ZTEST Electronics Inc.

Consolidated Financial Statements

(in Canadian dollars)

June 30, 2000

MOORE STEPHENS COOPER MOLYNEUX LLP
CHARTERED ACCOUNTANTS

8th Floor, 701 Evans Avenue
Toronto, Ontario
Canada M9C 1A3

Telephone: (416) 626-6000
Facsimile: (416) 626-8650
E-mail: info@mscm.ca

Auditors' Report

To the Shareholders of ZTEST Electronics Inc.

We have audited the consolidated balance sheet of ZTEST Electronics Inc. as at June 30, 2000, and the consolidated statement of operations and deficit and cash flows for the year then ended. These 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 audit in accordance with 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, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

The financial statements as at June 30, 1999 and 1998 and for the years then ended were audited by other auditors who reported without qualification in their opinion dated December 31, 1999.

Signed: ***"Moore Stephens Cooper Molyneux LLP"***

Chartered Accountants

Toronto, Ontario
October 20, 2000

Comments by Auditors for U.S. Readers on Canada-U.S. Reporting Differences

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the consolidated financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in Note 2 to the consolidated financial statements. Our report to the shareholders dated October 20, 2000 is expressed in accordance with Canadian reporting standards which do not permit a reference to such events and conditions in the auditor's report when these are adequately disclosed in the consolidated financial statements.

Signed: ***"Moore Stephens Cooper Molyneux LLP"***

Chartered Accountants

Toronto, Ontario
October 20, 2000

ZTEST Electronics Inc.

Consolidated Balance Sheet
(in Canadian dollars)
June 30

	2000	1999	1998
Assets			
Current assets			
Cash and cash equivalents	**$ 575,406**	$ 143,419	$ 129,538
Accounts receivable *(note 18)*	**1,353,241**	1,324,418	464,910
Investment tax credits receivable	**-**	2,250	154,736
Inventories *(note 4)*	**619,365**	409,349	602,298
Prepaid expenses and other assets	**34,618**	30,084	59,391
Current portion of amounts receivable *(note 5)*	**96,282**	285,564	-
	2,678,912	2,195,084	1,410,873
Funds held in trust *(note* 6)	**3,169**	3,169	47,509
Amounts receivable *(note 5)*	**1,893,991**	587,810	165,651
Capital assets *(note 7)*	**423,129**	231,483	380,226
Deferred development costs *(note 8)*	**-**	42,788	360,734
Investments and advances *(note 9)*	**1,651,718**	1,631,228	1,615,933
Mineral properties *(note 10)*	**50,000**	50,000	100,000
Goodwill *(note 3)*	**-**	1,542,678	1,659,622
	$ 6,700,919	$ 6,284,240	$ 5,740,548
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	**$ 513,090**	$ 982,368	$ 719,147
Deferred income	**372,960**	510,028	146,572
Current portion of long-term debt *(note 11)*	**46,419**	262,040	215,816
Current portion of lease obligation *(note 12)*	**19,985**	13,364	11,900
Notes payable and other advances *(note 13)*	**46,740**	650,113	487,476
	999,194	2,417,913	1,580,911
Long-term debt *(note 11)*	**123,872**	123,070	694,470
Obligations under capital lease *(note 12)*	**18,797**	12,349	25,751
Preferred shares *(note 14)*	**1,642,728**	442,078	-
	2,784,591	2,995,410	2,301,132
Non-controlling interest in subsidiary	**-**	223,648	-
Commitments *(note 15)*	**300,000**	-	-
Shareholders' equity			
Share capital *(note 14)*	**14,925,890**	6,171,198	5,867,175
Deficit	**(11,309,562)**	(3,106,016)	(2,427,759)
	3,616,328	3,065,182	3,439,416
	$ 6,700,919	$ 6,284,240	$ 5,740,548

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

Approved on behalf of the Board

Signed: *"W. Drzazga"*
Director

Signed: *"M. Guerreiro"*
Director

Consolidated Statement of Operations and Deficit
(in Canadian dollars)
for the year ended June 30

	2000	1999	1998
Revenue			
Design services	**$ 373,272**	$ 170,695	$ 395,436
Product sales	**1,030,901**	1,926,413	225,275
Other	**350,410**	161,961	125,348
	1,754,583	2,259,069	746,059
Expenses			
Amortization of capital assets	**78,387**	37,730	18,379
Amortization of deferred development costs	**-**	-	3,081
Amortization of goodwill	**87,708**	116,943	94,529
Cost of products sales	**1,443,329**	1,353,486	220,180
Dividends on preferred shares	**35,415**	4,313	-
Interest expense - long-term debt	**55,663**	69,102	21,859
- other	**205,549**	5,887	-
Selling, general and administrative	**539,374**	769,430	738,547
	2,445,425	2,356,891	1,096,575
Loss from operations	**(690,842)**	(97,822)	(350,516)
Loss on decline in value of investment *(note 9)*	**(7,521,248)**	(879,215)	-
Loss on mineral properties *(note 10)*	**-**	(50,000)	-
Share of loss of significantly influenced investment	**-**	(175,000)	-
Loss from continuing operations	**(8,212,090)**	(1,202,037)	(350,516)
Discontinued operations *(note 16)*			
Operating net income	**55,171**	523,780	(258,667)
Loss on disposal	**(40,385)**	-	-
Loss before provision for income taxes	**(8,197,304)**	(678,257)	(609,183)
Provision for income taxes *(note 17)*	**-**	-	-
Net loss for the year	**(8,197,304)**	(678,257)	(609,183)
Deficit, beginning of year	**(3,106,016)**	(2,427,759)	(1,818,576)
	(11,303,320)	(3,106,016)	(2,427,759)
Dividends	**(6,242)**	-	-
Deficit, end of year	**$(11,309,562)**	$ (3,106,016)	$ (2,427,759)
Net loss per share	**$ (0.48)**	$ (0.04)	$ (0.04)
Net loss per share from continuing operations	**$ (0.48)**	$ (0.08)	$ (0.02)
Weighted average shares outstanding	**17,219,413**	15,207,090	14,184,182

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

Consolidated Statement of Cash Flows
(in Canadian dollars)
for the year ended June 30

	2000	1999	1998
Cash flow from operating activities			
Net (loss)	**$ (8,197,304)**	$ (678,257)	$ (609,183)
Items not involving cash			
Amortization of capital assets	**88,526**	61,511	61,486
Amortization of deferred development costs	**33,779**	162,160	134,381
Amortization of goodwill	**87,708**	116,944	94,529
Share of loss of significantly influenced investment	**-**	175,000	-
Non-controlling interest	**48,417**	223,648	-
Loss on decline in value of investment	**7,521,248**	879,215	-
Loss on abandonment of mining properties	-	50,000	-
Loss from discontinued operations	**40,385**	-	-
Changes in non-cash working capital items			
Accounts receivable	**(847,158)**	(997,435)	(314,351)
Investment tax credits receivable	-	189,584	217,189
Inventories	**(210,016)**	538,811	609,022
Prepaid expenses	**(8,460)**	29,307	72,748
Accounts payable and accrued liabilities	**(131,888)**	263,221	40,641
Deferred income	**(137,068)**	363,453	(571,803)
	(1,711,831)	1,377,162	(265,341)
Cash flow from investing activities			
Funds held in trust	**-**	44,340	24,105
Purchase of capital assets (net)	**(329,802)**	(139,939)	(230,122)
Investments and advances	**(3,591,740)**	(931,583)	(774,341)
Amounts receivable	**223,336**	(707,723)	(165,651)
Cash on disposition/acquisition of Chessen U.V. Systems Inc.	**(1,218)**	-	(53,621)
	(3,699,424)	(1,734,905)	(1,199,630)
Cash flow from financing activities			
Capital lease obligation	**13,069**	(11,938)	37,651
Advances (repayment) of long-term debt	**468,226**	(525,176)	201,785
Notes payable and other advances	**(537,153)**	162,637	170,824
Issuance of preferred shares	**2,555,755**	520,000	-
Dividends paid on preferred shares	**(6,242)**	-	-
Issuance of common shares	**3,349,587**	226,101	919,601
	5,843,242	371,624	1,329,861
Increase in cash	**431,987**	13,881	(135,110)
Cash, beginning of year	**143,419**	129,538	264,648
Cash, end of year	**$ 575,406**	$ 143,419	$ 129,538

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

1. Business of the Company

ZTEST Electronics Inc. ("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 Venture Exchange ("CDNX") under the symbol "YZT".

2. Significant Accounting Policies

Going concern basis of presentation

These consolidated 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, 2000 the Company has incurred losses and has a deficit, to date, of $(11,309,562).

Basis of consolidation

These consolidated financial statements have been prepared using the consolidation method and accordingly include the following subsidiary's assets and liabilities as well as the revenues and expenses arising, subsequent to the date of acquisition:

Northern Cross Minerals Inc. - 100% owned

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.

Inventories

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

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.

Investments are accounted for on the following basis:

Investment	Method
Gametele Systems Inc.	Cost
Med-Minder Enterprises Inc.	Cost
Nexsys Commtech International Inc.	Equity
UNIQRYPT Technologies Inc.	Cost

2. Significant Accounting Policies - continued

Capital assets

Capital assets are stated at cost less applicable government grants received. Amortization is provided over the related assets' estimated useful lives using the following methods and annual rates:

Computer software	-	100	%	declining balance
Computer equipment	-	30	%	declining balance
Leased manufacturing equipment	-	20	%	declining balance
Leasehold improvements	-	20	%	straight line
Research and development equipment	-	20	%	declining balance
Office equipment and furniture	-	20	%	declining balance
Manufacturing equipment	-	20	%	declining balance

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

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 four years.

Goodwill

Goodwill represents the price paid for acquisitions in excess of the fair market value of net tangible assets acquired. The Company amortizes costs 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 recoverability of goodwill is assessed annually by determining whether its remaining balance can be recovered over the remaining amortization period through projected undiscounted future cash flows.

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.

Revenue recognition

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

Earning 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.

(in Canadian dollars)

2. Significant Accounting Policies - continued

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 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.

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, expect as described in note 9.

3. Business Acquisition

On September 9, 1997 the Company acquired 53.26% of the outstanding voting equity of Chessen U.V. Systems Inc. ("Chessen U.V.") through the issuance of 1,020,835 common shares of ZTEST and 306,250 warrants which were subsequently exercised. Chessen U.V. 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	158,172
	2,080,297
Less: Liabilities	2,099,029
Net deficiency of Chessen U.V. Systems Inc. assets acquired	18,732
Consideration paid: 1,020,835 common shares of ZTEST	1,735,419
Excess of purchase price over net assets - allocated to goodwill	$ 1,754,151

	2000	1999	1998
Goodwill	**$ 1,754,151**	$ 1,754,151	$ 1,754,151
Less: Amortization	**299,181**	211,473	94,529
Less: Disposition of interest in subsidiary	**1,454,970**	-	-
	$ -	$ 1,542,678	$ 1,659,622

(in Canadian dollars)

3. Business Acquisition - continued

On March 27, 2000, the Company disposed of its interest in Chessen U.V. The results of operations of Chessen U.V. are presented as discontinued operations for all periods presented *(see note 16).*

4. Inventories

	2000	1999	1998
Raw materials and supplies	**$ 323,416**	$ 241,835	$ 271,825
Work in process	**295,899**	160,101	138,205
Finished goods	**50**	7,413	192,268
	$ 619,365	$ 409,349	$ 602,298

5. Amounts Receivable

	2000	1999	1998
Loan receivable, interest at 12.0%, blended monthly payments of $10,000 are required.(1)	**$ 136,402**	$ 155,564	$ 165,651
Loan receivable, non-interest bearing, no fixed maturity date.(2)	**148,000**	-	-
Non-current portion of accounts receivable, interest at 5%, unsecured, matures December 2001. Blended monthly payments of $41,480 are required.	**-**	717,810	-
Convertible debenture, interest at 5.0% commencing July 1, 2000, secured against the assets of Chessen U.V. Systems Inc. and Chessen Group Inc., matures July 2005. May be converted into preferred shares at the rate of 1 preferred share of the debtor for each $1.00 of principal amount converted or common shares at the rate of 1 common share of the debtor for each $0.25 of principal converted, matures July 2005. (3) (see note 16).	**1,705,871**	-	-
	1,990,273	873,374	165,651
Less: Current portion	**96,282**	285,564	-
	$ 1,893,991	$ 587,810	$ 165,651

(1) Prepayments of $21,364 received during the year have been netted against the principal portion of the note receivable.

(2) This loan was made as part of an arrangement with the borrower to extend the expiry of an option held by the Company to acquire 750,000 Gametele Systems Inc. shares from July 31, 1999 to September 30, 2000. A further extension has been agreed to but the date is yet to be determined.

(3) This convertible debenture was received as consideration on the disposition of the Company's interest in Chessen U.V. Systems Inc. The ultimate recoverability of this amount is dependent on the entity's ability to obtain additional financing.

(in Canadian dollars)

6. Funds Held In Trust

Upon formation of the wholly-owned subsidiary, Northern Cross Minerals Inc. ("Northern Cross"), $80,000 was loaned to it by the Company and the balance of these funds is held in trust by the Company's legal counsel, subject to directions from the Board of Directors of Northern Cross as to appropriate outlays and disbursements in respect of efforts to develop Northern Cross' mineral properties that can made with these funds.

7. Capital Assets

			2000	1999	1998
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value	Net Book Value
Computer software	**$ 49,269**	**$ 45,642**	**$ 3,627**	$ 7,500	$ 2,611
Computer equipment	**213,512**	**181,791**	**31,721**	19,342	27,630
Leased manufacturing equipment	**39,513**	**16,754**	**22,759**	28,448	35,562
Leasehold improvements	**-**	**-**	**-**	24,312	26,335
Office equipment and furniture	**91,038**	**65,298**	**25,740**	13,317	16,757
Research and development equipment	**-**	**-**	**-**	-	73,459
Manufacturing equipment	**531,906**	**192,624**	**339,282**	138,564	197,872
	$ 925,238	**$ 502,109**	**$ 423,129**	$ 231,483	$ 380,226

8. Deferred Development Costs

	2000	1999	1998
Balance, beginning of year	**$ 42,788**	$ 360,734	$ 3,081
Costs acquired on acquisition of Chessen U.V. Systems Inc.	**-**	-	492,034
Less: Investment tax credits	**(9,009)**	(37,098)	-
Less: Transfer costs to inventories	**-**	(118,688)	-
Less: Amortization for the year	**(33,779)**	(162,160)	(134,381)
	(42,788)	(317,946)	357,653
Balance, end of year	**$ -**	$ 42,788	$ 360,734

9. Investments and Advances

	2000	1999	1998
Nexsys Commtech International Inc. (a)			
5,480,314 (1999 and 1998 - 2,077,813) common shares representing approximately a 32% (1999 and 1998 - 30%) voting interest.	**$ 66,243**	$ 66,185	$ 66,185
Balance carried forward	**66,243**	66,185	66,185

(in Canadian dollars)

9. Investments and Advances - continued

		2000		1999		1998
Balance brought forward	**$**	**66,243**	$	66,185	$	66,185
1,830,000 preferred shares representing approximately a 11% voting interest.		**1,500,000**		-		-
Debenture, interest at 12.0%, unsecured, matures November 1999. Interest payments are required monthly.		**-**		175,000		-
Loan, non-interest bearing, secured by the July 1999 Federal and Provincial Scientific Research and Experimental Development Claims of the borrower.		-		150,000		-
Promissory note, non-interest bearing, secured by Federal and Provincial Scientific Research and Experimental Development Claims of the borrower for fiscal 1999 and future years, matures on the earlier of July 31, 2000 and receipt of the credits provided as security.		**600,000**		-		-
Debenture, interest at 6.0%, secured by a general security agreement ("GSA"), matures March 2003. Interest will only accrue and be payable in fiscal years where the debtor's net income exceeds $1,000,000.		**1,900,000**		-		-
Convertible debentures, interest at 6.5%, secured by a GSA, maturing on various dates from February 2005 to July 2005. Interest payments are required monthly with unpaid interest capitalized as part of the debentures. May be converted at a rate of 1 common share of the debtor for each $0.20 converted.		**3,245,154**		-		-
Share of loss of significantly influenced investment.		**(241,184)**		(241,184)		(66,184)
Write down to estimated net realizable value.		**(7,070,212)**		-		-
		1		150,001		1
Uniqrypt.Com Inc. (b)						
1,900,500 shares representing a 10.9% investment.		**133,035**		133,035		862,250
Convertible debenture, interest at 7.5%, secured by a GSA, matures March 2002. Interest payments are required monthly. May be converted at a rate of 1 common share of the debtor for each USD $0.20 converted.		**318,000**		318,000		-
Balance carried forward		**451,035**		451,035		862,250

(in Canadian dollars)

9. Investments and Advances - continued

	2000	1999	1998
Balance brought forward	**$ 451,035**	$ 451,035	$ 862,250
Advances receivable, interest at prime plus 3%, secured by a GSA, no fixed maturity date. Interest payments are required monthly.	**-**	-	378,858
Write down to estimated net realizable value.	**(451,034)**	-	-
	1	451,035	1,241,108
Gametele Systems Inc. (c)			
920,000 shares representing a 12.3% investment.	**92**	92	92
Loan receivable, interest at prime plus 2.0%, unsecured, matures March 2001. Interest payments are required monthly. May be converted at a rate of 1 common share of the debtor for each $0.10 converted.	**50,000**	50,000	50,000
Convertible debenture, interest at prime plus 2.0%, secured by a GSA, matures October 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	-
Convertible debenture, interest at 10.0%, secured by a GSA, matures October 2002. Interest payments are required each May and November. May be converted at a rate of 1 unit of the debtor for each $0.10 converted to October 2001. Each unit consists of 1 common share and 0.125 warrants of the debtor. Each full warrant entitles the lender to acquire 1 common share at a price of $0.80 per share.	**328,511**	-	-
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**	250,000	-
Convertible debenture, interest at prime plus 2%, secured by a GSA, matures May 2004. Interest payments are required each May and November. May be converted at a rate of 1 common share of the debtor for each $0.30 converted.	**360,000**	360,000	-
Balance carried forward	**988,603**	910,092	50,092

(in Canadian dollars)

9. Investments and Advances - continued

	2000	1999	1998
Balance brought forward	**$ 988,603**	$ 910,092	$ 50,092
Convertible debenture, interest at 10.0%, secured by a GSA, matures December 2002. Interest payments are required monthly. May be converted at a rate of 1 unit of the debtor for each $0.65 converted. Each unit consists of 1 common share and 0.125 warrants of the debtor. Each full warrant entitles the lender to acquire 1 common share at a price of $0.80 per share.	**543,013**	-	-
	1,531,616	910,092	50,092
Med-Minder Enterprises Inc.			
100,000 shares representing a 2.4% investment.	**100**	100	100
Amount receivable, non-interest bearing, unsecured, no fixed maturity date. May be converted into equity of the debtor until October 2000.	**120,000**	120,000	324,632
	120,100	120,100	324,732
	$ 1,651,718	$ 1,631,228	$ 1,615,933

(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 since projected undiscounted future cash flows were insufficient to recover purchased goodwill over the amortization period.

During the year, the Company acquired 2,790,000 common shares as consideration for the advancement of certain promissory notes and 612,500 common shares upon the exercise of warrants granted to the Company in a prior year. The cash consideration for the exercise of the warrants amounted to $58.

On December 29, 1999, as part of a private placement, the Company was assigned $1,500,000 of preferred shares and $1,900,000 debentures of Nexsys in exchange for 1,360,000 common shares and 408,000 share purchase warrants of ZTEST.

Subsequent to year end a further $300,000 was advanced as part of a financing commitment and has been reflected as part of the convertible debentures (see note 15).

During the year, the investment and advances were written down to estimated net realizable value.

(in Canadian dollars)

9. Investments and Advances - continued

The Company also has the following warrants in Nexsys:

Number of Warrants	Exercise Price	Expiry Date
3,750,000	$0.20	September 18, 2000
1,000,000	$0.20	September 29, 2000
2,500,000	$0.20	October 31, 2000
2,250,000	$0.20	February 28, 2001
3,750,000	$0.25	June 18, 2003
1,000,000	$0.25	June 29, 2003
2,500,000	$0.25	July 31, 2003
2,250,000	$0.25	November 28, 2003

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) In the prior year, the Company increased its interest in UNIQRYPT 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 sold in July 1999 to Uniqrypt.Com Inc. for which the Company received 1,900,500 shares (10.0%) of Uniqrypt.Com Inc. The Company 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 UNIQRYPT. The transaction was seen to establish the fair market value of UNIQRYPT and the loss was recorded in the financial statements in the form of a write-down of the carrying value of the investment in the prior year.

During the year, the investment and advances were written down to estimated net realizable value.

(c) During the prior 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 Gametele and Med-Minder 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 market value of Gametele and Med-Minder for these reasons.

10. Mineral Properties

	2000	1999	1998
Mary Ann claims	**$ 50,000**	$ 50,000	$ 50,000
Benson Creek option	**-**	-	50,000
	$ 50,000	$ 50,000	$ 100,000

(in Canadian dollars)

10. Mineral Properties - continued

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, 2000, 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 prior 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 prior year.

11. Long-Term Debt

	2000	1999	1998
Bank loan, interest at Bank of Montreal prime plus 1/2%, secured by a related party guarantee, matures October 2003. Monthly principal and interest payments of $4,865 are required.	**$ 170,291**	$ -	$ -
Bank loan, interest at prime plus 1¾%, matures September 2000, secured by a GSA on equipment and accounts receivable and personal guarantees of $50,000 from each of two minority shareholders of Chessen. Monthly principal payments of $4,167 plus interest are required.	**-**	62,479	112,483
Bank loan, interest at 12.1%, matures February 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 of Chessen. Monthly principal payments of $1,250 plus interest are required.	**-**	55,000	70,000
Unsecured promissory note from former shareholder of Chessen, non-interest bearing, matures February 2000. Monthly payments of $3,333 are required.	**-**	64,561	60,000
Loan from former director of Chessen, unsecured, non-interest bearing, no fixed terms of repayment.	**-**	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
Balance carried forward	**170,291**	385,110	445,553

(in Canadian dollars)

11. Long-Term Debt - continued

	2000	1999	1998
Balance brought forward	**$ 170,291**	$ 385,110	$ 445,553
Loan, interest at Bank of Montreal prime rate plus 4%, secured by a GSA, subordinate to the first and second loans noted above, matures March 2000. Monthly interest payments are required.	**-**	-	464,733
	170,291	385,110	910,286
Less current portion	**46,419**	262,040	215,816
	$ 123,872	$ 123,070	$ 694,470

The month end prime rate as at June 30, 2000 was approximately 7.5% (1999 - 6.25%, 1998 - 6.5%).

The future minimum principal repayments are as follows:

2001	$ 46,419
2002	50,277
2003	54,455
2004	19,140
	$ 170,291

12. Obligations Under Capital Lease

	2000	1999	1998
Interest at 11.34%, matures April 2002. Blended monthly payments of $1,300 are required.	**$ 12,349**	$ 25,713	$ 37,651
Interest at 13.83%, matures July 2002. Blended monthly payments of $573 are required.	**13,627**	-	-
Interest at 9.8%, matures January 2005. Blended monthly payments of $289 are required.	**12,806**	-	-
	38,782	25,713	37,651
Less: current portion	**19,985**	13,364	11,900
Non-current portion	**$ 18,797**	$ 12,349	$ 25,751

The future minimum payments are:

2001	$ 23,342
2002	10,343
2003	5,715
2004	3,473
2005	2,036
	44,909
Less: imputed interest	6,127
	$ 38,782

(in Canadian dollars)

13. Notes Payable and Other Advances

Interest	Security	Terms	**2000**	1999	1998
12%	Unsecured	Various	**$ 21,740**	$ 21,988	$ 27,957
12%	Unsecured	No repayment terms	**25,000**	228,125	48,500
10%	Secured*	Due January 2000	**-**	400,000	400,000
Prime+2.5%	Secured*	No repayment terms	**-**	-	11,019
			$ 46,740	$ 650,113	$ 487,476

* Secured by a general security agreement

14. 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 *(note 10)*.

Unlimited Preferred shares in one or more series of which the following four 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 share until May 2002, and then at a rate of 1 common share for each 1.4224 Series B share until May 2004.

Series C non-voting shares bear cumulative monthly dividends payable at a rate of 7% per annum, are redeemable after November 1, 2002 and all outstanding shares must be repurchased on May 1, 2007. These shares can be converted into common shares of the Company on a 1:1 basis until May 2001, at a rate of 1 common share for each 1.4286 Series C shares until May 2004, and then at a rate of 1 common share for each 1.7143 Series C shares until May 2007.

(in Canadian dollars)

14. Share Capital - continued

Series D non-voting shares bear cumulative monthly dividends payable at a rate of 7% per annum, are redeemable after December 1, 2002 and all outstanding shares must be repurchased on June 1, 2007. These shares can be converted into common shares of the Company on a 1:1 basis until June 2001, at a rate of 1 common share for each 1.40845 Series D shares until June 2004, and then at a rate of 1 common share for each 1.6432 Series D shares until June 2007.

(b) **Issued**

	Number of Shares	**Amount**
Common shares June 30, 1997	12,750,481	$ 2,932,155
Conversion of notes payable during the year	150,000	180,000
Exercise of warrants	400,000	240,000
Exercise of options	400,000	369,600
Private placement	200,000	310,000
Business acquisition *(note 3)*	1,020,835	1,735,420
Common shares June 30, 1998	14,921,316	5,767,175
Exercise of options	455,000	226,100
Paid in capital, First Preferred Shares	-	77,923
Common shares June 30, 1999	15,376,316	6,071,198
Conversion of loans payable	420,000	550,000
Exercise of warrants	541,250	617,812
Exercise of options	400,000	490,575
Private placement	2,586,000	5,491,200
Conversion of preferred shares	661,265	911,251
Paid in capital, First Preferred Shares	-	693,854
Common shares June 30, 2000	19,984,831	14,825,890
Class A special shares June 30, 1998, 1999 and 2000	1,193,442	100,000
Balance June 30, 2000		$ 14,925,890

	Number of Shares	**Amount**
First Preferred Shares		
Series A shares subscribed for during year	375,001	$ 360,001
Series B shares subscribed for during year	137,931	160,000
Less: Paid in capital	-	(77,923)
Balance June 30, 1999		442,078
Series C shares subscribed for during year	603,858	1,056,752
Series D shares subscribed for during year	703,640	1,498,753
Series A shares converted during year	(208,334)	(200,001)
Series B shares converted during the year	(137,931)	(160,000)
Series C shares converted during year	(172,000)	(301,000)
Less: Paid in capital	-	(693,854)
Balance June 30, 2000		$ 1,642,728

(in Canadian dollars)

14. Share Capital - continued

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

Number of Warrants	Price/Warrant	Expiry Date
136,000	$1.32	July 30, 2001
60,000	$1.85	March 1, 2001
80,000	$2.00	October 7, 2002
21,000	$4.35	April 13, 2002
452,400	$3.00/$3.50	December 28, 2001
383,000	$2.10/$2.60	June 30, 2003
1,132,400		

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

Common Shares Under Option		Price/Option	Expiry Date
225,000		$1.12	August 22, 2001
13,500		$0.62	February 5, 2002
569,000	(i)	$1.45	July 1, 2002
80,000		$1.05	January 8, 2003
10,000		$1.55	February 26, 2003
145,000	(ii)	$1.60	March 16, 2003
20,000		$0.90	December 29, 2003
48,000		$0.85	April 14, 2004
7,500		$1.45	August 3, 2003
40,000		$1.60	August 11, 2002
100,000		$2.00	October 1, 2001
45,000		$2.27	August 16, 2004
200,000		$2.95	November 22, 2004
36,000		$4.40	June 30, 2004
15,000	(iii)	$4.15	April 19, 2005
150,000		$2.35	June 19, 2005
400,000	(iv)	$1.00	see (iv) below
2,104,000			

(i) Directors of the Company hold these options. During the prior year, each director surrendered 50,000 options and as consideration the remaining options were re-priced from $1.45 to $0.85. During the current year, the transaction was rescinded and each director had 45,000 options reinstated at their original price of $1.45.

(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. During the current year, the transaction was rescinded and 45,000 options were reinstated at their original price of $1.60.

(in Canadian dollars)

14. Share Capital - continued

(iii) The vesting of an additional 385,000 options was contingent upon an event which did not occur and therefore the options expired.

(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 94,000 options expired during the year without being exercised as a result of the resignation and/or termination of employees and consultants.

15. Commitments

Operating leases

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

2001	$ 38,287
2002	38,437
2003	38,416
2004	6,084
	$ 121,224

Financing commitments *(see note 9)*

Pursuant to a financing agreement dated December 2, 1999, ZTEST agreed to advance Nexsys Commtech International Inc. ("Nexsys") between $4,150,000 and $5,250,000 in various tranches over a specified period of time. The final tranche required a minimum advance of $900,000 from ZTEST to be advanced by July 31, 2000. This was achieved by advancing cash of $300,000 and by rolling a $600,000 promissory note into a convertible debenture. The debenture bears interest at 6.5%, is secured by a GSA and matures in July 2005. Due to a revaluation of the Company's interest in Nexsys, the $300,000 commitment has been accrued as of June 30, 2000 and included in the write down to estimated net realizable value of the investment.

16. Discontinued Operations

On March 27, 2000, the Company disposed of its 53.26% interest in Chessen U.V. Systems Inc. to Chessen Group Inc. for total consideration of $1,705,871. The purchase price was satisfied by a convertible debenture *(see note 5)*.

The results of operations of Chessen U.V. Systems Inc. for the period of July 1, 1999 to March 27, 2000 are included in discontinued operations - operating net income. The loss on disposal is included in discontinued operations - loss from discontinued operations. Comparative figures have been restated to conform with this basis of presentation.

(in Canadian dollars)

16. Discontinued Operations - continued

The operating results of discontinued operations are as follows:

	2000	1999	1998
Revenue	**$ 940,229**	$ 2,264,602	$ 2,930,546
Operating expenses	**836,641**	1,517,174	3,189,213
Minority interest in earnings	**48,417**	223,648	-
Income (loss) from discontinued operations	**$ 55,171**	$ 523,780	$ (258,667)
Earnings (loss) per share	**$ 0.00**	$ 0.03	$ (0.02)
(Loss) on disposal	**$ (40,385)**	$ -	$ -

The assets and liabilities of discontinued operations are as follows:

Current assets	**$ 823,478**	$ 1,241,143	$ 792,373
Non-current assets	**426,528**	820,370	661,184
Current liabilities	**(553,586)**	(1,478,681)	(1,036,486)
Non-current liabilities	**(133,070)**	(123,070)	(694,470)
	$ 563,350	$ 459,762	$ (277,399)

17. 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:

Year	**Federal Losses**	**Ontario Losses**	**Investment Tax Credits**
2001	$ 277,000	$ 282,000	$ 3,000
2002	48,000	76,000	6,000
2003	-	-	1,000
2005	213,000	213,000	-
2007	565,000	565,000	-
	1,103,000	1,136,000	10,000
Expenses recorded in the accounts, not yet claimed for tax purposes, available indefinitely	9,458,000	9,458,000	-
	$ 10,561,000	$ 10,594,000	$ 10,000

(in Canadian dollars)

17. 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:

Year	**Federal and Ontario Losses**
2001	$ 118,000
2002	90,000
2003	79,000
	$ 287,000

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

	2000		1999		1998	
Income taxes (recovery) at statutory rates	**$(3,607,000)**	**(44.0)**%	$(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, share of loss of significantly influenced investment and loss on decline in value of investment	**3,382,000**	**41.3**%	47,000	7.7%	267,000	49.8%
Other temporary differences	**22,000**	**0.0**%	107,000	17.5%	37,000	6.9%
	(203,000)	**(2.7)**%	(118,000)	(19.4)%	65,000	12.1%
Benefit of tax losses and investment tax credits not recognized (utilized)	**203,000**	**2.7**%	118,000	19.4%	(65,000)	(12.1)%
	$ -	**-**%	$ -	-%	$ -	-%

(in Canadian dollars)

18. Related Party Transactions

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

UNIQRYPT Technologies Inc. (UNIQRYPT)

The President of the Company controls directly or indirectly a significant number of shares of each of UNIQRYPT and the Company.

Nexsys Commtech International Inc. (Nexsys)

The Company holds 43% of the outstanding voting shares.

James Lalonde

A director of the subsidiary company.

Nu-Way Offerings Limited (Nu-Way)

A shareholder, whose president is a director of the Company.

Gametele Systems Inc. (Gametele)

The Company holds 12.3% of the outstanding voting shares.

Med-Minder Enterprises Inc. (Med-Minder)

The Company 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 Company's former subsidiary, Chessen U.V. Systems Inc.

Description	**Related Party**	**2000**	1999	1998
Revenue - design services	Gametele	**$ 52,018**	$ 89,058	$ 192,200
Revenue - design services	UNIQRYPT	**$ -**	$ 33,640	$ 133,492
Revenue - design services	Med-Minder	**$ 7,175**	$ 47,997	$ 69,723
Revenue - design services	Nexsys	**$ 314,079**	$ -	$ -
Revenue - product sales	Gametele	**$ 979,731**	$ 1,080,000	$ -
Revenue - product sales	UNIQRYPT	**$ -**	$ 75,651	$ 116,436
Revenue - product sales	Med-Minder	**$ 14,607**	$ -	$ -
Revenue - product sales	Nexsys	**$ -**	$ 727,829	$ -
Revenue - product sales	Group	**$ -**	$ 1,990,000	$ -
Revenue - other	Gametele	**$ 178,224**	$ 31,650	$ 1,362
Revenue - other	UNIQRYPT	**$ 23,915**	$ 90,790	$ 84,582
Revenue - other	Nexsys	**$ 92,315**	$ 13,505	$ -
Revenue - other	Med-Minder	**$ 1,798**	$ 1,207	$ -
Revenue - other	Group	**$ -**	$ 38,144	$ -
Consulting fees expense	James Lalonde	**$ 48,000**	$ 48,000	$ 48,000
Accounts receivable	Gametele	**$ 1,267,217**	$ 175,064	$ -
Accounts receivable	UNIQRYPT	**$ 13,962**	$ 1,358	$ -
Accounts receivable	Nexsys	**$ 15,734**	$ 20,602	$ 150,000
Accounts receivable	Group	**$ -**	$ 1,073,423	$ -
Accounts receivable	Med-Minder	**$ 43,727**	$ 12,073	$ -
Amount payable	UNIQRYPT	**$ -**	$ -	$ 831
Loan payable	Nu-Way	**$ -**	$ -	$ 11,019
Long-term debt	Group	**$ -**	$ -	$ 464,733

(in Canadian dollars)

18. Related Party Transactions - continued

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 96% (1999 - 94% and 1998 - 16%) of the Company's revenues are derived from a few related parties; approximately 74% (1999 - 57% and 1998 - 39%) of the Company's total assets are derived from transactions with or investments in related parties.

19. Supplemental Disclosure of Cash Flow Information

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

	2000	1999	1998
Cash paid for interest	**$ 55,081**	$ 142,722	$ 131,130
Income taxes	**$ -**	$ -	$ -

20. Comparative Figures

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

21. Reconciliation of Results Reported in Accordance with Generally Accepted Accounting Principles (GAAP) in Canada with United States ("US") GAAP

The following are the significant adjustments required to give effect to the differences between US GAAP and Canadian GAAP which is the basis of presentation of the financial statements of the Company.

The Company incurs development costs which are deferred and then amortized under Canadian GAAP whereas under US GAAP they are expensed as incurred.

The Company advances funds and provides services to other companies that are in the process of developing products and incurring research and development costs. These advances and resulting trade receivables are capitalized under Canadian GAAP whereas under US GAAP they are characterized as development costs and expensed.

The Company acquired a mineral property when amalgamating with Panthco Resource Inc. on June 30, 1996 and this amount is capitalized in the financial statements prepared in accordance with Canadian GAAP whereas these amounts should have been expensed as incurred under US GAAP.

The Company does not recognize compensation expense for stock options granted. Under US GAAP, the Company is required to record such compensation. The Company measures compensation costs related to stock options issued to non-employees in accordance with SFAS No. 123. The Black-Scholes option pricing model was used to determine fair market value for options granted to consultants with the following weighted average assumptions:

(in Canadian dollars)

21. Reconciliation of Results Reported in Accordance with Generally Accepted Accounting Principles (GAAP) in Canada with United States ("US") GAAP - continued

	2000	1999	1998
Dividend yield	**0.0%**	0.0%	0.0%
Expected life of options (years)	**2.6**	2.7	1.6
Expected volatility	**10.0%**	10.0%	10.0%
Risk free interest rate	**5.6%**	5.4%	5.1%
Option value	**$ 0.31**	$ 0.17	$ 0.08

The Company accounts for employee and directors' stock options under APB No. 25 under which no compensation cost is recognized when the exercise price equals or exceeds the quoted market price at the date of grant. There were no differences between US and Canadian GAAP.

During the year ended June 30, 1999, the Company negotiated with one of its creditors to remove restrictive covenants that existed relative to their outstanding loan. In exchange for the removal of these covenants, which were making it very difficult for the Company to raise additional funds, the loan was made convertible into common shares of the Company. In accordance with US GAAP this conversion feature has been assigned a value of $80,000. Despite the negotiations resulting in an equitable settlement, US GAAP does not permit the recording of any value that may be attributable to what the Company received in this transaction.

Had the consolidated financial statements been prepared in accordance with US GAAP as noted above, the following changes would have been made.

	June 30, 2000	June 30, 1999	June 30, 1998
Net loss as reported under Canadian GAAP	**$ (8,197,304)**	$ (678,257)	$ (609,183)
Development cost previously expensed under US GAAP	**9,009**	155,786	-
Add back loss on mineral properties	**-**	50,000	-
Add back amortization of deferred development costs	**33,779**	162,160	134,381
Deduct development costs incurred/acquired	**-**	-	(492,034)
Add back share of loss of investment under significant influence developing products	**-**	175,000	-
Debt convertibility to equity - interest	-	(80,000)	-
Stock option compensation (non-employees)	**(81,262)**	(28,743)	(44,078)
Dividends on preferred shares	**35,415**	4,313	-
Deduct advances to companies in the process of developing products	**695,392**	17,559	(569,899)
Deduct change in receivables from companies in the process of developing products	**1,764,813**	(1,658,540)	(80,550)
Net loss, US GAAP	**$ (5,740,158)**	$ (1,880,722)	$ (1,661,363)

(in Canadian dollars)

21. Reconciliation of Results Reported in Accordance with Generally Accepted Accounting Principles (GAAP) in Canada with United States ("US") GAAP - continued

	June 30, 2000	June 30, 1999	June 30, 1998
Weighted average number of shares	**17,219,413**	15,207,090	14,184,182
Net loss, per share basic and diluted, US GAAP	**$ (0.33)**	$ (0.12)	$ (0.12)

The following are balance sheet items which are affected by GAAP differences:

	2000	1999	1998
As reported			
Accounts receivable	**$ 1,353,241**	$ 1,324,418	$ 464,910
Long-term amounts receivable	**$ 1,990,273**	$ 2,321,374	$ 490,283
Investments and advances	**$ 1,651,718**	$ 195,302	$ 1,291,302
Mineral properties	**$ 50,000**	$ 50,000	$ 100,000
Deferred development costs	**$ -**	$ 42,788	$ 360,734
Preferred shares	**$ 1,642,728**	$ 442,078	$ -
Share capital	**$ 14,925,890**	$ 6,171,198	$ 5,867,175
Deficit	**$(11,309,562)**	$ (3,106,016)	$ (2,427,759)
In accordance with US GAAP			
Accounts receivable	**$ 1,309,514**	$ 221,614	$ 314,909
Long-term amounts receivable	**$ 1,990,272**	$ 1,104,706	$ 165,651
Investments and advances	**$ 1,481,719**	$ 133,229	$ 862,444
Mineral properties	**$ -**	$ -	$ -
Deferred development costs	**$ -**	$ -	$ -
Preferred shares	**$ 2,414,505**	$ 520,001	$ -
Share capital	**$ 14,398,586**	$ 6,256,486	$ 5,921,643
Deficit	**$(11,513,301)**	$ (5,731,486)	$ (3,846,451)
Other disclosures			
Allowance for doubtful accounts	**$ -**	$ -	$ -

Consolidated Statements of Cash Flows under US GAAP:

	Year ended June 30, 2000	Year ended June 30, 1999	Year ended June 30, 1998
Operating activities			
Net loss	**$ (5,740,158)**	$ (1,885,035)	$ (1,661,363)
Adjustments to reconcile net loss to net cash provided by operation activities:			
Amortization of capital assets	**88,526**	61,511	61,486
Amortization of goodwill	**87,708**	116,944	94,529
Equity in loss of non-controlled subsidiary	**-**	-	-
Non-controlling interest	**-**	223,648	-
Balance carried forward	**(5,563,924)**	(1,482,932)	(1,505,348)

(in Canadian dollars)

21. Reconciliation of Results Reported in Accordance with Generally Accepted Accounting Principles (GAAP) in Canada with United States ("US") GAAP - continued

	Year ended June 30, 2000	Year ended June 30, 1999	Year ended June 30, 1998
Balance brought forward	**$ (5,563,924)**	$ (1,482,932)	$ (1,505,348)
Non-cash recovery of deferred development costs	**(9,009)**	(155,786)	492,034
Loss on decline in value of investment	**2,013,766**	879,215	-
Non-cash compensation			
- interest	**-**	80,000	-
- other	**81,262**	28,743	44,078
Loss from discontinuance of operations	**40,385**	-	-
Non-cash advances to companies in the process of developing products	**2,150,000**	-	-
Non-cash changes in receivables from companies in the process of developing products	**(1,142,678)**	-	-
(Increase) decrease in accounts receivable	**(1,129,193)**	93,295	(233,800)
(Decrease) increase in accounts payable	**(131,888)**	263,221	40,641
Other	**(603,120)**	1,121,158	327,156
	(4,294,399)	826,914	(835,239)
Investing activities			
Purchase of capital assets, net	**(329,804)**	(139,942)	(230,122)
Funds in trust	**-**	44,340	24,105
Investments and advances	**(621,584)**	(1,099,142)	(204,442)
Long-term amounts receivable	**(128,837)**	10,087	(165,651)
Cash of Chessen U.V. on disposition and acquisition	**(1,218)**	-	(53,621)
	(1,081,443)	(1,184,657)	(629,731)
Financing activities			
Issuance of common shares	**3,349,587**	226,100	919,600
Issuance of preferred shares	**2,555,755**	520,000	-
Notes payable and other advances	**(537,153)**	162,637	170,823
Issuance of long-term indebtedness	**468,226**	-	317,456
Repayment of long-term indebtedness	**-**	(525,175)	(115,671)
Capital lease obligation	**13,071**	(11,938)	37,652
Dividends on preferred shares	**(41,657)**	-	-
	5,807,829	371,624	1,329,860

(in Canadian dollars)

21. Reconciliation of Results Reported in Accordance with Generally Accepted Accounting Principles (GAAP) in Canada with United States ("US") GAAP - continued

	Year ended June 30, 2000	Year ended June 30, 1999	Year ended June 30, 1998
Increase (decrease) in cash	**431,987**	13,881	(135,110)
Cash, beginning of year	**143,419**	129,538	264,648
Cash, end of year	**$ 575,406**	$ 143,419	$ 129,538

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

	2000	1999	1998
Cash paid for interest	**$ 55,081**	$ 142,722	$ 131,130
Income taxes	**$ -**	$ -	$ -

22. Subsequent Events

Subsequent to the year ended June 30, 2000 the following transactions were completed:

a) On July 31, 2000, ZTEST Electronics Inc. ("ZTEST") acquired 777,393 common shares of Internet Commerce Solutions Inc. ("ICS") representing 58.9% of the issued and outstanding shares for 894,003 units of ZTEST. Each unit consists of 1 share of ZTEST priced at $2.04 and one-half of a common share purchase warrant with each full warrant entitling the holder to purchase a further ZTEST common share at a price of $2.40 per share until September 30, 2001.

b) On August 14, 2000, ZTEST Electronics Inc. ("ZTEST") completed the acquisition of 60 common shares, 250,000 Class A preferred shares, and a demand loan and all security therefor of Permatech Electronics Inc. ("Permatech") for cash proceeds of approximately $284,000 and an assignment of $60,000 of the demand loan. The common shares acquired represent 60% of the issued and outstanding common shares of Permatech.