

ZTEST Electronics Inc.

Unaudited Interim Consolidated Financial Statements

September 30, 2004

ZTEST Electronics Inc.**Unaudited Interim Consolidated Balance Sheet***September 30, 2004*

	Sept. 30 2004	(Audited) June 30 2004
Assets		
Current Assets		
Cash	\$ 54,164	\$ 36,088
Accounts receivable	418,251	486,410
Inventories (Note 4)	155,251	126,344
Prepaid expenses and other assets	37,251	45,508
Amounts receivable (Note 5)	17,000	-
	681,917	694,350
Capital assets (Note 6)	410,779	428,645
Investments and advances (Note 7)	4	4
	\$ 1,092,700	\$ 1,122,999
Liabilities		
Current liabilities		
Customer deposits	\$ -	\$ 2,584
Accounts payable and accrued liabilities	609,116	754,947
Dividends payable	525,052	489,784
Current portion of long-term debt (Note 9)	133,175	109,594
Current portion of lease obligation (Note 10)	1,144	1,971
Notes payable and other advances (Note 8)	402,675	313,774
	1,671,162	1,672,654
Long-term debt (Note 9)	1,514,683	1,533,052
Preferred shares (Note 12)	1,471,908	1,471,908
	4,657,753	4,677,614
Commitments (Note 11)	-	-
Deficiency in assets		
Share Capital (Note 12)	19,627,752	19,627,637
Contributed surplus (Note 12)	1,845	1,845
Equity portion of convertible debentures (Note 9)	82,674	82,674
Deficit	(23,277,209)	(23,266,771)
	(3,565,053)	(3,554,615)
	\$ 1,092,700	\$ 1,122,999

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

Approved by the Board:

Signed: "John Perreault"

Director

Signed: "Wojciech Drzazga"

Director

ZTEST Electronics Inc.**Unaudited Interim Consolidated Statement of Operations and Deficit***For the three month period ended September 30*

	2004	2003
Revenue		
Product sales	\$ 915,952	\$ 477,584
Interest and other	2,901	1,762
Design services	2,070	7,235
	<u>920,923</u>	<u>486,581</u>
Expenses		
Cost of product sales and design services	631,872	368,806
Selling, general and administrative	206,590	186,159
Interest expense - long term (Note 14)	26,499	34,971
Dividends on preferred shares	23,570	26,311
Interest expense - other (Note 14)	22,882	26,608
Amortization of capital assets	8,250	10,260
	<u>919,663</u>	<u>653,115</u>
Income (loss) from operations	1,260	(166,534)
Provision for income taxes	-	-
Net income (loss) for the period	1,260	(166,534)
Deficit, beginning of period	(23,266,771)	(22,850,872)
Dividends on preferred shares	(11,698)	(12,181)
Deficit, end of period	<u>\$ (23,277,209)</u>	<u>\$ (23,029,587)</u>
Net income (loss) per share	<u>\$ 0.00004</u>	<u>\$ (0.0052)</u>
Weighted average shares outstanding	<u>32,731,016</u>	<u>31,832,210</u>

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

ZTEST Electronics Inc.**Unaudited Interim Consolidated Statement of Cash Flows***For the three month period ended September 30*

	(Unaudited) 2004	(Unaudited) 2003
Cash flow from operating activities		
Net income (loss) for the period	\$ 1,260	\$ (166,534)
Items not involving cash		
Amortization of capital assets	21,352	24,059
Dividends on preferred shares	23,570	26,311
Interest added to balance of note payable	901	-
Interest accretion	7,530	-
Changes in non-cash working capital items:		
Accounts receivable	68,159	48,226
Inventories	(28,907)	(3,044)
Prepaid expenses and other assets	(8,257)	(2,298)
Amounts receivable	-	-
Customer deposits	(2,584)	(753)
Accounts payable and accrued liabilities	(145,831)	87,762
	<u>(46,293)</u>	<u>13,729</u>
Cash flow from investing activities		
Purchase of capital assets	(3,486)	(15,952)
Cash flow from financing activities		
Repayment of capital lease obligation	(827)	(961)
Net proceeds (repayment) of long-term debt and notes payable	68,682	(1,507)
	<u>67,855</u>	<u>(2,468)</u>
Increase (decrease) in cash	18,076	(4,691)
Cash, beginning of period	36,088	8,226
Cash, end of period	<u>\$ 54,164</u>	<u>\$ 3,535</u>

Supplemental Disclosure of Cash Flow Information

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

Cash paid for interest	\$ 27,645	43,304
Income taxes	\$ -	\$ -

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

ZTEST Electronics Inc.

Notes to Unaudited Interim Consolidated Financial Statements

September 30 and June 30, 2004

1. Business of the Company

ZTEST Electronics Inc. ("the Company") amalgamated under the laws of Ontario and carries on business, designing, developing, manufacturing and selling circuit boards and other electronic equipment. The Company's shares trade on the Canadian Venture Exchange ("CDNX") under the symbol "ZTE".

2. Significant Accounting Policies

Going concern basis of presentation

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. 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 September 30, 2004 the Company has a deficit, to date, of \$23,277,209.

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, 2004 and should be read in conjunction with those statements.

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

Permatech Electronics Corporation	- 100% owned
Northern Cross Minerals Inc.	- 66.7% owned (inactive)

During the period the Company elected to foreclose on a loan receivable from Northern Cross and exercised its rights under a GSA covering all of the assets of that company. The only assets of Northern Cross are options/rights to various mining properties. The company intends to keep the options/rights in good standing until a sale can be facilitated.

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 September 30, 2004 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.

Capital assets

Capital assets are stated at cost. Amortization is provided over the related assets' estimated useful lives using the following methods and annual rates with one-half of the rates noted below are used in the year of acquisition:

Computer software	-	100%	declining balance
Computer equipment	-	30%	declining balance
Office equipment and furniture	-	20%	declining balance
Manufacturing equipment	-	20%	declining balance
Leasehold improvements	-	10 yrs	straight line

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. The Company currently has investments in three inactive corporations and holds preference shares of another. The carrying value of each of these investments has been written down to their estimated net realizable value of \$1 and any further recoveries, should any arise, will be accounted for on a cash basis.

2. Significant Accounting Policies - continued

Financial instruments

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximates their fair value due to the short-term maturities of these instruments.

Future income taxes

The Company accounts for income taxes using the asset and liability method of accounting. Under this method, future income tax assets and future income tax liabilities are recorded based on temporary differences between the financial reporting basis of the Company's assets and liabilities and their corresponding tax basis. The future benefits of income tax assets, including unused tax losses, are recognized subject to a valuation allowance, to the extent that it is more likely than not that such losses will be ultimately utilized. These future income tax assets and liabilities are measured using substantially enacted tax rates and laws that are expected to apply when the tax assets or liabilities are to be settled or realized.

Revenue recognition

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

Earnings per share

Basic earnings (loss) per share are calculated using the weighted average number of common shares outstanding throughout the year. Diluted earnings (loss) per share are computed using the treasury stock method. Stock options and warrants outstanding are not included in the computation of diluted earnings (loss) per share if their inclusion would be anti-dilutive.

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 Canadian 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.

The Black Scholes option valuation model used by the Company to determine fair values, was developed for use in estimating the fair value of freely traded options. This model requires the input of highly subjective assumptions including future stock price volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing model does not necessarily provide a reliable single measure of the fair value of the Company's stock options granted during the year.

Stock based compensation

The Company has in effect a Stock Option Plan. Stock options awarded to non-employees on or after July 1, 2002 are accounted for using the fair value-based method. Stock options awarded to employees on or after July 1, 2003 are accounted for using the fair value-based method as described in note 12. For stock options awarded to employees prior to July 1, 2003, pro forma disclosure of net earnings (loss), pro forma basic earnings (loss) per share and pro forma diluted earnings (loss) per share were provided as if these awards were accounted for using the fair value-based method. Fair value is calculated using the Black Scholes model with the assumptions described in note 12. Consideration paid on the exercise of stock options is credited to share capital.

ZTEST Electronics Inc.

Notes to Unaudited Interim Consolidated Financial Statements

September 30 and June 30, 2004

3. Change in Accounting Policies

Stock-based compensation plans

Effective July 1, 2003, the Company prospectively adopted the fair value-based method for stock-based compensation in accordance with the recommendations of Section 3870 "Stock-Based Compensation and Other Stock-Based Payments", issued by the CICA. Previously, no compensation expense was recognized for stock options granted to employees. Under the new policy, compensation expense for employee stock options is accounted for using the fair value-based method as described in note 2. The contributed surplus arising during the year ended June 30, 2004 as a result of the change in accounting policy was \$1,730.

4. Inventories

	Sept 30 2004	June 30 2004
Raw materials and supplies	\$ 133,745	\$ 83,646
Work in process	20,765	41,320
Finished goods	741	1,378
	\$ 155,251	\$ 126,344

5. Amounts Receivable

	Sept 30 2004	June 30 2004
Demand promissory notes bearing interest at 10% per annum with no fixed maturity dates.	\$ 17,000	\$ -
Less: Current portion	17,000	-
	\$ -	\$ -

6. Capital Assets

	Sept 30 2004	June 30 2004		
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer software	\$ 34,269	\$ 34,269	\$ -	\$ -
Computer equipment	258,307	243,699	14,608	15,793
Office equipment and furniture	118,333	96,323	22,010	19,530
Manufacturing equipment	983,165	648,873	334,292	351,928
Leasehold improvements	61,003	21,134	39,869	41,394
	\$ 1,455,077	\$ 1,044,298	\$ 410,779	\$ 428,645

ZTEST Electronics Inc.

Notes to Unaudited Interim Consolidated Financial Statements

September 30 and June 30, 2004

7. Investments and Advances

The Company holds various securities in the following entities, each of which has been written down to its net realizable value as they are no longer operational nor do they possess any tangible security to be acted upon:

	Sept 30 2004	June 30 2004
Dion Entertainment Corp.		
2,153,973 common shares and a debenture having a face value of \$3,574,522 which is in default.	\$ 1	\$ 1
Nexsys Commtech International Inc.		
5,480,314 common shares and 1,830,000 preferred shares representing a 43% voting interest. The Company also holds 4,750,000 warrants and has granted an option on 400,000 shares of Nexsys to a creditor.	-	-
Uniqrypt.Com Inc.		
1,900,500 common shares representing a 10.0% investment and a convertible debenture having a face value of \$318,000, which is in default.	1	1
Med-Minder Enterprises Inc.		
100,000 shares representing a 2.4% investment and a \$120,000 amount receivable for which the Company provided notice of intent to convert but never received the requisite shares.	1	1
Chessen Group Inc.		
1,705,871 Class A Preference shares.	1	1
	\$ 4	\$ 4

8. Notes Payable and Other Advances

	Sept 30 2004	June 30 2004
<u>Interest</u>		
Nil	\$ 2,000	\$ 2,000
Prime + 2%	57,692	57,692
6%	16,767	16,767
8%	49,430	96,430
8.5%	42,645	41,744
10%	145,922	10,922
12%	52,639	52,639
12%	8,500	8,500
14%	15,000	15,000
16%	12,080	12,080
	\$ 402,675	\$ 313,774

(1) Payable to Officers of the Company and/or their spouses.

(2) Includes \$44,545 payable to Officers of the Company and/or their spouses.

(3) Payable to a company controlled by the spouse of a Director of the Company.

(5) Includes \$10,922 payable to Officers of the Company and/or their spouses.

(5) Includes \$25,139 payable to Officers of the Company and/or their spouses.

ZTEST Electronics Inc.

Notes to Unaudited Interim Consolidated Financial Statements

September 30 and June 30, 2004

9. Long-Term Debt

	Sept 30 2004	June 30 2004
Convertible debenture bearing interest at 8% matures January 2005. Monthly interest payments are required. Convertible, in whole or in part, into common shares of the Company at the rate of one common share for each \$0.05 converted. The holder also received 2,000,000 share purchase warrants which expired during the year.	\$ 100,000	\$ 100,000
Convertible non-interest bearing debentures with a face value of \$918,889 mature December 2006. Convertible, in whole or in part, into units of the Company at the rate of one unit for each \$0.10 converted on or before December 1, 2005 or one unit for each \$0.11 converted thereafter. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to acquire an additional common share for \$0.10 if conversion occurs on or before December 1, 2005 or for \$0.11 otherwise. Warrants expire on the earlier of 2 years from the date of conversion and December 1, 2006. ⁽¹⁾	869,264	863,507
Convertible non-interest bearing debentures with a face value of \$222,292 mature December 2005. Convertible, in whole or in part, into units of the Company at the rate of one unit for each \$0.10 converted. Each unit consists of one common share and one share purchase warrant which entitles the holder to acquire an additional common share for \$0.10 on or before December 1, 2005.	215,311	213,810
Convertible non-interest bearing debentures with a face value of \$78,538 mature December 1, 2005. Convertible, in whole or in part, into common shares of the Company at the rate of one common share for each \$0.10 converted. ⁽²⁾	77,270	76,998
Term loan bearing interest at the TD Canada Trust prime rate plus 14.3%, is secured by a general security agreement, and matures June 30, 2008. Monthly payments of interest only are required until July 2005 when blended monthly principal and interest payments of \$13,138 are required. ⁽³⁾	363,145	363,145
Note payable bears interest at 8.5% with no fixed maturity date. Blended monthly payments of \$947 are required. ⁽⁴⁾	22,868	25,186
	1,647,858	1,642,646
Less: Current portion	133,175	109,594
	\$ 1,514,683	\$ 1,533,052

The liability component of the convertible debt is calculated by present valuing the cash flows at an interest rate applicable to non-convertible debt. The equity value of the convertible debt is comprised of the fair value of the conversion options and the warrants. The carrying value for each component is recognized on a pro rata basis based on their relative fair values. The equity portion of the convertible debt is accreted over its term to the full face value by charges to interest expense. The components of the convertible debentures issued during the 2004 fiscal year are as follows:

	Sept 30 2004	June 30 2004
Convertible debentures at face value	\$ 1,219,719	\$ 1,219,719
Equity portion of convertible debt	(82,674)	(82,674)
Equity accretion	24,800	17,270
	\$ 1,161,845	\$ 1,154,315

ZTEST Electronics Inc.

Notes to Unaudited Interim Consolidated Financial Statements

September 30 and June 30, 2004

9. Long-Term Debt - continued

The future minimum principal repayments for each twelve month period subsequent to the balance sheet date are as follows:

2005	\$	133,175
2006		410,353
2007		994,514
2008		109,816
		<hr/>
		\$ 1,647,858

- (1) Includes debentures with a face value of \$90,013 payable to Officers of the Company and/or their spouses.
- (2) Includes debentures with a face value of \$5,938 payable to Officers of the Company and/or their spouses.
- (3) Payable to a corporation that is a shareholder of the Company and whose President is a Director of the Company.
- (4) Payable to a company controlled by the spouse of a Director of the Company.

10. Obligations Under Capital Lease

	Sept 30 2004	June 30 2003
Capital lease bearing interest at 9.8%, matures January 2005. Blended monthly payments of \$289 are required.	\$ 1,144	\$ 1,971
Less: Current portion	1,144	1,971
		<hr/>
		\$ - \$ -

11. Commitments

Operating leases

Minimum payments due under operating leases for premises and office equipment that are required to be made in each twelve month period subsequent to the balance sheet date are approximately as follows:

2005	\$	115,262
2006		102,235
2007		104,121
2008		106,761
2009		108,648
Thereafter		153,918
		<hr/>
		\$ 690,945

ZTEST Electronics Inc.

Notes to Unaudited Interim Consolidated Financial Statements

September 30 and June 30, 2004

12. 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.

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

Series A redeemable, voting (1) shares were to be repurchased on May 21, 2004. Negotiations as to a means of settlement are ongoing.

Series B non voting shares may no longer be issued. All previously issued shares in this series have been converted into common shares.

Series C redeemable, voting (1) shares bear cumulative monthly dividends payable at a rate of 7% per annum 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 1.7143 Series C shares until May 2007.

Series D redeemable, voting (1) shares bear cumulative monthly dividends payable at a rate of 7% per annum 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 1.6432 Series D shares until June 2007.

- (1) All preferred shares carry the right to vote at the 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, Series C, and Series D shares were all at least 12 months in arrears.

(b) Issued

	Number of Shares	Amount
Common shares June 30, 2003	31,832,210	\$ 19,434,887
Historical rounding errors corrected by transfer agent	1,427	-
Debentures converted by Officers and/or their spouses	739,879	77,000
Settlement of accounts payable to Directors	157,500	15,750
Common shares September 30, 2004 and June 30, 2004	32,731,016	19,527,637
Class A special shares September 30, 2004 and June 30, 2004	1,193,442	100,000
Balance September 30, 2004 and June 30, 2004		\$ 19,627,637
First Preferred Shares		
Balance September 30, 2004 and June 30, 2004	-	\$ 1,471,908

(c) Details of warrants outstanding are as follows:

Number of Warrants	Price/Warrant	Expiry Date
238,743	\$0.10	February 23, 2006
238,743		

During the period 100,000 warrants expired and no new warrants were issued. The 238,743 warrants outstanding are all held by Officers of the Company and/or their spouses.

ZTEST Electronics Inc.

Notes to Unaudited Interim Consolidated Financial Statements

September 30 and June 30, 2004

12. Share Capital - continued

(d) Details of options outstanding are as follows:

Common Under Option	Price/Option	Shares Expiry Date
150,000 ⁽¹⁾	\$2.95	November 22, 2004
60,000	\$0.21	April 1, 2005
150,000	\$2.35	June 19, 2005
45,000 ⁽¹⁾	\$2.35	August 16, 2005
260,500 ⁽¹⁾	\$0.89	January 23, 2006
30,000	\$0.89	January 23, 2006
100,000 ⁽¹⁾	\$0.17	November 27, 2006
900,000 ⁽¹⁾	\$0.24	February 19, 2007
200,000 ⁽¹⁾	\$0.135	April 30, 2007
900,000 ⁽¹⁾	\$0.10	December 17, 2007
950,000 ⁽¹⁾	\$0.12	December 18, 2008
150,000	\$0.12	December 18, 2008
3,895,500		

⁽¹⁾ Directors and/or Officers of the Company hold these options.

During the period no options expired, no options were exercised, and no new options were granted however 150,000 options held by Directors and/or officers have expired subsequent to the balance sheet date.

(e) **Stock based compensation:**

The fair value of stock options granted during the prior year was been determined to be \$1,845 using the Black-Scholes model for pricing options. The amount was included in selling, general and administrative expense for the year ended June 30, 2004 and contributed surplus as at June 30, 2004.

The following weighted average assumptions were used to calculate the fair value of the options:

Dividend yield	NIL
Risk free interest rate	2.60%
Expected stock volatility	3.02%
Expected life	3 years

(f) **Pro forma stock option disclosure:**

The fair value of stock options issued after July 1, 2002 and before June 30, 2003 has been estimated at \$NIL using the Black-Scholes model for pricing options. As a result there are no changes to reported earnings as a result of the fair valuing of stock options. The following assumptions were used:

Dividend yield	NIL
Risk free interest rate	2.79%
Expected stock volatility	4.25%
Expected life	1 year

ZTEST Electronics Inc.

Notes to Unaudited Interim Consolidated Financial Statements

September 30 and June 30, 2004

13. Income Taxes

Future Income Taxes

As at the year end date, the approximate tax effect of each type of temporary difference that gives rise to the Company's future income tax assets (liabilities) is as follows:

	June 30 2004
Other	\$ 4,473,956
Undepreciated capital cost	174,477
Non-capital losses	757,138
Capital losses	1,046,133
Future income tax assets, before valuation allowance	6,451,704
Valuation allowance	(6,451,704)
Net future tax assets	\$ -

The timing of the utilization of the future tax assets is undeterminable. Consequently, a full valuation allowance has been provided against the future value of these assets.

Tax Loss Carry-Forwards

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

Year	
2005	\$ 213,025
2006	32,617
2007	177,355
2008	381,579
2009	861,518
2010	439,852
2014	114,400
	\$ 2,220,346

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

In addition, expenses in the amount of approximately \$13,610,000 have been recorded in the accounts but have not yet been claimed for income tax purposes and capital losses of approximately \$6,136,000 are available indefinitely.

ZTEST Electronics Inc.

Notes to Unaudited Interim Consolidated Financial Statements

September 30 and June 30, 2004

14. Related Party Transactions

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

Nu-Way Offerings Limited ("Nu-Way")

A shareholder, whose President is a Director of the Company.

1114377 Ontario Inc. ("1114377")

A shareholder, that is controlled by the spouse of a Director of the Company.

Description	Related Party	Sept 30 2004	June 30 2004
Interest expense - other	Nu-Way	\$ -	\$ 97,997
Interest expense - long term	Nu-way	\$ 16,387	\$ -
Interest expense - long term	1114377	\$ 523	\$ 5,959
Interest expense - other	1114377	\$ 1,158	\$ 61
Interest expense - long term	Directors/Officers	\$ -	\$ 6,102
Interest expense - other	Directors/Officers	\$ 3,809	\$ 12,149

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.

15. Segment Disclosure

The Company has one operating segment, being the designing, developing, manufacturing and selling of electronic equipment. All of the Company's assets are located in Canada.