

ZTEST Electronics Inc.

Unaudited Interim Consolidated Financial Statements

March 31, 2004

ZTEST Electronics Inc.Unaudited Interim Consolidated Balance Sheet
March 31, 2004

	<u>Mar. 31, 2004</u>	<u>June 30, 2003</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 27,808	\$ 8,226
Accounts receivable (Note 4)	371,128	284,717
Inventories	93,766	70,217
Prepaid expenses and other assets	40,784	30,592
Amounts receivable (Note 3)	<u>-</u>	<u>7,290</u>
	533,486	401,042
Capital assets	454,367	508,418
Investments and advances	<u>4</u>	<u>4</u>
	<u>\$ 987,857</u>	<u>\$ 909,464</u>
Liabilities		
Current liabilities		
Operating loan (Note 4)	\$ 348,613	\$ 225,047
Customer deposits	9,916	24,835
Accounts payable and accrued liabilities	730,989	635,049
Dividends payable (Note 8)	449,108	334,816
Current portion of long-term debt (Note 5)	109,393	1,040,051
Current portion of lease obligation (Note 6)	2,777	3,334
Notes payable (Note 7)	<u>211,891</u>	<u>163,017</u>
	1,862,687	2,426,149
Long-term debt (Note 5)	1,237,788	325,421
Obligations under capital lease (Note 6)	-	1,971
Preferred shares	<u>1,471,908</u>	<u>1,471,908</u>
	<u>4,572,383</u>	<u>4,225,449</u>
Commitments	-	-
Deficiency in assets		
Share Capital (Note 8)	19,627,752	19,534,887
Deficit	<u>(23,212,278)</u>	<u>(22,850,872)</u>
	<u>(3,584,526)</u>	<u>(3,315,985)</u>
	<u>\$ 987,857</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
For the Periods Ended March 31

	<u>2004</u> 3 months	<u>2004</u> 9 months	<u>2003</u> 3 months	<u>2003</u> 9 months
Revenue				
Design services	\$ 5,749	\$ 19,461	\$ 7,725	\$ 11,025
Product sales	736,258	1,776,078	553,237	1,345,417
Interest and other	<u>3,345</u>	<u>10,889</u>	<u>8,107</u>	<u>25,656</u>
	<u>745,352</u>	<u>1,806,428</u>	<u>569,069</u>	<u>1,382,098</u>
Expenses				
Amortization of capital assets	9,915	30,153	12,285	37,358
Cost of product sales	522,484	1,269,118	393,341	1,043,077
Dividends on preferred shares	25,771	78,135	25,739	78,360
Interest expense - long term (Note 9)	4,228	63,844	50,896	153,941
Interest expense - other (Note 9)	37,876	90,779	15,861	53,831
Selling, general and administrative	<u>209,805</u>	<u>599,648</u>	<u>202,029</u>	<u>585,591</u>
	<u>810,079</u>	<u>2,131,677</u>	<u>700,151</u>	<u>1,952,158</u>
Loss from operations	(64,727)	(325,249)	(131,082)	(570,060)
Other income or deductions	-	-	-	-
Loss before provision for income taxes	(64,727)	(325,249)	(131,082)	(570,060)
Provision for income taxes	-	-	-	-
Loss for the period	(64,727)	(325,249)	(131,082)	(570,060)
Deficit, beginning of period	(23,135,628)	(22,850,872)	(22,725,903)	(22,262,563)
Dividends on preferred shares	<u>(11,923)</u>	<u>(36,157)</u>	<u>(12,782)</u>	<u>(37,144)</u>
Deficit, end of period	<u>\$ (23,212,278)</u>	<u>\$ (23,212,278)</u>	<u>\$ (22,869,767)</u>	<u>\$ (22,869,767)</u>
Net loss per share	<u>\$ (0.0029)</u>	<u>\$ (0.0082)</u>	<u>\$ (0.0041)</u>	<u>\$ (0.0179)</u>
Weighted average shares outstanding	<u>31,952,551</u>	<u>31,895,433</u>	<u>31,823,543</u>	<u>31,789,071</u>

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

ZTEST Electronics Inc.Unaudited Interim Consolidated Statement of Cash Flow
For the Periods Ended March 31

	<u>2004</u> 3 months	<u>2004</u> 9 months	<u>2003</u> 3 months	<u>2003</u> 9 months
Cash flow from operating activities				
Net (loss) for the period	\$ (64,727)	\$ (325,249)	\$ (131,082)	\$ (570,060)
Items not involving cash				
Amortization of capital assets	25,188	74,515	49,500	144,038
Dividends on preferred shares	25,771	78,135	26,310	52,621
Stock option compensation	-	115	-	-
Changes in non-cash working capital items:				
Accounts receivable	(92,033)	(86,411)	(92,952)	(28,573)
Inventories	7,022	(23,549)	(21,350)	(45,410)
Prepaid expenses and other assets	(1,351)	(10,192)	3,522	20,622
Customer deposits	(19,070)	(14,919)	-	-
Accounts payable	<u>13,575</u>	<u>118,980</u>	<u>(23,294)</u>	<u>278,736</u>
	<u>(105,625)</u>	<u>(188,575)</u>	<u>(215,656)</u>	<u>(200,647)</u>
Cash flow from investing activities				
Purchase of capital assets	<u>(2,451)</u>	<u>(20,464)</u>	<u>(756)</u>	<u>(143,115)</u>
Cash flow from financing activities				
Repayment of capital lease obligation	(787)	(2,528)	(1,029)	(5,219)
Proceeds of operating loan, long-term debt and notes payable	63,860	274,567	221,404	450,904
Repayment of long-term debt and notes payable	<u>(2,228)</u>	<u>(43,418)</u>	<u>(40,117)</u>	<u>(94,728)</u>
	<u>60,845</u>	<u>228,621</u>	<u>180,258</u>	<u>350,957</u>
(Decrease) increase in cash	(47,231)	19,582	(36,154)	7,195
Cash, beginning of period	<u>75,039</u>	<u>8,226</u>	<u>52,547</u>	<u>9,198</u>
Cash, end of period	<u>\$ 27,808</u>	<u>\$ 27,808</u>	<u>\$ 16,393</u>	<u>\$ 16,393</u>

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

ZTEST Electronics Inc.

Notes to the Unaudited Interim Consolidated Financial Statements March 31, 2004

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 March 31, 2004 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 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>Mar. 31, 2004</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 Operating Loan

The Company currently has access to and utilizes an operating loan that is provided by a corporation that is 50% owned by one of the Company's directors. This operating loan is secured by the Company's accounts receivable, bears interest at 29% per annum, and cannot exceed \$350,000.

ZTEST Electronics Inc.Notes to the Unaudited Interim Consolidated Financial Statements
March 31, 2004

NOTE 5 Long-term Debt

	<u>Mar. 31, 2004</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. ⁽¹⁾	-	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. ⁽²⁾	-	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. ⁽³⁾	-	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. ⁽⁴⁾	-	56,000

ZTEST Electronics Inc.

Notes to the Unaudited Interim Consolidated Financial Statements March 31, 2004

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. ⁽⁵⁾	-	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. ⁽⁶⁾	-	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, each of which entitles it 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. ⁽⁷⁾	918,889	-
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
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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. ⁽⁸⁾	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>27,462</u>	<u>30,000</u>
	1,347,181	1,365,472
Less: current portion	<u>109,393</u>	<u>1,040,051</u>
	<u>\$ 1,237,778</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 \$20,000 payable to Officers of the Company and/or their spouses was converted.
- (7) Includes \$107,201 payable to Officers of the Company and/or their spouses, of which \$23,875 has been converted.
- (8) Includes \$5,938 payable to Officers of the Company and/or their spouses.

NOTE 6 Obligations under capital lease

	<u>Mar. 31, 2004</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>2,777</u>	<u>5,082</u>
	2,777	5,305
Less: current portion	<u>2,777</u>	<u>3,334</u>
	<u>\$ -</u>	<u>\$ 1,971</u>

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

<u>Interest</u>	<u>Security</u>	<u>Terms</u>	<u>Mar. 31, 2004</u>	<u>June 30, 2003</u>
6.0%	Unsecured	On Demand	\$ 16,767	\$ 16,767
8.0%	Unsecured	None	24,385	17,500
12.0%	Unsecured	None	27,500	-
13.5%	Unsecured	None	15,000	-
0.0%	Unsecured	None	2,000	2,000
8.0%	Unsecured	On Demand*	45,545	62,106
10.0%	Unsecured	Due Aug 31, 2004*	10,922	-
16.0%	Unsecured	None*	12,080	6,952
P+2.0%	Unsecured	None*	<u>57,692</u>	<u>57,692</u>
			<u>\$ 211,891</u>	<u>\$ 163,017</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, under specific conditions that have not yet been achieved, 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⁽¹⁾ 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⁽¹⁾ 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⁽¹⁾ 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.

⁽¹⁾ 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 cumulative dividends accrued and unpaid on Series A, C and D shares amounted to \$449,108 and cover a period in excess of 12 months. Accordingly, each of these shares are currently classified as voting.

ZTEST Electronics Inc.Notes to the Unaudited Interim Consolidated Financial Statements
March 31, 2004

NOTE 8 Share Capital – Continued**(B) Issued during the period**

	<u>Number</u>	<u>Value</u>
Common shares	31,832,210	\$ 19,434,887
Paid in capital related to stock option compensation		115
Shares issued on settlement of accounts payable	157,500	15,750
Shares issued on conversion of debentures	<u>739,879</u>	<u>77,000</u>
	<u>32,729,589</u>	\$ 19,527,752
Class A Special shares - unchanged	<u>1,193,442</u>	<u>100,000</u>
		<u>\$ 19,627,752</u>

(C) Details of warrants outstanding are as follows:

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
100,000	\$0.10	June 2, 2004
100,000	\$0.10	Oct. 25, 2004
238,743	\$0.10	Feb. 22, 2006

During the period ended March 30, 2004 438,743 warrants were issued to Officers of the Company or their spouses upon conversion of debentures and 3,078,333 warrants expired without being exercised.

(D) Details of options outstanding are as follows:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
16,000	\$0.85	Apr 14, 2004
36,000	\$4.40	June 30, 2004
150,000 ⁽¹⁾	\$2.95	Nov 22, 2004
60,000	\$0.21	Apr 1, 2005
150,000	\$2.35	June 19, 2005
45,000 ⁽¹⁾	\$2.35	Aug 16, 2005
260,500 ⁽¹⁾	\$0.89	Jan 23, 2006
30,000	\$0.89	Jan 23, 2006
100,000 ⁽¹⁾	\$0.17	Nov 27, 2006
900,000 ⁽¹⁾	\$0.24	Feb 19, 2007
200,000 ⁽¹⁾	\$0.135	Apr 30, 2007
900,000 ⁽¹⁾	\$0.10	Dec 17, 2007
950,000 ⁽¹⁾	\$0.12	Dec 17, 2008
<u>150,000</u>	<u>\$0.12</u>	<u>Dec 17, 2008</u>
<u>3,947,500</u>		

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

ZTEST Electronics Inc.

Notes to the Unaudited Interim Consolidated Financial Statements March 31, 2004

NOTE 8 Share Capital – Continued

During the nine month period ended March 31, 2004 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 new 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 expense and added to the paid in capital of the common shares. The remaining \$2,415 relates to 1,050,000 options granted to employees, officers and directors for which the Company is not require to record compensation. The value was based upon a risk free interest rate of 2.6% and a stock volatility of 3.02%.

NOTE 9 Related Party Transactions

During the nine month period ended March 31, 2004 the Company reported the following amounts resulting from transactions with related parties:

<u>Description</u>	<u>Related Party</u>	<u>Amount</u>
Interest expense - other	Nu-Way ⁽¹⁾	\$ 71,831
Interest expense - other	1114377 ⁽²⁾	\$ 4,521
Interest expense - other	Directors/Officers ⁽³⁾	\$ 9,265
Interest expense - long term	Directors/Officers ⁽³⁾	\$ 6,085

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.

⁽¹⁾ Nu-Way Offerings Limited is a shareholder of the Company, and its President is a Director of the Company.

⁽²⁾ 1114377 Ontario Inc. is a shareholder of the Company, and it is controlled by the spouse of the Company's CEO

⁽³⁾ Includes Directors, Officers and/or their spouses.