

**ZTEST Electronics Inc.**

**Unaudited Interim Consolidated Financial Statements**

**December 31, 2003**

**ZTEST Electronics Inc.**

Unaudited Interim Consolidated Balance Sheet  
(Canadian Dollars)  
December 31, 2003

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	<u>Dec. 31, 2003</u>	<u>June 30, 2003</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 75,039	\$ 8,226
Accounts receivable (Note 6)	279,095	284,717
Inventories	100,788	70,217
Prepaid expenses and other assets	39,433	30,592
Amounts receivable (Note 3)	<u>-</u>	<u>7,290</u>
	494,355	401,042
Capital assets	477,104	508,418
Investments and advances	<u>4</u>	<u>4</u>
	<u>\$ 971,463</u>	<u>\$ 909,464</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Customer deposits	\$ 28,986	\$ 24,835
Accounts payable and accrued liabilities	1,127,214	969,865
Current portion of long-term debt (Note 4)	19,192	1,040,051
Current portion of lease obligation (Note 5)	3,267	3,334
Notes payable and other advances (Note 6)	<u>496,644</u>	<u>388,064</u>
	1,675,303	2,426,149
Long-term debt (Note 4)	1,364,092	325,421
Obligations under capital lease (Note 5)	297	1,971
Preferred shares	<u>1,471,908</u>	<u>1,471,908</u>
	<u>4,511,600</u>	<u>4,225,449</u>
Commitments	-	-
<b>Deficiency in assets</b>		
Share Capital (Note 7)	19,578,127	19,534,887
Deficit	<u>(23,118,264)</u>	<u>(22,850,872)</u>
	<u>(3,540,137)</u>	<u>(3,315,985)</u>
	<u>\$ 971,463</u>	<u>\$ 909,464</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>2003</u> 3 months	<u>2003</u> 6 months	<u>2002</u> 3 months	<u>2002</u> 6 months
<b>Revenue</b>				
Design services	\$ 6,477	\$ 13,712	\$ 3,300	\$ 3,300
Product sales	562,236	1,039,820	445,691	792,180
Interest and other	<u>5,782</u>	<u>7,544</u>	<u>10,320</u>	<u>17,549</u>
	<u>574,495</u>	<u>1,061,076</u>	<u>459,311</u>	<u>813,029</u>
<b>Expenses</b>				
Amortization of capital assets	9,978	20,238	12,371	25,073
Cost of product sales	363,098	731,904	356,386	649,736
Dividends on preferred shares	26,053	52,364	26,310	52,621
Interest expense - long term	24,645	59,616	51,779	103,045
Interest expense - other	26,295	52,903	31,905	37,970
Selling, general and administrative	<u>201,010</u>	<u>387,209</u>	<u>160,267</u>	<u>383,562</u>
	<u>651,119</u>	<u>1,304,234</u>	<u>639,018</u>	<u>1,252,007</u>
<b>Loss from operations</b>	(76,624)	(243,158)	(179,707)	(438,978)
Other income or deductions	-	-	-	-
<b>Loss before provision for income taxes</b>	(76,624)	(243,158)	(179,707)	(438,978)
Provision for income taxes	-	-	-	-
<b>Loss for the period</b>	(76,624)	(243,158)	(179,707)	(438,978)
<b>Deficit, beginning of period</b>	(23,029,587)	(22,850,872)	(22,534,015)	(22,262,563)
Dividends on preferred shares	<u>(12,053)</u>	<u>(24,234)</u>	<u>(12,181)</u>	<u>(24,362)</u>
<b>Deficit, end of period</b>	<u>\$ (23,118,264)</u>	<u>\$ (23,118,264)</u>	<u>\$ (22,725,903)</u>	<u>\$ (22,725,903)</u>
<b>Net (loss) earnings per share</b>	<u>\$ (0.0024)</u>	<u>\$ (0.0076)</u>	<u>\$ (0.0057)</u>	<u>\$ (0.0138)</u>
<b>Weighted average shares outstanding</b>	<u>31,952,551</u>	<u>31,895,433</u>	<u>31,772,210</u>	<u>31,772,210</u>

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

**ZTEST Electronics Inc.**Unaudited Interim Consolidated Statement of Cash Flow  
(Canadian Dollars)  
For the Periods Ended December 31

	<u>2003</u> 3 months	<u>2003</u> 6months	<u>2002</u> 3 months	<u>2002</u> 6 months
<b>Cash flow from operating activities</b>				
Net (loss) for the period	\$ (76,624)	\$ (243,158)	\$ (179,707)	\$ (438,978)
Items not involving cash				
Amortization of capital assets	25,268	49,327	48,183	94,538
Dividends on preferred shares	26,053	52,364	26,310	52,621
Stock option compensation	115	115	-	-
Changes in non-cash working capital items:				
Accounts receivable	(42,604)	5,622	48,185	64,379
Inventories	(27,527)	(30,571)	7,167	(24,060)
Prepaid expenses and other assets	(6,543)	(8,841)	1,972	17,100
Customer deposits	4,904	4,151		
Accounts payable	279	88,041	84,369	384,931
	<u>(96,679)</u>	<u>(82,950)</u>	<u>10,169</u>	<u>97,910</u>
<b>Cash flow from investing activities</b>				
Purchase of capital assets	<u>(2,061)</u>	<u>(18,013)</u>	<u>-</u>	<u>(142,359)</u>
<b>Cash flow from financing activities</b>				
Capital lease obligation	(780)	(1,741)	(54,806)	(87,091)
Proceeds of long-term debt and notes payable	197,759	210,707	96,351	229,500
Repayment of long-term debt and notes payable	<u>(26,735)</u>	<u>(41,190)</u>	<u>(33,394)</u>	<u>(54,611)</u>
	<u>170,244</u>	<u>167,776</u>	<u>8,151</u>	<u>87,798</u>
<b>Increase in cash</b>	71,504	66,813	18,320	43,349
<b>Cash, beginning of period</b>	<u>3,535</u>	<u>8,226</u>	<u>34,227</u>	<u>9,198</u>
<b>Cash, end of period</b>	<u>\$ 75,039</u>	<u>\$ 75,039</u>	<u>\$ 52,547</u>	<u>\$ 52,547</u>

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

## ZTEST Electronics Inc.

### Notes to the Unaudited Interim Consolidated Financial Statements December 31, 2003

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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, 2003.

These financial statements include certain disclosures pertaining to the financial position of the company as at December 31, 2003 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 30, 2003.

#### 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 Amounts receivable

	<u>Dec. 31, 2003</u>	<u>June 30, 2003</u>
Demand promissory notes bearing interest at 9.5% per annum with no fixed maturity dates.	\$ -	\$ 7,290
Less: current portion	<u>-</u>	<u>7,290</u>
	<u>\$ -</u>	<u>\$ -</u>

#### NOTE 4 Related Party Transactions

During the six month period ended December 31, 2003 the Company reported the following revenues and expenses resulting from transactions with related parties:

<u>Description</u>	<u>Related Party</u>	<u>Amount</u>
Interest expense	Nu-Way	\$ 41,019
Interest expense	1114377	\$ 3,054
Interest expense	Directors/Officers	\$ 11,908

**ZTEST Electronics Inc.**Notes to the Unaudited Interim Consolidated Financial Statements  
December 31, 2003

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**NOTE 5    Long-term Debt**

	<u>Dec. 31, 2003</u>	<u>June 30, 2003</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	\$ -	\$ 14,972
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 on or before Dec 3, 2003. The Company may redeem these debentures, in whole or in part. <sup>(1)</sup>	-	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 \$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. <sup>(2)</sup>	-	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. <sup>(3)</sup>	-	120,000
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>(4)</sup>	-	56,000

**ZTEST Electronics Inc.**Notes to the Unaudited Interim Consolidated Financial Statements  
December 31, 2003

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**NOTE 5    Long-term Debt (Continued)**

Convertible debentures bearing interest at 8% and mature Sept. 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 Mar. 9, 2004. <sup>(5)</sup>	-	65,000
Convertible debentures bearing interest at 8% and mature Oct. 25, 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 Apr. 25, 2004. <sup>(6)</sup>	10,000	80,000
Convertible debenture bears interest at 8% and matures Jan 31, 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 entitles them to acquire an additional common share for \$0.10 on or before Jan 31, 2004.	100,000	100,000
Convertible non-interest bearing debentures mature Dec. 1, 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 Dec 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 occurred on or before Dec.1, 2005 or for \$0.11 otherwise. Warrants expire on the earlier of 2 years from the date of conversion and Dec 1, 2006. <sup>(7)</sup>	942,764	-
Convertible non-interest bearing debentures mature Dec. 1, 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 Dec 1, 2005.	222,292	-

**ZTEST Electronics Inc.**Notes to the Unaudited Interim Consolidated Financial Statements  
December 31, 2003**NOTE 5 Long-term Debt (Continued)**

Convertible non-interest bearing debentures mature Dec. 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>	78,538	-
Note payable to a company controlled by the spouse of a Director of the Company, unsecured, interest at 8.5%. Blended monthly payments of \$947 are required.	<u>29,690</u>	<u>30,000</u>
	1,383,284	1,365,472
Less: current portion	<u>19,192</u>	<u>1,040,051</u>
	<u>\$ 1,364,092</u>	<u>\$ 325,421</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 and an additional \$33,125 payable to Officers of the Company and/or their spouses were converted.

(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, an additional \$10,000 payable to Officers of the Company and/or their spouses was converted, while the remaining \$10,000 payable to an officer of the Company was converted subsequent to the balance sheet date.

(7) Includes \$107,201 payable to Officers of the Company and/or their spouses.

(8) Includes \$5,938 payable to Officers of the Company and/or their spouses.

**NOTE 6 Obligations under capital lease**

	<u>Dec. 31, 2003</u>	<u>June 30, 2003</u>
Interest at 14.31%, matures Sept. 2003. Blended monthly payments of \$113 are required	-	223
Interest at 9.8%, matures Jan. 2005. Blended monthly payments of \$289 are required.	<u>3,564</u>	<u>5,082</u>
	3,564	5,305
Less: current portion	<u>3,267</u>	<u>3,334</u>
	<u>\$ 297</u>	<u>\$ 1,971</u>



**ZTEST Electronics Inc.**Notes to the Unaudited Interim Consolidated Financial Statements  
December 31, 2003**NOTE 7 Notes Payable**

<u>Interest</u>	<u>Security</u>	<u>Terms</u>	<u>Dec. 31, 2003</u>	<u>June 30, 2003</u>
6.0%	Unsecured	On Demand	\$ 16,767	\$ 16,767
8.0%	Unsecured	None	4,885	17,500
0.0%	Unsecured	None	2,000	2,000
33.0%	Accts Receivable	Collection of A/R*	348,613	225,047
8.0%	Unsecured	On Demand*	45,545	62,106
10.0%	Unsecured	Due Aug 31, 2004*	10,922	-
16.0%	Unsecured	None*	10,220	6,952
P+2.0%	Unsecured	None*	57,692	57,692
			<u>\$ 496,644</u>	<u>\$ 388,064</u>

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

**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, redeemable, voting <sup>(1)</sup> shares with 8% cumulative dividends payable monthly. These shares can be converted into common shares at a rate of 1 common share for each 1.40625 Series A shares until May 2004 at which time the Company must repurchase all remaining shares. Series C, redeemable, voting <sup>(1)</sup> shares with 7% cumulative dividends payable monthly. These shares can be converted into common shares at a rate of 1 common share for each 1.4286 Series C shares until May 1, 2004 and then at a rate of one common share for each 1.7143 Series C shares until May 1, 2007 at which time the Company must repurchase all remaining shares. Series D, redeemable, voting <sup>(1)</sup> shares with 7% cumulative dividends payable monthly. These shares can be converted into common shares at a rate of 1 common share for each 1.40845 Series D shares until June 1, 2004 and then at a rate of one common share for each 1.6432 Series D shares until June 1, 2007 at which time the Company must repurchase all remaining shares.

<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.

**ZTEST Electronics Inc.**Notes to the Unaudited Interim Consolidated Financial Statements  
December 31, 2003

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

	<b><u>Number</u></b>	<b><u>Value</u></b>
Common shares	31,832,210	19,434,887
Paid in capital related to stock option compensation		115
Shares issued on conversion of debentures	<u>401,136</u>	<u>43,125</u>
	<u>32,233,346</u>	19,478,237
Class A Special shares - unchanged	<u>1,193,442</u>	<u>100,000</u>
		<u>\$ 19,578,127</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>
2,000,000 <sup>(1)</sup>	\$0.10	Jan 31, 2004
100,000	\$0.10	June 2, 2004

During the period ended December 30, 2003 100,000 warrants were issued to an Officer of the Company upon conversion of a debenture and 1,078,333 warrants expired without being exercised. In addition 2,000,000 <sup>(1)</sup> warrants have expired subsequent to the balance sheet date.

**(D) Details of options outstanding are as follows:**

<b><u>Number of Options</u></b>	<b><u>Exercise Price</u></b>	<b><u>Expiry Date</u></b>
16,000	\$0.85	Apr 14, 2004
36,000	\$4.40	June 30, 2004
150,000 <sup>(1)</sup>	\$2.95	Nov 22, 2004
60,000	\$0.21	Apr 1, 2005
150,000	\$2.35	June 19, 2005
45,000 <sup>(1)</sup>	\$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
900,000 <sup>(1)</sup>	\$0.10	Dec 17, 2007
950,000 <sup>(1)</sup>	\$0.12	Dec 17, 2008
<u>150,000</u>	<u>\$0.12</u>	<u>Dec 17, 2008</u>
<u>3,947,500</u>		

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

During the six month period ended December 31, 2003 a total of 27,500 options, including 20,000 that were held by Directors and/or Officers, expired without being exercised and 1,100,000 new options were granted, including 950,000 to Directors and/or Officers. The Company has determined that the fair value of the options granted, using the Black-Scholes model for pricing options, was \$2,530. \$115 relates to 50,000 options that were granted to a consultant and this has been recorded as compensation. The remaining \$2,415 relates to 1,050,000 options granted to employees, officers and directors for which the Company is not required to record compensation. The value was based upon a risk free interest rate of 2.6% and a stock volatility of 3.02%.