature December 2006. Convertible, in whole or in part, into units of the Company at the rate of one unit for each \$0.10 converted on or before December 1, 2005 or one unit for each \$0.11 converted thereafter. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to acquire an additional common share for \$0.10 if conversion occurs on or before December 1, 2005 or for \$0.11 otherwise. Warrants expire on the earlier of 2 years from the date of conversion and December 1, 2006. <sup>(7)</sup>	<b>863,507</b>	-
Convertible non-interest bearing debentures with a face value of \$222,292 mature December 2005. 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 on or before December 1, 2005.	<b>213,810</b>	-
Convertible non-interest bearing debentures with a face value of \$78,538 mature December 1, 2005. Convertible, in whole or in part, into common shares of the Company at the rate of one common share for each \$0.10 converted. <sup>(8)</sup>	<b>76,998</b>	-
Term loan bearing interest at the TD Canada Trust prime rate plus 14.3%, is secured by a general security agreement, and matures June 30, 2008. Monthly payments of interest only are required until July 2005 when blended monthly principal and interest payments of \$13,138 are required. <sup>(9)</sup>	<b>363,145</b>	-
Note payable bears interest at 8.5% with no fixed maturity date. Blended monthly payments of \$947 are required. <sup>(10)</sup>	<b>25,186</b>	30,000
	<b>1,642,646</b>	1,365,472
Less: Current portion	<b>109,594</b>	1,040,051
	<b>\$ 1,533,052</b>	<b>\$ 325,421</b>

The liability component of the convertible debt is calculated by present valuing the cash flows at an interest rate applicable to non-convertible debt. The equity value of the convertible debt is comprised of the fair value of the conversion options and the warrants. The carrying value for each component is recognized on a pro rata basis based on their relative fair values. The equity portion of the convertible debt is accreted over its term to the full face value by charges to interest expense.

# ZTEST Electronics Inc.

## Notes to Consolidated Financial Statements

June 30, 2004 and June 30, 2003

### 9. Long-Term Debt - continued

The components of the convertible debentures issued during the year are as follows:

Convertible debentures at face value	\$ 1,219,719
Equity portion of convertible debt	(82,674)
Equity accretion	17,270
	<u>\$ 1,154,315</u>

The future minimum principal repayments are as follows:

2005	\$ 109,594
2006	406,519
2007	983,271
2008	143,262
	<u>\$ 1,642,646</u>

- (1) During the current period debentures valued at \$566,375, including \$16,375 payable to Officers of the Company and/or their spouses, were rolled into new debentures. The balance of \$33,125 was converted into 301,136 common shares and 301,136 share purchase warrants.
- (2) During the current period debentures valued at \$300,000, including \$43,750 payable to Officers of the Company and/or their spouses, were rolled into new debentures.
- (3) During the current period debentures valued at \$120,000 were rolled into new debentures.
- (4) During the current period debentures valued at \$56,000, including \$21,000 payable to Officers of the Company and/or their spouses, were rolled into new debentures.
- (5) During the current period debentures valued at \$65,000 were rolled into new debentures.
- (6) During the current period debentures valued at \$60,000, including \$25,000 payable to Officers of the Company and/or their spouses, were rolled into new debentures. The balance of \$20,000 was converted into 200,000 common shares and 200,000 share purchase warrants.
- (7) Initially included debentures with a face value of \$113,888 payable to Officers of the Company and/or their spouses. However, a debenture valued at \$23,875 was converted into 238,743 common shares and 238,743 share purchase warrants prior to year end.
- (8) Includes debentures with a face value of \$5,938 payable to Officers of the Company and/or their spouses.
- (9) Payable to a corporation that is a shareholder of the Company and whose President is a Director of the Company.
- (10) Payable to a company controlled by the spouse of a Director of the Company.

### 10. Obligations Under Capital Lease

	2004	2003
Capital lease bearing interest at 14.31%, matured September 2003. Blended monthly payments of \$113 were required.	\$ -	\$ 223
Capital lease bearing interest at 9.8%, matures January 2005. Blended monthly payments of \$289 are required.	<u>1,971</u>	<u>5,082</u>
	<u>1,971</u>	5,305
Less: Current portion	<u>1,971</u>	<u>3,334</u>
	<u>\$ -</u>	<u>\$ 1,971</u>

# ZTEST Electronics Inc.

## Notes to Consolidated Financial Statements

June 30, 2004 and June 30, 2003

### 11. Commitments

#### Operating leases

Minimum payments under operating leases for premises and office equipment are approximately as follows:

2005	\$ 124,830
2006	101,103
2007	104,121
2008	105,630
2009	108,648
Thereafter	181,080
	<u>\$ 725,412</u>

### 12. 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.

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

Series A redeemable, voting <sup>(1)</sup> shares were to be repurchased on May 21, 2004. Negotiations as to a means of settlement are ongoing.

Series B non voting shares may no longer be issued. All previously issued shares in this series have been converted into common shares.

Series C redeemable, voting <sup>(1)</sup> shares bear cumulative monthly dividends payable at a rate of 7% per annum 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 1.7143 Series C shares until May 2007.

Series D redeemable, voting <sup>(1)</sup> shares bear cumulative monthly dividends payable at a rate of 7% per annum 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 1.6432 Series D shares until June 2007.

<sup>(1)</sup> All preferred shares carry the right to vote at the 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, Series C, and Series D shares were all at least 12 months in arrears.

#### (b) Issued

	Number of Shares	Amount
Common shares June 30, 2002	31,772,210	\$ 19,422,287
Options exercised	60,000	12,600
Common shares June 30, 2003	31,832,210	19,434,887
Historical rounding errors corrected by transfer agent	1,427	-
Debentures converted by Officers and/or their spouses	739,879	77,000
Settlement of accounts payable to Directors	157,500	15,750
Common shares June 30, 2004	32,731,016	19,527,637
Class A special shares June 30, 2003 and 2004	1,193,442	100,000
Balance June 30, 2004		<u>\$ 19,627,637</u>
<b>First Preferred Shares</b>		
Balance June 30, 2003 and June 30, 2004	-	<u>\$ 1,471,908</u>

# ZTEST Electronics Inc.

## Notes to Consolidated Financial Statements

June 30, 2004 and June 30, 2003

### 12. Share Capital - continued

#### (c) Details of warrants outstanding are as follows:

Number of Warrants	Price/Warrant	Expiry Date
100,000	\$0.10	August 16, 2004
238,743	\$0.10	February 23, 2006
338,743		

During the year 3,379,469 warrants expired and 739,979 new warrants were issued upon conversion of debentures. The 100,000 warrants with an August 16, 2004 expiry date expired without being exercised subsequent to the balance sheet date. The 338,743 warrants outstanding are all held by Officers of the Company and/or their spouses.

#### (d) Details of options outstanding are as follows:

Common Shares Under Option	Price/Option	Expiry Date
150,000 <sup>(1)</sup>	\$2.95	November 22, 2004
60,000	\$0.21	April 1, 2005
150,000	\$2.35	June 19, 2005
45,000 <sup>(1)</sup>	\$2.35	August 16, 2005
260,500 <sup>(1)</sup>	\$0.89	January 23, 2006
30,000	\$0.89	January 23, 2006
100,000 <sup>(1)</sup>	\$0.17	November 27, 2006
900,000 <sup>(1)</sup>	\$0.24	February 19, 2007
200,000 <sup>(1)</sup>	\$0.135	April 30, 2007
900,000 <sup>(1)</sup>	\$0.10	December 17, 2007
950,000 <sup>(1)</sup>	\$0.12	December 18, 2008
150,000	\$0.12	December 18, 2008
3,895,500		

<sup>(1)</sup> Directors and/or Officers of the Company hold these options.

During the year a total of 79,500 options, including 20,000 held by Directors and/or Officers, expired, no options were exercised, and 1,100,000 new options were granted including 950,000 that were issued to Directors and/or Officers.

#### (e) Stock based compensation:

The fair value of stock options granted during the year has been determined to be \$1,845 using the Black-Scholes model for pricing options. The amount has been included in selling, general and administrative expense and contributed surplus as at June 30, 2004.

The following weighted average assumptions were used to calculate the fair value of the options:

Dividend yield	NIL
Risk free interest rate	2.60%
Expected stock volatility	3.02%
Expected life	3 years

#### (f) Pro forma stock option disclosure:

The fair value of stock options issued after July 1, 2002 and before June 30, 2003 has been estimated at \$NIL using the Black-Scholes model for pricing options. As a result there are no changes to reported earnings as a result of the fair valuing of stock options. The following assumptions were used:

Dividend yield	NIL
Risk free interest rate	2.79%
Expected stock volatility	4.25%
Expected life	1 year

# ZTEST Electronics Inc.

## Notes to Consolidated Financial Statements

June 30, 2004 and June 30, 2003

### 13. Income Taxes

#### Provision for Income Taxes - Current

Income taxes vary from the amounts that would be computed by applying the composite federal and provincial statutory income tax rates for the following reasons:

	2004		2003	
Income taxes (recovery) at statutory rates	\$ (108,801)	(37.1)%	\$ (193,790)	37.6%
Decrease (increase) in income tax (recovery) resulting from:				
Expenses deducted in the accounts which have no corresponding deduction for tax purposes, primarily goodwill, amortization, and loss on decline in value of investments	73,011	24.9%	24,638	4.8%
Other temporary differences	-	0.0%	(19,281)	(3.7)%
Non-deductible amounts	56	0.0%	1,668	0.3%
	(35,734)	(12.2)%	(186,765)	39.0%
Benefit of tax losses and investment tax credits not recognized (utilized)	35,734	12.2%	186,765	39.0%
	\$ -	0.0%	\$ -	0.0%

#### 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:

	2004	2003
Other	\$ 4,473,956	\$ 4,475,441
Undepreciated capital cost	174,477	146,592
Non-capital losses	757,138	718,128
Capital losses	1,046,133	1,046,133
Future income tax assets, before valuation allowance	6,451,704	6,386,294
Valuation allowance	(6,451,704)	(6,386,294)
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 as follows:

Year	
2005	\$ 213,025
2006	32,617
2007	177,355
2008	381,579
2009	861,518
2010	439,852
2014	114,400
	\$ 2,220,346

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 approximately \$13,610,000 have been recorded in the accounts but have not yet been claimed for income tax purposes and capital losses of approximately \$6,136,000 are

# ZTEST Electronics Inc.

## Notes to Consolidated Financial Statements

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available indefinitely.

### 14. Related Party Transactions

The following related parties had transactions with the Company during the year or outstanding balances at the end of the year.

#### **Nu-Way Offerings Limited ("Nu-Way")**

A shareholder, whose President is a Director of the Company.

#### **1114377 Ontario Inc. ("1114377")**

A shareholder, that is controlled by the spouse of a Director of the Company.

#### **James Lalonde**

A director of Northern Cross Minerals Inc., a subsidiary of the Company.

<b>Description</b>	<b>Related Party</b>	<b>2004</b>	<b>2003</b>
Revenue - other	1114377	\$ -	\$ 17,361
Interest expense - other	Nu-Way	\$ 97,997	\$ 47,529
Interest expense - long term	1114377	\$ 5,959	\$ 28,935
Interest expense - other	1114377	\$ 61	\$ -
Interest expense -long term	Directors/Officers	\$ 6,102	\$ 12,768
Interest expense -other	Directors/Officers	\$ 12,149	\$ 137
Consulting fees expense	James Lalonde	\$ -	\$ 8,100

Revenues, expenses and year 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.

### 15. Segment Disclosure

The Company has one operating segment, being the designing, developing, manufacturing and selling of electronic equipment. All of the Company's assets are located in Canada.

### 16. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

### 17. Subsequent Events

In August 2004, the Company elected to foreclose on a loan receivable due from its inactive subsidiary Northern Cross Minerals Inc. ("Northern Cross") and exercised its rights under a GSA covering all of the assets of Northern Cross. The only assets of Northern Cross are options/rights to various mining properties. The Company intends to keep the options/rights in good standing until a sale can be facilitated.