

ZTEST Electronics Inc.

Unaudited Interim Consolidated Financial Statements

(In Canadian Dollars)

December 31, 2002

ZTEST Electronics Inc.Unaudited Interim Consolidated Balance Sheet
(Canadian Dollars)
December 31, 2002

	<u>Dec. 31, 2002</u>	<u>June 30, 2002</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 52,547	\$ 9,198
Accounts receivable (Note 6)	199,588	263,967
Inventories	96,781	72,721
Prepaid expenses and other assets	34,890	51,990
Current portion of amounts receivable (Note 3)	<u>94,480</u>	<u>66,000</u>
	478,286	463,876
Amounts receivable (Note 3)	162,332	190,812
Capital assets	1,011,105	963,284
Investments and advances	<u>4</u>	<u>4</u>
	<u>\$ 1,651,727</u>	<u>\$ 1,617,976</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,133,181	\$ 723,888
Current portion of long-term debt (Note 4)	90,811	63,560
Current portion of lease obligation (Note 5)	237,466	202,189
Notes payable and other advances (Note 6)	<u>211,295</u>	<u>202,251</u>
	1,672,753	1,191,888
Long-term debt (Note 4)	1,491,054	1,352,460
Obligations under capital lease (Note 5)	219,628	341,996
Preferred shares	<u>1,471,908</u>	<u>1,471,908</u>
	<u>4,855,343</u>	<u>4,358,252</u>
Commitments	-	-
Deficiency in assets		
Share Capital (Note 7)	19,522,287	19,522,287
Deficit	<u>(22,725,903)</u>	<u>(22,262,563)</u>
	<u>(3,203,616)</u>	<u>(2,740,276)</u>
	<u>\$ 1,651,727</u>	<u>\$ 1,617,976</u>

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

ZTEST Electronics Inc.Unaudited Interim Consolidated Statement of Operations and Deficit
(Canadian Dollars)
For the Periods Ended December 31

	<u>2002</u> 3 months	<u>2002</u> 6 months	<u>2001</u> 3 months	<u>2001</u> 6 months
Revenue				
Design services	\$ 3,300	\$ 3,300	\$ -	\$ -
Product sales	445,691	792,180	391,618	768,049
Other	<u>10,320</u>	<u>17,549</u>	<u>(531)</u>	<u>3,920</u>
	<u>459,311</u>	<u>813,029</u>	<u>391,087</u>	<u>771,969</u>
Expenses				
Amortization of capital assets	12,371	25,073	20,771	47,542
Amortization of goodwill	-	-	3,567	7,133
Cost of product sales	356,386	649,736	276,664	526,551
Dividends on preferred shares	26,310	52,621	2,741	5,481
Interest expense - long term	51,779	103,045	6,575	10,375
- other	31,905	37,970	16,662	29,078
Selling, general and administrative	<u>160,267</u>	<u>383,562</u>	<u>280,503</u>	<u>645,927</u>
	<u>639,018</u>	<u>1,252,007</u>	<u>607,483</u>	<u>1,272,087</u>
Loss from operations	(179,707)	(438,978)	(216,396)	(500,118)
Minority interest in loss (income) of subsidiary	-	-	246	510
Loss on sale of capital and other assets (Note 3)	-	-	(127,207)	(84,205)
Loss from discontinued operations	-	-	(134,007)	(201,709)
Loss on decline in value of investment	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,000)</u>
Loss before provision for income taxes	(179,707)	(438,978)	(477,364)	(787,522)
Provision for income taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loss for the period	(179,707)	(438,978)	(477,364)	(787,522)
Deficit, beginning of period	(22,534,015)	(22,262,563)	(20,430,030)	(20,119,389)
Dividends on preferred shares	<u>(12,181)</u>	<u>(24,362)</u>	<u>(4,913)</u>	<u>(5,396)</u>
Deficit, end of period	<u>\$ (22,725,903)</u>	<u>\$ (22,725,903)</u>	<u>\$ (20,912,307)</u>	<u>\$ (20,912,307)</u>
Net (loss) earnings per share:				
Continuing operations	<u>\$ (0.0057)</u>	<u>\$ (0.0138)</u>	<u>\$ (0.0142)</u>	<u>\$ (0.0246)</u>
Discontinued operations	<u>\$ 0.0000</u>	<u>\$ 0.0000</u>	<u>\$ (0.0056)</u>	<u>\$ (0.0085)</u>
Weighted average shares outstanding	<u>31,772,210</u>	<u>31,772,210</u>	<u>24,122,650</u>	<u>23,807,054</u>

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

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

	<u>2002</u> 3 months	<u>2002</u> 6 months	<u>2001</u> 3 months	<u>2001</u> 6 months
Cash flow from operating activities				
Net (loss) for the period	\$ (179,707)	\$ (438,978)	\$ (477,364)	\$ (787,522)
Items not involving cash				
Amortization of capital assets	48,183	94,538	38,691	83,427
Loss on sale of other assets	-	-	127,207	84,205
Amortization of goodwill	-	-	3,567	7,133
Minority interest in subsidiary	-	-	(246)	(510)
Decline in value of investments	-	-	-	2,000
Changes in non-cash working capital items:				
Accounts receivable	48,185	64,379	763,661	508,657
Inventories	7,167	(24,060)	19,961	28,408
Prepaid expenses and other assets	1,972	17,100	(7,378)	(15,266)
Accounts payable	84,369	384,931	(552,086)	(342,109)
	<u>10,169</u>	<u>97,910</u>	<u>(83,987)</u>	<u>(431,577)</u>
Cash flow from investing activities				
Proceeds from sale of capital and other assets	-	-	9,085	52,087
Purchase of capital assets	-	(142,359)	(4,261)	(4,261)
Investments and advances	-	-	-	(2,000)
	<u>-</u>	<u>(142,359)</u>	<u>4,824</u>	<u>45,826</u>
Cash flow from financing activities				
Increase in bank indebtedness	-	-	(244,541)	(218,562)
Capital lease obligation	(54,806)	(87,091)	(5,067)	(11,364)
Proceeds of long-term debt and notes payable	96,351	229,500	423,701	442,915
Repayment of long-term debt and notes payable	(33,394)	(54,611)	-	-
Dividends paid on preferred shares	-	-	(4,913)	(5,396)
Issuance of preferred shares in subsidiary	-	-	-	175,770
Issuance of common shares	-	-	-	55,000
	<u>8,151</u>	<u>87,798</u>	<u>169,170</u>	<u>438,363</u>
Increase in cash	18,320	43,349	90,007	52,612
Cash, beginning of period	<u>34,227</u>	<u>9,198</u>	<u>91,206</u>	<u>128,601</u>
Cash, end of period	<u>\$ 52,547</u>	<u>\$ 52,547</u>	<u>\$ 181,213</u>	<u>\$ 181,213</u>

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

ZTEST Electronics Inc.

Notes to the Unaudited Interim Consolidated Financial Statements
(Canadian Dollars)
December 31, 2002

NOTE 1 Basis of Presentation

These Unaudited Interim Consolidated Financial Statements have been compiled by management in compliance with BC Form 51-901F. They have been prepared using the same accounting policies and methods as the audited financial statements as at June 30, 2002.

These financial statements include certain disclosures pertaining to the financial position of the company as at December 31, 2002 and the results of operations for the six month period then ended however they do not conform, in all respects, to the disclosure requirements of generally accepted accounting principles for annual financial statements. Accordingly, these unaudited interim consolidated financial statements should only be read in conjunction with the consolidated financial statements as at June 30, 2002.

NOTE 2 Information on Operating Segments

The Company has only one definable operating segment, Electronic Manufacturing and Development, which carries on business manufacturing, selling, designing and developing electronic equipment. Accordingly, there are no additional disclosures to be provided relative to operating segments.

NOTE 3 Amounts receivable

	<u>Dec. 31, 2002</u>	<u>June 30, 2002</u>
Promissory note receivable from a company controlled by the spouse of a Director of the Company, unsecured, interest at 8.5%. Interest accrues without payment until Oct. 2002 then payments of interest only are due monthly until June 2003, followed by blended monthly payments of principal and interest until maturity June 2006.	190,812	190,812
Demand promissory notes bearing interest at 9.5% per Annum with no fixed maturity dates.	<u>66,000</u>	<u>66,000</u>
	256,812	256,812
Less: current portion	<u>94,480</u>	<u>66,000</u>
	<u>\$ 162,332</u>	<u>\$ 190,812</u>

ZTEST Electronics Inc.

Notes to the Unaudited Interim Consolidated Financial Statements
(Canadian Dollars)
December 31, 2002

NOTE 4 Long-term Debt

	<u>Dec. 31, 2002</u>	<u>June 30, 2002</u>
Bank loan, interest at Bank of Montreal prime + ½%, secured by a related party guarantee, matures Oct 2003. Monthly payments of \$4,865 including interest are required	\$ 43,345	\$ 71,058
Convertible debentures bearing interest at 10.5% and mature Dec. 3, 2003. Monthly interest payments are required. Convertible, in whole or in part, into units of the Company at the rate of one unit for each \$0.11 converted. Each unit consists of one common share and one share purchase warrant which entitles the holder to acquire an additional common share for \$0.11 for a period of two years from the date of conversion. The Company may redeem these debentures, in whole or in part, any time after June 3, 2003. ⁽¹⁾	599,500	599,500
Convertible debentures bearing interest at 8% and mature Feb 14, 2004. Monthly interest payments are required. Convertible, in whole or in part, into units of the Company at the rate of one unit for each \$0.125 converted. Each unit consists of one common share and one share purchase warrant which entitles the holder to acquire an additional common share for a period which is the lesser of two years from the date of issuance of the debenture and six months following conversion. The exercise price is \$0.125 until Feb 15, 2003 then \$0.15 thereafter. The Company may redeem these debentures, in whole or in part, any time after Aug 15, 2003. ⁽²⁾	300,000	300,000
Convertible debentures bearing interest at 8% and mature May 21, 2004. Monthly interest payments are required. Convertible, in whole or in part, into units of the Company at the rate of one unit for each \$0.16 converted. Each unit consists of one common share and one share purchase warrant which entitles the holder to acquire an additional common share for \$0.18 for a period which is the lesser of two years from the date of issuance of the debenture and six months following conversion. The Company may redeem these debentures, in whole or in part, any time after Nov 21, 2003.	120,000	120,000

ZTEST Electronics Inc.

Notes to the Unaudited Interim Consolidated Financial Statements
(Canadian Dollars)
December 31, 2002

NOTE 4 Long-term Debt (Continued)

	<u>Dec. 31, 2002</u>	<u>June 30, 2002</u>
Convertible debentures bearing interest at 8% and mature July 12, 2004. Monthly interest payments are required. Convertible, in whole or in part, into units of the Company at the rate of one unit for each \$0.15 converted. Each unit consists of one common share and one share purchase warrant which entitles the holder to acquire an additional common share for \$0.15 for a period which is the lesser of two years from the date of issuance of the debenture and six months following conversion. The Company may redeem these debentures, in whole or in part, any time after Jan 12, 2004. ⁽³⁾	56,000	-
Convertible debentures bearing interest at 8% and mature September 9, 2004. Monthly interest payments are required. Convertible, in whole or in part, into units of the Company at the rate of one unit for each \$0.10 converted. Each unit consists of one common share and one share purchase warrant which entitles the holder to acquire an additional common share for \$0.10 for a period which is the lesser of two years from the date of issuance of the debenture and six months following conversion. The Company may redeem these debentures, in whole or in part, any time after March 9, 2004.	65,000	-
Convertible debentures bearing interest at 8% and mature October 25, 2004. Monthly interest payments are required. Convertible, in whole or in part, into units of the Company at the rate of one unit for each \$0.10 converted. Each unit consists of one common share and one share purchase warrant which entitles the holder to acquire an additional common share for \$0.10 for a period which is the lesser of two years from the date of issuance of the debenture and six months following conversion. The Company may redeem these debentures, in whole or in part, any time after April 25, 2004. ⁽⁴⁾	80,000	-
Note payable to a company controlled by the spouse of a Director of the Company, unsecured, interest at 8.5%. No payments until Oct. 2002 then six months as to interest only then blended monthly payments of \$6,025 are required.	318,020	318,020

ZTEST Electronics Inc.

Notes to the Unaudited Interim Consolidated Financial Statements
(Canadian Dollars)
December 31, 2002

NOTE 4 Long-term Debt (Continued)

	<u>Dec. 31, 2002</u>	<u>June 30, 2002</u>
Business improvement loan, interest at prime + 3.75%, due on demand. Monthly interest payments are required.	-	7,442
	1,581,865	1,416,020
Less: current portion	<u>90,811</u>	<u>63,560</u>
	<u>\$ 1,491,054</u>	<u>\$ 1,352,460</u>

(1) Includes \$49,500 payable to Officers of the Company and/or their spouses

(2) Includes \$42,750 payable to Officers of the Company and/or their spouses

(3) Includes \$21,000 payable to an Officer of the Company

(4) Includes \$45,000 payable to Officers of the Company

NOTE 5 Obligations under capital lease

	<u>Dec. 31, 2002</u>	<u>June 30, 2002</u>
Interest at 13.83%, matures July 2002. Blended monthly payments of \$573 are required.	\$ -	\$ 2,217
Interest at 14.31%, matures Sept. 2003. Blended monthly payments of \$113 are required	860	1,454
Interest at 9.8%, matures Jan. 2005. Blended monthly payments of \$289 are required.	6,527	7,906
Interest at 13.10%, matures Aug. 2004. Blended monthly payments of \$25,097 commence Aug. 2002	<u>449,707</u>	<u>532,608</u>
	457,094	544,185
Less: current portion	<u>237,466</u>	<u>202,189</u>
	<u>\$ 219,628</u>	<u>\$ 341,996</u>

ZTEST Electronics Inc.

Notes to the Unaudited Interim Consolidated Financial Statements
(Canadian Dollars)
December 31, 2002

NOTE 6 Notes Payable

<u>Interest</u>	<u>Security</u>	<u>Terms</u>	<u>Dec. 31, 2002</u>	<u>June 30, 2002</u>
6.0%	Unsecured	On Demand	\$ 16,767	\$ 16,767
8.0%	Unsecured	None	63,500	35,000
0.0%	Unsecured	None	2,000	2,000
33.0%	Accts Receivable	Collection of A/R*	71,336	78,792
8.0%	Unsecured	On Demand*	-	12,000
P+2.0%	Unsecured	None*	<u>57,692</u>	<u>57,692</u>
			<u>\$ 211,295</u>	<u>\$ 202,251</u>

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

NOTE 7 Share Capital**(A) Authorized**

Unlimited Common Shares

Unlimited Non-voting, non-participating Class A Special Shares redeemable by the Company or the holders on a one-for-one basis for common shares of Northern Cross Minerals Inc., whose primary assets are mineral properties.

Unlimited Preference shares, in one or more series of which the following four series have been authorized to date:

Series A, voting⁽¹⁾ shares bear 8% cumulative monthly dividends, are redeemable and all outstanding shares must be repurchased on May 21, 2004. These shares can be converted into common shares of the Company at a rate of 1 common share for each 1.40625 Series A shares until May 2004.

Series B shares were authorized, issued and subsequently converted to common shares. No further shares in this series may be issued.

Series C voting⁽¹⁾ shares bear 7% cumulative monthly dividends, are redeemable after Nov 1, 2002 and all outstanding shares must be repurchased on May 1, 2007. These shares can be converted into common shares of the Company at a rate of 1 common share for each 1.4286 Series C shares until May 2004 and then at a rate of one common share for each 1.7143 Series C shares until May 2007.

ZTEST Electronics Inc.

Notes to the Unaudited Interim Consolidated Financial Statements
(Canadian Dollars)
December 31, 2002

NOTE 7 Share Capital – Continued

Series D voting⁽¹⁾ shares bear 7% cumulative monthly dividends, are redeemable after Dec. 1, 2002 and all outstanding shares must be repurchased on June 1, 2007. These shares can be converted into common shares of the Company at a rate of 1 common share for each 1.40845 Series D shares until June 2004 and then at a rate of one common share for each 1.6432 Series D shares until June 2007.

⁽¹⁾All shares carry the right to vote at any meeting of common shareholders in the event that the cumulative dividends are at least 12 months in arrears. As at the balance sheet date the dividends on Series A, C and D shares were all at least 12 months in arrears.

(B) Issued

	<u>Number</u>	<u>Value</u>
Common shares - unchanged	31,772,210	19,422,287
Class A Special shares - unchanged	1,193,442	<u>100,000</u>
		<u>\$ 19,522,287</u>

(C) Details of warrants outstanding are as follows:

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,200,000 ⁽¹⁾	\$0.55	Feb 2, 2003
383,000	\$2.60	Jun 30, 2003
145,000	\$2.60	July 14, 2003
<u>933,333</u>	\$0.15	Aug 9, 2003
<u>2,661,333</u>		

During the period ended December 30, 2002 a total of 229,400 warrants expired without being exercised and an additional ⁽¹⁾ 1,200,000 have expired subsequent to the balance sheet date.

ZTEST Electronics Inc.

Notes to the Unaudited Interim Consolidated Financial Statements
(Canadian Dollars)
December 31, 2002

NOTE 7 Share Capital – Continued

(D) Details of options outstanding are as follows:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
80,000 ⁽¹⁾	\$1.05	Jan 8, 2003
145,000 ⁽¹⁾	\$1.60	Mar 16, 2003
7,500	\$1.45	Aug 3, 2003
20,000 ⁽¹⁾	\$0.90	Dec 29, 2003
16,000	\$0.85	Apr 14, 2004
36,000	\$4.40	June 30, 2004
150,000 ⁽¹⁾	\$2.95	Nov 22, 2004
120,000	\$0.21	Apr 1, 2005
150,000	\$2.35	June 19, 2005
45,000 ⁽¹⁾	\$2.35	Aug 16, 2005
30,000	\$2.35	Aug 16, 2005
260,500 ⁽¹⁾	\$0.89	Jan 23, 2006
30,000	\$0.89	Jan 23, 2006
100,000 ⁽¹⁾	\$0.17	Nov 27, 2006
900,000 ⁽¹⁾	\$0.24	Feb 19, 2007
200,000 ⁽¹⁾	\$0.135	Apr 30, 2007
<u>900,000</u> ⁽¹⁾	<u>\$0.10</u>	<u>Dec 17, 2007</u>
<u>3,190,000</u>		

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

During the six month period ended December 31, 2002 a total of 435,000 options that were held by Directors and/or Officers expired without being exercised and 900,000 new options were granted to Directors and/or Officers.

NOTE 8 Related Party Transactions

During the six month period ended December 31, 2002 the Company reported the following revenues and expenses resulting from transactions with related parties:

<u>Description</u>	<u>Related Party</u>	<u>Amount</u>
Revenue – other	1114377	\$ 8,176
Interest expense	Nu-Way	\$ 13,504
Interest expense	1114377	\$ 13,626
Interest expense	Directors/Officers	\$ 8,384
Finders' fees	James Lalonde	\$ 8,100