

**ZTEST Electronics Inc.**  
**Consolidated Financial Statements**  
For the years ended June 30, 1999, 1998  
and 1997

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## Auditors' Report

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**To the Shareholders of  
ZTEST Electronics Inc.**

We have audited the consolidated balance sheets of ZTEST Electronics Inc. as at June 30, 1999, 1998 and 1997 and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the 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, 1999, 1998 and 1997 and the results of its operations and cash flows for the years then ended in accordance with generally accepted accounting principles in Canada.

"BDO Dunwoody LLP"

Chartered Accountants

Markham, Canada  
November 2, 1999

**ZTEST Electronics Inc.**  
**Consolidated Balance Sheets**

<b>June 30</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>
<b>Assets</b>			
<b>Current</b>			
Cash	\$ 143,419	\$ 129,538	\$ 264,648
Accounts receivable	1,312,344	464,909	69,868
Investment tax credits receivable	2,250	154,736	6,740
Inventories (Note 4)	409,349	602,298	341,008
Prepaid expenses and other assets	30,084	59,391	18,235
Current portion of amounts receivable (Note 8)	555,564	-	-
	<b>2,453,010</b>	<b>1,410,872</b>	<b>700,499</b>
<b>Funds held in trust</b> (Note 5)	<b>3,169</b>	<b>47,509</b>	<b>71,614</b>
<b>Amounts receivable</b> (Note 8)	<b>1,765,810</b>	<b>490,283</b>	<b>-</b>
<b>Capital assets</b> (Note 6)	<b>231,483</b>	<b>380,226</b>	<b>53,418</b>
<b>Deferred development costs</b> (Note 7)	<b>42,788</b>	<b>360,734</b>	<b>3,081</b>
<b>Investments and advances</b> (Note 11)	<b>195,302</b>	<b>1,291,302</b>	<b>841,593</b>
<b>Mineral properties</b> (Note 10)	<b>50,000</b>	<b>100,000</b>	<b>100,000</b>
<b>Goodwill</b> (Note 2)	<b>1,542,678</b>	<b>1,659,622</b>	<b>-</b>
	<b>\$ 6,284,240</b>	<b>\$ 5,740,548</b>	<b>\$ 1,770,205</b>

**Liabilities and Shareholders' Equity**

<b>Current</b>			
Accounts payable and accrued liabilities	\$ 982,368	\$ 719,147	\$ 139,239
Deferred income	510,028	146,572	-
Current portion of long-term debt (Note 9)	262,040	215,816	90,223
Current portion of lease obligation (Note 14)	13,364	11,900	-
Notes payable and other advances (Note 12)	650,113	487,476	327,164
	<b>2,417,913</b>	<b>1,580,911</b>	<b>556,626</b>
<b>Long-term debt</b> (Note 9)	<b>123,070</b>	<b>694,470</b>	<b>-</b>
<b>Obligation under capital lease</b> (Note 14)	<b>12,349</b>	<b>25,751</b>	<b>-</b>
<b>Preferred shares</b> (Note 13)	<b>442,078</b>	<b>-</b>	<b>-</b>
	<b>2,995,410</b>	<b>2,301,132</b>	<b>556,626</b>
<b>Non-controlling interest in subsidiary</b>	<b>223,648</b>	<b>-</b>	<b>-</b>
<b>Shareholders' equity</b>			
Share capital (Note 13)	6,171,198	5,867,175	3,032,155
Deficit	(3,106,016)	(2,427,759)	(1,818,576)
	<b>3,065,182</b>	<b>3,439,416</b>	<b>1,213,579</b>
	<b>\$ 6,284,240</b>	<b>\$ 5,740,548</b>	<b>\$ 1,770,205</b>

On behalf of the Board:

“Wojciech Drzazga” \_\_\_\_\_ Director

“Romuald Pawluczyk” \_\_\_\_\_ Director

**ZTEST Electronics Inc.**  
**Consolidated Statements of Operations and Deficit**

<b>For the years ended June 30</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>
<b>Revenue</b>			
Design services	\$ 170,695	\$ 395,436	\$ 511,997
Product sales	4,021,145	3,074,431	527,981
Other	331,831	206,738	245,944
	<u>4,523,671</u>	<u>3,676,605</u>	<u>1,285,922</u>
<b>Expenses</b>			
Amortization of capital assets	61,511	61,486	15,436
Amortization of deferred development costs	162,160	134,381	57,215
Amortization of goodwill	116,943	94,529	-
Cost of product sales	2,264,622	2,582,343	243,403
Dividends on preferred shares	4,313	-	-
Interest expense - long-term debt	121,484	93,633	-
- other	30,090	37,497	45,870
Selling, general and administrative	1,112,942	1,281,919	795,462
	<u>3,874,065</u>	<u>4,285,788</u>	<u>1,157,386</u>
<b>Income (loss) before under-noted items</b>	<b>649,606</b>	<b>(609,183)</b>	<b>128,536</b>
<b>Non-controlling interest in income of subsidiary</b>	<b>(223,648)</b>	<b>-</b>	<b>-</b>
<b>Loss on decline in value of investment (Note 19)</b>	<b>(879,215)</b>	<b>-</b>	<b>-</b>
<b>Loss on mineral properties (Note 10)</b>	<b>(50,000)</b>	<b>-</b>	<b>-</b>
<b>Share of loss of significantly influenced investment</b>	<b>(175,000)</b>	<b>-</b>	<b>(66,184)</b>
<b>Amortization of goodwill in significantly influenced investment</b>	<b>-</b>	<b>-</b>	<b>(598,816)</b>
<b>Loss before income taxes</b>	<b>(678,257)</b>	<b>(609,183)</b>	<b>(536,464)</b>
<b>Income taxes (Note 15)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net loss</b>	<b>(678,257)</b>	<b>(609,183)</b>	<b>(536,464)</b>
<b>Deficit, beginning of year</b>	<b>(2,427,759)</b>	<b>(1,818,576)</b>	<b>(1,282,112)</b>
<b>Deficit, end of year</b>	<b>\$ (3,106,016)</b>	<b>\$ (2,427,759)</b>	<b>\$ (1,818,576)</b>
<b>Net loss per share</b>	<b>\$ (0.04)</b>	<b>\$ (0.04)</b>	<b>\$ (0.04)</b>

The accompanying notes are an integral part of these financial statements

**ZTEST Electronics Inc.**  
**Consolidated Statements of Cash Flows**

<b>For the years ended June 30</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>
<b>Cash provided by (used in)</b>			
<b>Operating activities</b>			
Net loss	\$ (678,257)	\$ (609,183)	\$ (536,464)
Items not involving cash			
Amortization of capital assets	61,511	61,486	15,436
Amortization of deferred development costs	162,160	134,381	57,215
Amortization of goodwill	116,944	94,529	598,816
Provision (recovery) for uncollectibility of loan to 981542 Ontario Limited	-	-	(28,600)
Share of loss of significantly influenced investment	175,000	-	66,184
Non-controlling interest	237,977	-	-
Loss on decline in value of investment	879,215	-	-
Loss on abandonment of mining properties	50,000	-	-
Changes in non-cash working capital items excluding cash			
Accounts receivable	(997,435)	(314,351)	15,129
Investment tax credits receivable	189,584	217,189	125,873
Inventories	538,811	609,022	(39,758)
Prepaid expenses	29,306	72,748	99
Amounts receivable	(1,538,091)	(490,283)	-
Accounts payable and accrued liabilities	248,895	181,130	(166,866)
Deferred income	363,453	(571,803)	-
	<u>(160,927)</u>	<u>(615,135)</u>	<u>107,064</u>
<b>Investing activities</b>			
Funds held in trust	44,340	24,105	8,386
Deferred development costs	-	-	993
Purchase of capital asset (net)	(139,942)	(190,608)	(89)
Investments and advances	(101,215)	(449,709)	(1,025,592)
Net assets acquired on acquisition of Chessen U.V. Systems (net of cash)	-	(53,621)	-
	<u>(196,817)</u>	<u>(669,833)</u>	<u>(1,016,302)</u>
<b>Financing activities</b>			
Capital lease obligation	(11,938)	37,651	-
Advances (repayment) of long-term debt	(525,175)	421,062	(103,861)
Notes payable and other advances	162,637	(228,455)	847,038
Issuance of preferred shares	520,001	-	-
Issuance of common shares	226,100	919,600	426,400
	<u>371,625</u>	<u>1,149,858</u>	<u>1,169,577</u>
<b>Increase (decrease) in cash</b>	<b>13,881</b>	<b>(135,110)</b>	<b>260,339</b>
<b>Cash, beginning of year</b>	<u><b>129,538</b></u>	<u><b>264,648</b></u>	<u><b>4,309</b></u>
<b>Cash, end of year</b>	<b>\$ 143,419</b>	<b>\$ 129,538</b>	<b>\$ 264,648</b>

The accompanying notes are an integral part of these financial statements

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**ZTEST Electronics Inc.**  
**Notes to Consolidated Financial Statements**

**June 30, 1999, 1998 and 1997**

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**1. Summary of Significant Accounting Policies**

Nature of business

The Company amalgamated under the laws of Ontario and carries on business manufacturing, selling, designing and developing electronic equipment. The Company's shares trade on the Canadian Dealing Network Inc. under the symbol "ZTST".

Going concern basis of presentation

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada. 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, 1999 the Company has incurred losses and has a deficit, to date, of \$2,931,016

Basis of consolidation

These 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:

Northern Cross Minerals Inc.	- 100% owned
Chessen U.V. Systems Inc.	- 53% owned

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is generally determined on a first-in, first-out basis.

Capital assets

Capital assets are stated at cost less applicable government grants received.

Amortization is provided on capital assets using the declining balance method (except where noted) at annual rates based on their estimated useful lives as follows:

Computer software	100%	
Computer equipment	30%	
Leased manufacturing equipment	20%	
Leasehold improvements	20%	(Straight line)
Research and development equipment	20%	
Office equipment and furniture	20%	
Manufacturing equipment	20%	

One-half of the rates noted above are used in the year of acquisition.

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# ZTEST Electronics Inc.

## Notes to Consolidated Financial Statements

**June 30, 1999, 1998 and 1997**

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### 1. Summary of Significant Accounting Policies (continued)

#### Deferred development costs

Development costs relate to costs incurred in developing products for commercial production and the substantial improvement of that product subsequent to commencement of production. These development costs (net of government grants) are being amortized on a straight-line basis over 4 years.

#### Investments

Investments in entities over which the Company has significant influence but not control are accounted for under the equity method.

Investments in entities over which the Company has neither significant influence nor control are accounted for under the cost method.

Investments are accounted for on the following basis:

<u>Investment</u>	<u>Method</u>
Gametele Systems Inc.	Cost
Med-Minder Enterprises Inc.	Cost
Nexsys Commtech International Inc.	Equity
UNIQRYPYPT Technologies Inc.	Cost
Stewart Lake Resources Inc.	Cost

#### Goodwill

Goodwill represents the price paid for acquisitions in excess of the fair market value of net tangible assets acquired. The Company amortizes goodwill acquired in development stage enterprises entirely in the year of acquisition. Goodwill acquired in companies with existing commercial production is amortized on a straight-line basis over 15 years. The carrying value of goodwill is assessed annually by reviewing the estimated future undiscounted cash flows of the underlying businesses of the company. Any permanent impairment in the carrying value of goodwill is expensed in the period in which the assessment is made.

#### Mineral properties

The acquisition of mineral property interests are capitalized and deferred until such time as the properties are sold, brought into commercial production or abandoned. These costs will be amortized over the estimated productive life of the properties following commencement of commercial production or written off if abandoned or sold.

The recorded costs of mineral claims represent costs incurred and are not intended to reflect present or future values of the claims. The ultimate recovery of such capitalized costs is dependent upon the discovery and development of economic reserves or the sale of mineral rights.

#### Foreign currency translation

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.

#### Revenue recognition

Revenue is recorded when the service is completed and/or the product is delivered.

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**ZTEST Electronics Inc.**  
**Notes to Consolidated Financial Statements**

**June 30, 1999, 1998 and 1997**

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**1. Summary of Significant Accounting Policies** (continued)

Earnings per share

Basic earnings (loss) per share have been determined based upon the weighted average number of common shares issued and outstanding throughout the year. Fully diluted information is not presented, as it is anti-dilutive as a result of having incurred losses in each year.

Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from management's estimates.

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**2. Business Acquisition**

On September 9, 1997 ZTEST acquired 53.26% of the outstanding voting equity of Chessen U. V. Systems Inc. through the issuance of 1,202,835 common shares of ZTEST and 306,250 warrants. Following a re-pricing (see Note 13), each warrant may be exercised on or before November 30, 1999 to acquire a further common share of ZTEST at \$1.25. Chessen U. V. Systems Inc. is involved in the field of advanced surface engineering technologies.

The business combination was accounted for using the purchase method. The net assets acquired at fair market value were as follows:

Current assets	\$ 1,430,091
Deferred development costs	492,034
Capital assets	<u>158,172</u>
	2,080,297
Less: liabilities	<u>2,099,029</u>
Net deficiency of Chessen U.V. Systems Inc. assets acquired	18,732
Consideration paid: 1,020,835 common shares of ZTEST	<u>1,735,419</u>
Excess of purchase price over net assets – allocated to goodwill	<u>\$ 1,754,151</u>

	1999	1998	1997
Goodwill	<b>\$ 1,754,151</b>	\$ 1,754,151	\$ -
Less amortization	<u>211,473</u>	<u>94,529</u>	-
	<b><u>\$ 1,542,678</u></b>	<b><u>\$ 1,659,622</u></b>	<b><u>\$ -</u></b>

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**3. Financial Instruments**

Unless otherwise noted, the Company's financial instruments do not expose the Company to significant interest, currency or credit risks. Carrying values of financial instruments approximate fair values, except as described in Note 8.

**ZTEST Electronics Inc.**  
**Notes to Consolidated Financial Statements**

**June 30, 1999, 1998 and 1997**

**4. Inventories**

	1999	1998	1997
Raw materials and supplies	\$ 241,835	\$ 271,825	\$ 226,016
Work in process	160,101	138,205	93,739
Finished goods	7,413	192,268	21,253
	\$ 409,349	\$ 602,298	\$ 341,008

**5. Funds held in Trust**

Upon formation of the wholly owned subsidiary Northern Cross Minerals Inc. \$80,000 was loaned to it by ZTEST and the balance of these funds are held in trust. The loan is repayable January 1, 2000 and is secured by a general security agreement from Northern Cross.

**6. Capital Assets**

	1999		1998	1997
Cost	Accumulated Amortization	Net Book Value	Net Book Value	Net Book Value
Computer software	\$ 42,015	\$ 34,515	\$ 7,500	\$ 131
Computer equipment	211,313	191,971	19,342	10,276
Leased manufacturing equipment	39,513	11,065	28,448	-
Leasehold improvements	67,295	42,983	24,312	-
Office equipment and furniture	81,740	68,423	13,317	13,230
Research and development equipment	-	-	-	73,459
Manufacturing equipment	288,616	150,052	138,564	197,872
	\$ 730,492	\$ 499,009	\$ 231,483	\$ 380,226
			\$ 380,226	\$ 53,418

**7. Deferred Development Costs**

	1999	1998	1997
Balance, beginning of year	\$ 360,734	\$ 3,081	\$ 61,289
Costs acquired on acquisition of Chesson U.V. Systems Inc.	-	492,034	-
Less: Investment tax credits	37,098	-	(993)
	37,098	492,034	(993)
	323,636	495,115	60,296
Less: Transfer of costs to inventories	118,688	-	-
Amortization for the year	162,160	134,381	57,215
Balance, end of year	\$ 42,788	\$ 360,734	\$ 3,081

**ZTEST Electronics Inc.**  
**Notes to Consolidated Financial Statements**

**June 30 1999, 1998 and 1997**

**8. Amounts Receivable**

(See Note 17)

	1999	1998	1997
Amount receivable, non-interest bearing, unsecured and convertible into equity of the debtor until October 2001. <sup>(1)</sup>	\$ 120,000	\$ 324,632	\$ -
Loan receivable, interest at 12.0%, no fixed terms of repayment. 150,000 common shares of ZTEST have been pledged as security.	155,564	165,651	-
Non-current portion of accounts receivable, interest at 5.0%, unsecured, matures Dec. 2001. Blended monthly payments of \$41,480 are required. <sup>(2)</sup>	717,810	-	-
Convertible debenture, interest at prime plus 2.0%, secured by a general security agreement (GSA), matures Oct. 1999. Interest payments are required each April and October. May be converted at a rate of 1 common share of the debtor for each \$0.10 converted.	250,000	-	-
Loan to Nexsys, non-interest bearing and secured by the Nexsys July 1999 SR&ED tax credit refund	150,000	-	-
Convertible debenture, interest at 7.5%, secured by a GSA, matures March 2002. Monthly interest payments are required. May be converted at a rate of 1 common share of the debtor for each USD \$0.20 converted. <sup>(1)</sup>	318,000	-	-
Convertible debenture, interest at prime plus 2.0%, secured by a GSA, matures April 2002. Interest payments are required each April and October. May be converted at a rate of 1 common share of the debtor for each \$0.0833 converted.	250,000	-	-
Convertible debenture, interest at prime plus 2.0%, secured by a GSA, matures May 2002. Interest payments are required each May and November. May be converted at any time at a rate of 1 common share of the debtor for each \$0.30 converted.	360,000	-	-
	2,321,374	490,283	-
Less: current portion	555,564	-	-
	\$ 1,765,810	\$ 490,283	\$ -

<sup>(1)</sup> These receivables, amounting to \$438,000, represent receivables from companies which are in the early market development stage. The ultimate recoverability of these amounts is dependent upon these entities achieving adequate sales levels or obtaining additional financing. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amount.

<sup>(2)</sup> The fair value of this amount is approximately \$642,000.

**ZTEST Electronics Inc.**  
**Notes to Consolidated Financial Statements**

**June 30 1999, 1998 and 1997**

**9. Long-term Debt**

	1999	1998	1997
Bank loan, interest at prime plus 1 3/4%, matures Sept. 2000, secured by a general security agreement (GSA) on equipment and accounts receivable and personal guarantees of \$50,000 from each of two minority shareholders. Monthly principal payments of \$4,167 plus interest are required	\$ 62,479	\$ 112,483	\$ -
Bank loan, interest at 12.1%, matures Feb. 2003, secured by a GSA on property, subject to another creditor's priority of \$250,000 on equipment and \$1,000 on inventory and accounts receivable, and personal guarantees of \$50,000 from each of two minority shareholders. Monthly principal payments of \$1,250 plus interest are required.	55,000	70,000	-
Unsecured promissory note from former shareholder, non-interest bearing, matures Feb. 2000. Monthly payments of \$3,333 are required with interest at 30% on any overdue amounts.	64,561	60,000	-
Loan from former director of Chessen, unsecured, non-interest bearing, no fixed terms of repayment. The lender has stated the loan will not be repaid within the subsequent year.	6,000	6,000	-
Loans from non-controlling shareholders of Chessen, non-interest bearing, unsecured, no fixed terms of repayment and are subordinated to both the first and second loans noted above.	197,070	197,070	-
Loan, interest at Bank of Montreal prime rate plus 4%, secured by a GSA, subordinate to the first and second loans noted above, matures Mar. 2000. Monthly interest payments are required.	-	464,733	-
Bank loan, interest at 9.5%, matures April 1998. Blended monthly payments of \$5,410 are required.	-	-	90,223
	<b>385,110</b>	910,286	90,223
Less: current portion	<b>262,040</b>	215,816	90,223
Long-term debt	<b>\$ 123,070</b>	\$ 694,470	\$ -

The first loan is in default due to a subsidiary not maintaining specified liquidity levels as well as having not advised the lender of the September 1997 change in control. The second loan is in default due to a cross-default provision on the first loan. As a result of these defaults the lenders could demand immediate repayment and the related balances are consequently classified as current.

**ZTEST Electronics Inc.**  
**Notes to Financial Statements**

**June 30 1999, 1998 and 1997**

**10. Mineral Properties**

	1999	1998	1997
Mary Ann claims	\$ 50,000	\$ 50,000	\$ 50,000
Benson Creek option	-	50,000	50,000
	\$ 50,000	\$ 100,000	\$ 100,000

Mary Ann claims

The Company's subsidiary holds a 100% interest (95% in certain claims) in patented and unpatented mining claims located in Gautier and McVittie Townships, Ontario, subject to 1½% net smelter royalty reserved to the vendor. During the period to June 30, 1999, the Company complied with all of the terms of the option agreement and amendments.

Benson Creek option

The option on these properties came up for renewal during the current year and the Company opted not to renew them. In accordance with the Company's policy applicable to the abandonment of claims, the carrying value of this option has been charged against income of the current year.

**11. Investments and Advances**

	1999	1998	1997
Nexsys Commtech International Inc. (Nexsys) - 2,077,813 shares representing approximately a 30% voting interest.	\$ 66,185	\$ 66,185	\$ 66,185
Debenture, interest at 12.0%, unsecured, matures November 1999. Monthly interest payments are required.	175,000	-	-
Share of loss of significantly influenced investment	(241,184)	(66,184)	(66,184)
UNIQRYPY Technologies Inc. (UNIQRYPY) - 1,900,500 shares representing an 10.9% investment.	133,035	862,250	658,000
Advances to UNIQRYPY bear interest at prime plus 3% with no fixed terms of repayment. The advances are secured by a General Security Agreement (GSA).	-	378,858	183,591
Gametele Systems Inc. (Gametele) - 920,000 shares representing a 12.3% investment.	92	92	-
Loan to Gametele is unsecured, bears interest at prime plus 2% and is repayable March 2001. These advances are also convertible to common shares of Gametele at \$0.10 per share.	50,000	50,000	-
Med-Minder Enterprises Inc. (Med-Minder) - 100,000 shares representing a 2.4% investment.	100	100	-
Advances to Med-Minder are unsecured bearing interest at prime plus 2%.	12,073	-	-
Stewart Lake Resources Inc. - 515,834 shares The investment has been written down to nominal value	1	1	1
	\$ 195,302	\$ 1,291,302	\$ 841,593

**ZTEST Electronics Inc.**  
**Notes to Consolidated Financial Statements**

**June 30, 1999, 1998 and 1997**

**11. Investments and Advances (continued)**

- a) On January 23, 1997, the Company acquired a 46.5% interest in Nexsys for \$665,000 comprised of \$269,100 new funds and \$395,900 of advances from the prior year. The purchase included \$598,816 of goodwill, which was fully amortized in the year of acquisition. As at the current year-end, the Company's interest has been diluted to approximately 28%(1998 – 28%) of the voting shares of Nexsys. The Company's proportionate share of losses in Nexsys since the date of acquisition, in excess of amounts already recorded is approximately \$2.35 million. Income will not be recorded until these losses are recovered.

The Company also has the following warrants in Nexsys:

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
267,409	\$ 1.80	November 30, 1999
577,500	\$ 0.0001	November 1, 2001
77,777	\$ 2.25	November 1, 2001

The company has also granted an option on 400,000 common shares of Nexsys to a creditor in exchange for the extension of a loan. These options can be exercised for a period of two years after the common shares of Nexsys commence to trade on a recognized stock exchange in Canada.

- b) During the year the Company increased its interest in UNIQRYPYPT to 10.9% (1,900,500 common shares) through the conversion of \$150,000 in advances into 937,500 common shares. All of these shares were subsequently sold to Uniqrypt.Com Inc. (Note 18) for which the Company received 1,900,500 shares (10.0%) of Uniqrypt.Com.
- c) During the year the Company granted a conditional option on 400,000 common shares of Gametele to an associated entity in connection with a loan refinancing. These options, which will vest only if a creditor exercises options granted to it by the associated entity, carry an exercise price of \$0.40 per share and expire January 26, 2005.

400,000 options were also granted to an arm's length party as partial compensation for a private placement. This option gives the holder the right to purchase Gametele shares from the Company for \$0.375 per share any time up to November 28, 2000.

The Nexsys, Gametele, Med-Minder and Uniqrypt investments are in private corporations in the final product prototype and early market development stage with no quoted market values. It is not currently practicable to determine the fair value of Nexsys, Gametele, Med-Minder and Uniqrypt (Note 19) for these reasons.

**12. Notes Payable and Other Advances**

			<u>1999</u>	<u>1998</u>	<u>1997</u>
<u>Interest</u>	<u>Security</u>	<u>Terms</u>			
Various	Unsecured	Various	\$ 21,988	\$ 27,957	\$ 199,835
12%	Unsecured	No repayment terms	228,125	48,500	-
10%	GSA	Due Jan. 2000 <sup>(1)</sup>	400,000	400,000	-
Prime+2.5%	GSA	No repayment terms	-	11,019	-
6%	Unsecured	Due Aug. 1997	-	-	25,448
Prime+2%	Unsecured	No repayment terms	-	-	101,881
			<b>\$ 650,113</b>	<b>\$ 487,476</b>	<b>\$ 327,164</b>

<sup>(1)</sup> This loan can be converted into common shares of ZTEST until November 26, 1999 at a rate of 1 common share for each \$1.25 converted.

**ZTEST Electronics Inc.**  
**Notes to Consolidated Financial Statements**

**June 30, 1998 and 1997**

**13. Share Capital**

a) Authorized

An unlimited number of common shares

An unlimited number of non-voting, non-participating Class A special shares redeemable or retractable on a one-for-one basis for common shares of Northern Cross Minerals Inc., whose primary assets are Mineral Properties (Note 10).

An unlimited number of preferred shares in one or more series of which the following two 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 after May 21, 2000 and all outstanding shares must be repurchased on May 21, 2004. These shares can be converted into common shares of the Company on a 1:1 basis until November 2000, at a rate of 1 common share for each 1.25 Series A shares until May 2002, and then at a rate of 1 common share for each 1.40625 Series A shares until May 2004.

Series B non-voting shares bear cumulative monthly dividends payable at a rate of 8% per annum, are redeemable after May 28, 2000 and all outstanding shares must be repurchased on May 28, 2004. These shares can be converted into common shares of the Company on a 1:1 basis until November 2000, at a rate of 1 common share for each 1.2931 Series B shares until May 2002, and then at a rate of 1 common share for each 1.4224 Series B shares until May 2004.

b) Issued

	<b>Number of Shares</b>	<b>Amount</b>
Common shares June 30, 1996	11,167,469	\$ 1,608,046
Conversion of notes payable during the period	1,230,000	810,500
Conversion of advances during the period	93,012	87,209
New share issue	260,000	426,400
Common shares June 30, 1997	12,750,481	2,932,155
Conversion of notes payable during the period	150,000	180,000
New shares issued through exercise of warrants	400,000	240,000
New shares issued through exercise of options	400,000	369,600
New shares issued through private placement	200,000	310,000
Business acquisition (Note 2)	1,020,835	1,735,420
Common shares June 30, 1998	14,921,316	5,767,175
New shares issued through exercise of options	455,000	226,100
Paid in capital, First Preferred Shares	-	<u>77,923</u>
<b>Common shares June 30, 1999</b>	<b>15,376,316</b>	<b>6,071,198</b>
<b>Class A special shares June 30, 1997, 1998 and 1999</b>	<b>1,193,442</b>	<b>100,000</b>
<b>Balance June 30, 1999</b>		<b><u>\$ 6,171,198</u></b>
<b>First Preferred Shares</b>	<b><u>Number of Shares</u></b>	<b><u>Amount</u></b>
Series A shares subscribed for during year	375,001	<b>\$ 360,001</b>
Series B shares subscribed for during year	137,931	<b>160,000</b>
Less: Paid in capital		<b><u>(77,923)</u></b>
<b>Balance June 30, 1999</b>		<b><u>\$ 442,078</u></b>

**ZTEST Electronics Inc.**  
**Notes to Consolidated Financial Statements**

**June 30, 1999, 1998 and 1997**

**13. Share Capital** (continued)

c) Details of warrants outstanding are as follows:

<u>Number of Warrants</u>	<u>Price/Warrant</u>	<u>Expiry Date</u>
115,000 (i)	\$1.00	November 30, 1999
45,000 (ii)	\$1.00	November 30, 1999
75,000 (iii)	\$1.00	November 30, 1999
<u>306,250 (iv)</u>	\$1.25	November 30, 1999
<u>541,250</u>		

- (i) These warrants were re-priced during the year from \$1.60 to \$1.00 and had their expiry date extended from April 30, 1999 to November 30, 1999.
- (ii) These warrants were re-priced during the year from \$2.25 to \$1.00 and had their expiry date extended from June 20, 1999 to November 30, 1999.
- (iii) These warrants were re-priced during the year from \$2.25 to \$1.00 and had their expiry date extended from June 27, 1999 to November 30, 1999.
- (iv) These warrants were re-priced during the year from \$1.75 to \$1.25 and had their expiry date extended from September 9, 1999 to November 30, 1999.
- (v) A total of 210,000 warrants expired during the year without being exercised.

d) Details of options outstanding are as follows:

<u>Common Shares Under Option</u>	<u>Price/Option</u>	<u>Expiry Date</u>
395,000	\$1.12	August 22, 2001
97,000	\$0.62	February 5, 2002
400,000 (i)	\$0.85	July 1, 2002
100,000	\$1.05	January 8, 2003
30,000	\$1.55	February 26, 2003
130,000 (ii)	\$0.85	March 16, 2003
60,000 (iii)	\$1.55	October 28, 1999
20,000	\$0.90	December 29, 2003
48,000	\$0.85	April 14, 2004
<u>400,000 (iv)</u>	\$1.00	See (iv) below
<u>1,680,000</u>		

- (i) The Directors of the Company hold these options. During the year each director surrendered 50,000 options and as consideration the remaining options were re-priced from \$1.45 to \$0.85. This is subject to shareholder approval.
- (ii) A senior officer of the Company holds these options. During the year this officer surrendered 50,000 options and as consideration the remaining options were re-priced from \$1.65 to \$0.85. This is subject to shareholder approval.
- (iii) These were granted during the year to an employee who was subsequently terminated. The stated expiry date is 90 days subsequent to the termination date.
- (iv) These options will vest to the benefit of the holder only upon the completion of certain events that have not yet occurred but may occur any time up to January 2002. The options will expire two years after vesting, should vesting occur.
- (v) A total of 525,000 options expired during the year without being exercised as a result of the resignation and/or termination of employees and consultants.

**ZTEST Electronics Inc.**  
**Notes to Consolidated Financial Statements**

**June 30, 1999, 1998 and 1997**

**14. Obligation under Capital Lease**

	<b>1999</b>
Interest at 11.34%, matures April 2002. Blended monthly payments of approximately \$1,300 are required.	<b>\$ 25,713</b>
Less: current portion	<b>13,364</b>
Non-current portion	<b>\$ 12,349</b>
The future minimum payments are:	
2000	<b>\$ 15,599</b>
2001	<b>12,999</b>
	<b>28,598</b>
Less imputed interest	<b>2,845</b>
	<b>\$ 25,753</b>

**15. Income Taxes**

The potential income tax benefits resulting from the application of income tax losses and unused investment tax credits have not been recognized in the financial statements. The following losses and investment tax credits include 100% of the respective losses and investment tax credits of the subsidiary companies and will expire as follows:

<u>Year</u>	<u>Federal</u> <u>Losses</u>	<u>Ontario</u> <u>Losses</u>	<u>Investment</u> <u>Tax Credits</u>
2000	\$ 33,000	\$ -	\$ 67,000
2001	277,000	260,000	3,000
2002	48,000	76,000	6,000
2003	-	198,000	21,000
2004	-	98,000	2,000
2005	213,000	240,000	5,000
2006	-	-	1,000
	571,000	872,000	105,000
Expenses recorded in the accounts, not yet claimed for tax purposes, available indefinitely	2,361,000	2,361,000	-
Total	<b>\$ 2,932,000</b>	<b>\$ 3,233,000</b>	<b>\$ 105,000</b>

**ZTEST Electronics Inc.**  
**Notes to Consolidated Financial Statements**

**June 30, 1999, 1998 and 1997**

**15. Income Taxes (continued)**

In addition to the above income tax loss amounts, there are additional Federal and Ontario loss carry-forward amounts available of \$408,000 to offset income derived specifically from mining operations. The potential income tax benefits resulting from the application of these tax losses have not been recognized in the financial statements. These losses expire as follows:

<u>Year</u>	<u>Federal and Ontario</u> <u>Losses</u>
2000	\$ 121,000
2001	118,000
2002	90,000
2003	<u>79,000</u>
	<u>\$ 408,000</u>

The full realization of these losses carried forward is subject to the result of audits by Revenue Canada. 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:

	<u>1999</u>		<u>1998</u>		<u>1997</u>
Income taxes (recovery)					
at statutory rates	<b>\$(303,000)</b>	<b>(44.6)%</b>	\$ (272,000)	(44.6)%	\$ (239,000) (44.6)%
Decrease (increase) in income tax (recovery) resulting from:					
Expenses deducted in the accounts which have no corresponding deduction for tax purposes, primarily goodwill amortization, minority interest and share of loss of significantly influenced investment	<b>226,000</b>	<b>33.3%</b>	47,000	7.7%	267,000 49.8%
Other temporary differences	<b>505,000</b>	<b>74.3%</b>	107,000	17.5%	37,000 6.9%
	<b>428,000</b>	<b>63.0%</b>	(118,000)	(19.4)%	65,000 12.1%
Benefit of tax losses and investment tax credits not recognized (utilized)	<b>(428,000)</b>	<b>(63.0)%</b>	118,000	19.4%	(65,000) (12.1)%
	<b>\$ -</b>	<b>-</b>	\$ -	-	\$ - -

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**ZTEST Electronics Inc.**  
**Notes to Consolidated Financial Statements**

**June 30, 1999, 1998 and 1997**

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**16. Commitments**

Operating leases

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

<u>Year</u>	<u>Amount</u>
2000	\$ 60,442
2001	47,187
2002	38,437
2003	37,226
Thereafter	<u>6,084</u>
	<u>\$ 189,376</u>

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**17. Related Party Transactions**

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

<u>Related party</u>	<u>Description of relationship</u>
UNIQRYPY Technologies Inc. (UNIQRYPY)	The President of the Company controls directly or indirectly a significant number of shares of each of UNIQRYPY and the Company.
Nexsys Commtech International Inc. (Nexsys)	ZTEST holds 30% of the outstanding voting shares.
James Lalonde	A director of each of the subsidiary companies.
Nu-Way Offerings Limited (Nu-Way)	A shareholder, whose president is a director of ZTEST.
Gametele Systems Inc. (Gametele)	ZTEST holds 12.3% of the outstanding voting shares
Med-Minder Enterprises Inc. (Med-Minder)	ZTEST holds 2.4% of the outstanding voting shares.
Chessen Group Inc. (Group)	Group is controlled by an individual related to a shareholder and director of the ZTEST subsidiary, Chessen UV Systems Inc.

**ZTEST Electronics Inc.**  
**Notes to Consolidated Financial Statements**

**June 30, 1999, 1998 and 1997**

**17. Related Party Transactions (continued)**

<u>Description</u>	<u>Related party</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Revenue - design services	Gametele	\$ 89,058	\$ 192,200	\$ -
Revenue - design services	UNIQRYPYPT	\$ 33,640	\$ 133,492	\$ 511,997
Revenue - design services	Med-Minder	\$ 47,997	\$ 69,723	\$ -
Revenue - product sales	Gametele	\$ 1,080,000	\$ -	\$ -
Revenue - product sales	UNIQRYPYPT	\$ 75,651	\$ 116,436	\$ 175,908
Revenue - product sales	Nexsys	\$ 727,829	\$ -	\$ -
Revenue - product sales	Group	\$ 1,990,000	\$ -	\$ -
Revenue - other	Gametele	\$ 31,650	\$ 1,362	\$ -
Revenue - other	UNIQRYPYPT	\$ 90,790	\$ 84,582	\$ 77,638
Revenue - other	Nexsys	\$ 13,505	\$ -	\$ -
Revenue - other	Med-Minder	\$ 1,207	\$ -	\$ -
Revenue - other	Group	\$ 38,144	\$ -	\$ -
Consulting fees expense	James Lalonde	\$ 48,000	\$ 48,000	\$ 8,492
		<u>1999</u>	<u>1998</u>	<u>1997</u>
Accounts receivable	Gametele	\$ 175,064	\$ -	\$ -
Accounts receivable	UNIQRYPYPT	\$ 2,055	\$ -	\$ 69,450
Accounts receivable	Nexsys	\$ 20,602	\$ 150,000	\$ -
Accounts receivable	Group	\$ 1,070,496	\$ -	\$ -
Amounts receivable	Gametele	\$ 860,000	\$ 250,000	\$ -
Amounts receivable	UNIQRYPYPT	\$ 318,000	\$ -	\$ -
Amounts receivable	Nexsys	\$ 150,000	\$ -	\$ -
Amounts receivable	Med-Minder	\$ 120,000	\$ 74,632	\$ -
Amounts receivable	Group	\$ 717,810	\$ -	\$ -
Account payable	UNIQRYPYPT	\$ -	\$ 831	\$ -
Loan payable	Nu-Way	\$ -	\$ 11,019	\$ -
Long-term debt	Group	\$ -	\$ 464,733	\$ -

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. Approximately 94% (1998: 16% and 1997: 60%) of the Company's revenues are derived from a few related parties; approximately 57% (1998: 39% and 1997: 51%) of the Company's total assets are derived from transactions with or investments in related parties.

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**ZTEST Electronics Inc.**  
**Notes to Consolidated Financial Statements**

**June 30, 1999, 1998 and 1997**

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**18. Supplemental Disclosure of Cash Flow Information**

During the year, the company adopted the application of cash flow disclosures.

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Cash paid for interest	\$ 142,722	\$ 131,130	\$ 45,870
Income taxes	\$ -	\$ -	\$ -

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**19. Subsequent Events**

On July 5, 1999 Uniqrypt.Com Inc. submitted an offer to buy all, but not less than 50%, of the issued and outstanding shares of Uniqrypt Technologies Inc. (UTI) at a price of \$0.07 per share. ZTEST accepted this offer along with other shareholders representing 96.3% of the issued and outstanding shares of UTI and the transaction closed effective July 23, 1999. ZTEST received 1,900,500 common shares of Uniqrypt.Com Inc., representing 10.0% of the issued and outstanding common stock, as consideration for this transaction.

ZTEST incurred a significant loss on this transaction due to the sale price per share being significantly less than the corresponding carrying value of its investment in UTI. Since this transaction can reasonably be seen to establish the fair market value of UTI as at the balance sheet date this loss has been recorded in these financial statements in the form of a write-down of the carrying value of the investment.

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**20. Uncertainty Due to the Year 2000 Issue**

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Data-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on or after January 1, 2000.

If the Year 2000 issue is not addressed by the company and its major customers, suppliers and other third party business associates, the impact on the company's operations and financial reporting may range from minor errors to significant systems failure which could affect the company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers or other third parties will be fully resolved.

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**21. Comparative figures**

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