ZTEST Electronics Inc.

Consolidated Financial Statements

(in Canadian dollars)

June 30, 2001

MOORE STEPHENS COOPER MOLYNEUX LLP
CHARTERED ACCOUNTANTS

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Auditors' Report

To the Shareholders of ZTEST Electronics Inc.

We have audited the consolidated balance sheet of ZTEST Electronics Inc. as at June 30, 2001, 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 in Canada. 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, 2001 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles in Canada.

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

Chartered Accountants

Toronto, Ontario
November 9, 2001

ZTEST Electronics Inc.

Consolidated Balance Sheet
(in Canadian dollars)
June 30

	2001	2000
Assets		
Current assets		
Cash and cash equivalents	**$ 128,601**	$ 575,406
Accounts receivable *(note 17)*	**686,582**	1,353,241
Inventories *(note 4)*	**172,641**	619,365
Prepaid expenses and other assets	**66,661**	34,618
Current portion of amounts receivable *(note 5)*	**-**	96,282
	1,054,485	2,678,912
Funds held in trust *(note* 6)	**3,154**	3,169
Amounts receivable *(note 5)*	**-**	1,893,991
Capital assets *(note 7)*	**792,891**	423,129
Investments and advances *(note 8)*	**4**	1,651,718
Mineral properties *(note 9)*	**50,000**	50,000
Goodwill *(note 3)*	**201,531**	-
	$ 2,102,065	$ 6,700,919
Liabilities		
Current liabilities		
Bank indebtedness	**$ 233,080**	$ -
Accounts payable and accrued liabilities	**1,519,944**	513,090
Deferred income	**-**	372,960
Current portion of long-term debt *(note 10)*	**138,840**	46,419
Current portion of lease obligation *(note 11)*	**26,127**	19,985
Notes payable and other advances *(note 12)*	**132,000**	46,740
	2,049,991	999,194
Long-term debt *(note 10)*	**186,176**	123,872
Obligations under capital lease *(note 11)*	**17,951**	18,797
Preferred shares *(note 13)*	**1,471,908**	1,642,728
	3,726,026	2,784,591
Non-controlling interest in subsidiary	**26,992**	-
Commitments *(note 14)*	**-**	300,000
Deficiency in assets		
Share capital *(note 13)*	**18,468,436**	14,925,890
Deficit	**(20,119,389)**	(11,309,562)
	(1,650,953)	3,616,328
	$ 2,102,065	$ 6,700,919

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

Approved by the Board

Signed: *"K. Michael Guerreiro"*
Director

Signed: *"Wojciech Drzazga"*
Director

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

	2001	2000
Revenue		
Design services	**$ 3,448,407**	$ 373,272
Product sales	**1,304,319**	1,030,901
Other	**1,129,526**	350,410
	5,882,252	1,754,583
Expenses		
Amortization of capital assets	**132,690**	78,387
Amortization of goodwill *(note 3)*	**1,971,085**	87,708
Cost of products sales	**3,455,760**	1,443,329
Dividends on preferred shares	**10,867**	35,415
Interest expense - long-term debt	**50,240**	55,663
- other	**16,024**	205,549
Selling, general and administrative	**2,135,730**	539,374
	7,772,396	2,445,425
Loss from operations	**(1,890,144)**	(690,842)
Loss on decline in value of investment *(note 8)*	**(6,935,971)**	(7,521,248)
Loss from continuing operations	**(8,826,115)**	(8,212,090)
Discontinued operations *(note 15)*		
Operating net income	**-**	55,171
Loss on disposal	**-**	(40,385)
Loss before provision for income taxes	**(8,826,115)**	(8,197,304)
Provision for income taxes *(note 16)*		
Future	**(5,300)**	-
Income tax recovery	**(6,662)**	-
Net loss for the year	**(8,814,153)**	(8,197,304)
Deficit, beginning of year	**(11,303,320)**	(3,106,016)
	(20,117,473)	(11,303,320)
Dividends	**(1,916)**	(6,242)
Deficit, end of year	**$(20,119,389)**	$(11,309,562)
Net loss per share	**$ (0.40)**	$ (0.48)
Net loss per share from continuing operations	**$ (0.40)**	$ (0.48)
Weighted average shares outstanding	**21,893,691**	17,219,413

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

	2001	2000
Cash flow from operating activities		
Net (loss) for the year	**$ (8,814,153)**	$ (8,197,304)
Items not involving cash		
Amortization of capital assets	**132,690**	88,526
Amortization of deferred development costs	**-**	33,779
Amortization of goodwill	**1,971,085**	87,708
Non-controlling interest	**-**	48,417
Loss on decline in value of investment	**6,935,971**	7,521,248
Loss from discontinued operations	**-**	40,385
Future income taxes	**(6,662)**	-
Changes in non-cash working capital items		
Accounts receivable	**(2,382,032)**	(847,158)
Inventories	**469,866**	(210,016)
Prepaid expenses	**(21,017)**	(8,460)
Accounts payable and accrued liabilities	**640,801**	(131,888)
Deferred income	**(405,033)**	(137,068)
	(1,478,484)	(1,711,831)
Cash flow from investing activities		
Funds held in trust	**15**	-
Non-controlling interest in subsidiary	**26,992**	-
Cash deficiency and goodwill acquired	**(287,431)**	-
Purchase of capital assets (net)	**(373,403)**	(329,802)
Investments and advances	**(98,968)**	(3,591,740)
Amounts receivable	**181,487**	223,336
Cash on disposition/acquisition of Chessen U.V. Systems Inc.	**-**	(1,218)
	(551,308)	(3,699,424)
Cash flow from financing activities		
(Repayment) advances of capital lease obligations	**(36,191)**	13,069
Advances of long-term debt	**154,725**	468,226
Increase in bank indebtedness	**233,149**	-
Notes payable and other advances (repayments)	**85,260**	(537,153)
Payment of commitment	**(300,000)**	-
Issuance of preferred shares	**-**	2,555,755
Dividends paid on preferred shares	**(1,916)**	(6,242)
Issuance of common shares	**1,447,960**	3,349,587
	1,582,987	5,843,242
(Decrease) increase in cash	**(446,805)**	431,987
Cash, beginning of year	**575,406**	143,419
Cash, end of year	**$ 128,601**	$ 575,406

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

(in Canadian dollars)

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, 2001 the Company has incurred losses and has a deficit, to date, of $(20,119,389).

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.	- 66.7% owned
Internet Commerce Solutions Inc.	- 58.9% owned
Permatech Electronics Corporation	- 60% 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. At June 30, 2001 and June 30, 2000 there were no cash equivalents on hand.

Inventories

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

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
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.

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. 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.

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.

(in Canadian dollars)

2. Significant Accounting Policies - continued

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.

Cash equivalents

For the purpose of the statements of cash flows, the Company considers cash equivalents to be cash and short-term investments with original maturities of three months or less. The Company has adopted the requirements of CICA 1540 in preparing the statements of cash flows.

3. Business Acquisitions

Internet Commerce Solutions Inc.

On July 31, 2001 the Company acquired 58.9% of the outstanding voting equity of Internet Commerce Solutions Inc. ("ICSI") through the issuance of 894,003 units of ZTEST. Each unit consists of 1 common 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. The warrants expired subsequent to year end without being exercised. ICSI is involved in the field of computer network security.

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

Current assets	$ 361,981
Capital assets	116,146
	478,127
Less: Liabilities	512,961
Net deficiency of Internet Commerce Solutions Inc. assets acquired	34,834
Consideration paid: 894,003 common shares of ZTEST	1,823,766
Excess of purchase price over net assets - allocated to goodwill	$ 1,858,600

	2001	2000
Goodwill	**$ 1,858,600**	$ -
Less: Write down due to impairment	**1,858,600**	-
	$ -	$ -

(in Canadian dollars)

3. Business Acquisitions - continued

Permatech Electronics Corporation

On August 14, 2001, the Company completed the acquisition of 60 common shares, 250,000 Class A preferred shares, and a demand loan and all security therefore of Permatech Electronics Corporation ("Permatech") for net proceeds of $210,000. The common shares acquired represent 60% of the issued and outstanding common shares of Permatech. Permatech is a contract manufacturer in the electronics industry.

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

Current assets	$ 254,543
Capital assets	177,791
	432,334
Less: Liabilities	436,349
Net deficiency of Permatech Electronics Corporation assets acquired	4,015
Consideration paid	210,000
Excess of purchase price over net assets - allocated to goodwill	$ 214,015

	2001	2000
Goodwill	**$ 214,015**	$ -
Less: Amortization	**12,484**	-
	$ 201,531	$ -

4. Inventories

	2001	2000
Raw materials and supplies	**$ 127,250**	$ 323,416
Work in process	**43,021**	295,899
Finished goods	**2,370**	50
	$ 172,641	$ 619,365

(in Canadian dollars)

5. Amounts Receivable

		2001		2000
Loan receivable, interest at 12.0%, blended monthly payments of $10,000 are required.[1]	**$**	**-**	$	136,402
Loan receivable, non-interest bearing, no fixed maturity date.[2]		**-**		148,000
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] *(note 15)*.		**-**		1,705,871
		-		1,990,273
Less: Current portion		**-**		96,282
	$	**-**	$	1,893,991

(1) The note receivable, which was in default, was sold at face value to Gametele Systems Inc. during the year resulting in an increase in the value of the accounts receivable due from Gametele.

(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 to July 31, 2001 was granted and the option was exercised on that date. The loan was surrendered and a promissory note in the amount of $2,000 was issued on July 31, 2001 as satisfaction of the option price. The Company has written down the loan to estimated realizable value consistent with their treatment of other investments and advances with Gametele.

(3) This convertible debenture was received as consideration on the disposition of the Company's interest in Chessen U.V. Systems Inc. The debenture was converted into preferred shares during the year in accordance with the terms of the debenture. During the year, the preferred shares were written down to their estimated net realizable value of nil *(note 8)*.

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.

Notes to Consolidated Financial Statements
(in Canadian dollars)
June 30, 2001

7. Capital Assets

			2001	2000
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Computer software	**$ 134,211**	**$ 71,152**	**$ 63,059**	$ 3,627
Computer equipment	**327,780**	**244,208**	**83,572**	31,721
Leased manufacturing equipment	**42,856**	**21,641**	**21,215**	22,759
Office equipment and furniture	**132,492**	**45,340**	**87,152**	25,740
Manufacturing equipment	**1,019,191**	**481,298**	**537,893**	339,282
	$ 1,656,530	**$ 863,639**	**$ 792,891**	$ 423,129

8. Investments and Advances

	2001	2000
Nexsys Commtech International Inc. (a)		
5,480,314 common shares representing approximately a 32% voting interest.	**$ 66,243**	$ 66,243
1,830,000 preferred shares representing approximately a 11% voting interest.	**1,500,000**	1,500,000
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)
Write down to estimated net realizable value.	**(1,325,059)**	(7,070,212)
	-	1

(in Canadian dollars)

8. Investments and Advances - continued

Uniqrypt.Com Inc.		
1,900,500 shares representing a 10.0% investment.	**133,035**	133,035
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
Write down to estimated net realizable value.	**(451,034)**	(451,034)
	1	1
Gametele Systems Inc. (b)		
1,420,000 (2000 - 920,000) shares representing a 13.4% (2000 - 12.3%) investment.	**50,092**	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. Balance was converted into 500,000 common shares on September 30, 2000.	**-**	50,000
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.	**365,811**	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
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.	**604,681**	543,013
Trade accounts receivable.	**3,302,899**	-
Write down to estimated net realizable value *(note 20)*.	**(4,933,482)**	-
	1	1,531,616

(in Canadian dollars)

8. Investments and Advances - continued

Med-Minder Enterprises Inc. (c)		
100,000 shares representing a 2.4% investment.	**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
Write down to estimated net realizable value.	**(120,099)**	-
	1	120,100
Chessen Group Inc.		
1,705,871 Class A Preference shares.	**1,734,390**	-
Write down to estimated net realizable value	**(1,734,389)**	-
	1	-
	$ 4	$ 1,651,718

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

During the year, the Company received from Nexsys a cash payments of $285,000, technology valued at $150,000, furniture and fixtures valued at $15,000, and government receivables valued at $68,235 to offset total indebtedness. The technology and government receivables were written down to estimated net realizable value.

On May 10, 2001, the Company sold the remaining debentures and note to a shareholder for consideration of $1.

The Company also has the following warrants in Nexsys:

Number of Warrants	Exercise Price	Expiry Date
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) During a 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.

Trade accounts receivable outstanding from Gametele have been reclassified as a long term receivable as they are not expected to be collected within the next fiscal year due to an agreement entered into subsequent to year end *(note 20)*.

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

(in Canadian dollars)

8. Investments and Advances - continued

(c) During the year, the Company advised Med-Minder of its desire to exercise their conversion rights on the amount receivable, however, Med-Minder is currently inactive and was unable to issue the shares as requested. The investments and advances were written down to estimated net realizable value.

9. Mineral Properties

	2001	2000
Mary Ann claims	$ -	$ 50,000

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, 2001, the Company complied with all of the terms of the option agreement and amendments.

10. Long-Term Debt

	2001	2000
Bank loan, interest at Bank of Montreal prime plus 1/2%, secured by a related party guarantee, matures October 2003. Monthly principal payments of $4,865 plus interest are required.	$ 124,078	$ 170,291
Convertible promissory notes to a maximum of $300,000, interest at 12.5%, matures May 2003, secured by a GSA. Convertible into units of ZTEST at the option of the lender any time advances amount to $150,000. Each unit consists of one common share and one share purchase warrant exercisable for a period of two years from the date of the conversion.	95,000	-
Business Improvement Loan, interest at prime plus 3.75%, matures April 2002. Monthly payments of $3,693 are required.	35,678	-
Loans from a relative of the non-controlling shareholder of Permatech, interest at 9.5%, unsecured, matures November 2003. Monthly payments of $1,512 are required.	70,260	-
	325,016	170,291
Less current portion	138,840	46,419
	$ 186,176	$ 123,872

The future minimum principal repayments are as follows:

2002	$ 138,840
2003	158,417
2004	27,759
	$ 325,016

(in Canadian dollars)

11. Obligations Under Capital Lease

	2001	2000
Interest at 11.34%, matures April 2002. Blended monthly payments of $1,300 are required.	**$ -**	$ 12,349
Interest at 13.83%, matures July 2002. Blended monthly payments of $573 are required.	**8,314**	13,627
Interest at 15.38%, matures August 2002. Blended monthly payments of $942 are required.	**8,433**	-
Interest at 16.28%, matures October 2002. Blended monthly payments of $243 are required.	**3,482**	-
Interest at 15.69%, matures December 2002. Blended monthly payments of $152 are required.	**2,428**	-
Interest at 13.69%, matures February 2003. Blended monthly payments of $474 are required.	**8,434**	-
Interest at 14.31%, matures September 2003. Blended monthly payments of $113 are required	**2,522**	-
Interest at 9.8%, matures January 2005. Blended monthly payments of $289 are required.	**10,465**	12,806
	44,078	38,782
Less: current portion	**26,127**	19,985
Non-current portion	**$ 17,951**	$ 18,797

The future minimum payments are:

2002	$ 33,312
2003	12,957
2004	3,807
2005	2,023
2006	-
	52,099
Less: imputed interest	8,021
	$ 44,078

12. Notes Payable and Other Advances

Interest	Security	Terms	2001	2000
12%	Unsecured	Various	**$ -**	$ 21,740
12%	Unsecured	No repayment terms	**-**	25,000
9%	Unsecured	No repayment terms	**8,000**	-
Nil	Unsecured	No repayment terms	**40,000**	-
12%	Unsecured	On demand *	**84,000**	-
			$ 132,000	$ 46,740

* Note payable to an officer and director of the Company

(in Canadian dollars)

13. 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 9)*.

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.

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, 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

(in Canadian dollars)

13. Share Capital - continued

	Number of Shares	Amount
Common shares June 30, 2000	19,984,831	14,825,890
Business acquisition *(note 3)*	894,003	1,823,766
Private placement	1,739,000	1,547,960
Conversion of preferred shares	120,000	255,600
Paid in capital, First Preferred Shares	-	(84,780)
Common shares June 30, 2001	22,737,834	18,368,436
Class A special shares June 30, 2000 and 2001	1,193,442	100,000
Balance June 30, 2001		$ 18,468,436

	Number of Shares	Amount
First Preferred Shares		
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
Series D shares converted during year	(120,000)	(170,820)
Balance June 30, 2001	$ -	$ 1,471,908

(c) Details of warrants outstanding are as follows:

Number of Warrants	Price/Warrant	Expiry Date
1,200,000	$0.55	February 2, 2003
136,000	$1.32	July 30, 2001
80,000	$2.00	October 7, 2002
145,000	$2.10/$2.60	July 14, 2003
149,400	$2.40	August 7, 2002
447,001	$2.40	September 30, 2001
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
3,013,801		

(in Canadian dollars)

13. Share Capital - continued

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

Common Shares Under Option		Price/Option	Expiry Date
165,000		$1.12	August 22, 2001
100,000		$2.00	October 1, 2001
6,500		$0.62	February 5, 2002
569,000	(i)	$1.45	July 1, 2002
40,000		$1.60	August 11, 2002
80,000		$1.05	January 8, 2003
10,000		$1.55	February 26, 2003
145,000	(ii)	$1.60	March 16, 2003
7,500		$1.45	August 3, 2003
20,000		$0.90	December 29, 2003
28,000		$0.85	April 14, 2004
36,000		$4.40	June 30, 2004
200,000		$2.95	November 22, 2004
150,000		$2.35	June 19, 2005
150,000		$2.70	July 31, 2005
75,000		$2.35	August 16, 2005
457,500		$0.89	January 23, 2006
400,000	(iii)	$1.00	see (iv) below
2,639,500			

(i) Directors of the Company hold these options. During a 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 prior 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 prior year this officer surrendered 50,000 options and as consideration the remaining options were re-priced from $1.65 to $0.85. During the prior year, the transaction was rescinded and 45,000 options were reinstated at their original price of $1.60.

(iii) 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.

(iv) A total of 632,000 options expired during the year without being exercised as a result of the resignation and/or termination of employees and consultants.

(in Canadian dollars)

14. Commitments

Operating leases

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

2002	$ 167,627
2003	139,460
2004	131,376
2005	119,894
2006	101,103
Thereafter	490,425
	$ 1,149,885

15. 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 that was converted into preference shares during the year *(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.

The operating results of discontinued operations are as follows:

	2001	2000
Revenue	**$ -**	$ 940,229
Operating expenses	**-**	836,641
Minority interest in earnings	**-**	48,417
Income (loss) from discontinued operations	**$ -**	$ 55,171
Earnings (loss) per share	**$ -**	$ 0.00
(Loss) on disposal	**$ -**	$ (40,385)

The assets and liabilities of discontinued operations are as follows:

	2001	2000
Current assets	**$ -**	$ 823,478
Non-current assets	**-**	426,528
Current liabilities	**-**	(553,586)
Non-current liabilities	**-**	(133,070)
	$ -	$ 563,350

(in Canadian dollars)

16. 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
2002	$ -	$ -	$ 6,000
2003	-	-	1,000
2007	575,000	609,000	-
2008	392,000	392,000	-
	967,000	1,001,000	7,000
Expenses recorded in the accounts, not yet claimed for tax purposes, available indefinitely	14,905,000	14,905,000	-
	$ 15,872,000	$ 15,906,000	$ 7,000

In addition to the above income tax loss amounts, there are additional Federal and Ontario loss carry-forward amounts available of $169,000 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
2002	$ 90,000
2003	79,000
	$ 169,000

(in Canadian dollars)

16. Income Taxes - continued

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:

	2001		2000	
Income taxes (recovery) at statutory rates	**$(3,704,000)**	**(42.0)**%	$(3,607,000)	(44.0)%
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	**3,807,000**	**43.2**%	3,382,000	41.3%
Other temporary differences	**(2,000)**	**0.0**%	22,000	0.0%
	101,000	**1.2**%	(203,000)	(2.7)%
Benefit of tax losses and investment tax credits not recognized (utilized)	**(113,000)**	**(1.3)**%	203,000	2.7%
	$ (12,000)	**(0.1)**%	$ -	-%

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.

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 13.4% of the outstanding voting shares.

Med-Minder Enterprises Inc. (Med-Minder)

The Company holds 2.4% of the outstanding voting shares.

Description	**Related Party**	**2001**	2000
Revenue - design services	Gametele	**$ 140,317**	$ 52,018
Revenue - design services	Med-Minder	**$ -**	$ 7,175
Revenue - design services	Nexsys	**$ -**	$ 314,079
Revenue - product sales	Gametele	**$ 1,153,537**	$ 979,731
Revenue - product sales	Med-Minder	**$ -**	$ 14,697
Revenue - other	Gametele	**$ 700,603**	$ 178,224
Revenue - other	Nexsys	**$ 384,197**	$ 92,315
Revenue - other	Med-Minder	**$ 4,354**	$ 1,798
Consulting fees expense	James Lalonde	**$ 7,385**	$ 48,000

(in Canadian dollars)

17. Related Party Transactions - continued

Accounts receivable	Gametele	**$ -**	$ 1,267,217
Accounts receivable	Nexsys	**$ -**	$ 15,734
Accounts receivable	Med-Minder	**$ -**	$ 43,727

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 41% (2000 - 96%) of the Company's revenues are derived from a few related parties; approximately Nil (2000 - 74%) of the Company's total assets are derived from transactions with or investments in related parties.

18. Supplemental Disclosure of Cash Flow Information

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

	2001	2000
Cash paid for interest	**$ 57,270**	$ 55,081
Income taxes	**$ -**	$ -

19. Information on Operating Segments

General description

The Company's subsidiaries are organized into operating segments based on the nature of products and services provided. The Company's operations can be classified into two reportable operating segments: Electronic Manufacturing and Development ("M&D") and Network Security ("NS").

The EM&D segment carries on business manufacturing, selling, designing and developing electronic equipment.

The NS segment provides integrated application specific hardware and software solutions in the date security and e-commerce market place.

The accounting policies of the segments are the same as those described in Note 2. The Company evaluates financial performance based on measures of gross revenue and profit or loss from operations before income taxes. The following tables set forth information by operating segment as at, and for the years ended June 30, 2001 and June 30, 2000.

Information by operating segment as at and for the year ended June 30, 2001:

	EM&D	NS	Total
Revenue	3,771,255	2,110,997	5,882,252
Interest expense	48,858	17,406	66,264
Amortization of capital assets	104,106	28,584	132,690
Loss on decline in value of investment	(5,077,371)	(1,858,600)	(6,935,971)
Loss before income taxes	(8,619,478)	(206,637)	(8,826,115)
Total assets	1,417,449	684,616	2,102,065
Capital assets	698,522	94,369	792,891
Capital asset additions	366,596	6,807	373,403
Goodwill additions	214,015	1,858,600	2,072,615

(in Canadian dollars)

19. Information on Operating Segments - continued

Information by operating segment as at and for the year ended June 30, 2000:

	EM&D	NS	Total
Revenue	1,754,583	-	1,754,583
Interest expense	261,212	-	261,212
Amortization of capital assets	78,387	-	78,387
Loss on decline in value of investment	(7,521,248)	-	(7,521,248)
Loss before income taxes	(8,212,090)	-	(8,212,090)
Total assets	6,700,919	-	6,700,919
Capital assets	423,129	-	423,129
Capital asset additions	329,802	-	329,802
Goodwill additions	-	-	-

20. Subsequent Events

Subsequent to the year ended June 30, 2001 the following transactions were completed:

a) Dion Entertainment Inc. ("Dion"), a public company that trades under the symbol DIO on the Toronto Stock Exchange, has made an offer to acquire at least 91% of the outstanding shares of Gametele Systems Inc. ("Gametele"). The transaction, which has received all necessary regulatory and shareholder approvals, is scheduled to close on November 19, 2001.

In accordance with the offer, the shareholders of Gametele will receive 1 common share of Dion for each 5 shares of Gametele that are tendered. The common shares of Dion that are issued will be subject to a trading restriction that prohibits their sale for one year from the closing date of the transaction and an escrow arrangement that will result in the release of shares as follows:

Quantity	Date of Release
10%	Closing date
40%	One year after closing
30%	Two years after closing
20%	Thirty months after closing

In accordance with an agreement negotiated as a part of the takeover bid ZTEST has agreed to the following *(note 10)*:

- To cause an option it has granted on shares of Gametele to be cancelled.
- To convert a debenture valued at $250,000 into 3,000,000 common shares of Gametele Systems Inc. and to tender these shares, in conjunction with the 1,420,000 common shares already held, to the takeover bid. The 884,000 shares of Dion that ZTEST is to receive will be subject to the trading restriction and escrow agreement described above.

20. Subsequent Events - continued

- To convert all remaining debentures and accounts receivable due from Gametele into a single new debenture in the amount of $4,964,615 secured by all of the assets of Gametele. Dion will have the right to settle this debenture, at its discretion, through the issuance of common shares at a rate of 1 common share for each $1.2412 converted. ZTEST will have the right to require Dion to settle any overdue amounts at the same conversion rate. On the closing date ZTEST will receive 400,000 common shares of Dion representing payment of 10% of this new debenture. These shares will be subject to the trading restriction described above.
- To surrender all unexercised share purchase warrants.

As at the balance sheet date ZTEST has written down the investment in and advances to Gametele to the estimated net realizable value of $1 on the basis that this transaction with Dion had not yet closed and that Gametele is not currently operating. Furthermore, had the transaction with Dion closed, there remains no assurance that ZTEST would be able to liquidate its shares in Dion in a reasonable period of time at any particular price. Dion shares have traded at prices ranging from $0.17 to $0.64 per share over the past 52-week period. As a result of this write down all amounts received in the future, if any, whether they be cash payments due on debentures or the proceeds realized on sale of Dion shares, will be taken into income at the time of receipt

b) The Company is continuing to negotiate the acquisition of the remaining outstanding shares of Permatech Electronics Corp. ("Permatech"). ZTEST currently holds a 60% interest in Permatech. The terms of the acquisition have not been finalized and the transaction is subject to shareholder approval.

c) Internet Commerce Solutions Inc., a company in which ZTEST holds a 58.9% interest, has been served with notice that their financial institution is demanding repayment of their operating loan. This notice also advises that certain minority shareholders of Internet Commerce Solutions Inc., that act as guarantors for this loan facility, have agreed to repay the Company's indebtedness to the bank in its entirety in exchange for a transfer of the security currently pledged to the financial institution. It is not clear at this time either what precipitated this action by the bank or what action Internet Commerce Solutions Inc. or ZTEST may take, if any, in an attempt to remedy this situation. ZTEST has also learned that the President of Internet Commerce Solutions Inc. has tendered his resignation.