Consolidated Financial Statements

CityXpress.com Corp.

(Expressed in U.S. dollars)
June 30, 2001

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of
CityXpress.com Corp.

We have audited the accompanying consolidated balance sheets of **CityXpress.com Corp.** (the "Company") as of June 30, 2001 and 2000, and the related consolidated statements of loss, stockholders' equity (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CityXpress.com Corp. at June 30, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred recurring operating losses and has a working capital deficiency. The Company is dependent on its ability to raise capital from shareholders or other sources to sustain operations. These factors, along with other matters as set forth in Note 1, raise substantial doubt that the Company will be able to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Ernst & Young LLP

Vancouver, Canada,
August 23, 2001 (except for note 18[ii]
which is as of September 5, 2001).

Chartered Accountants

CityXpress.com Corp.

CONSOLIDATED BALANCE SHEETS

[See Nature of Operations and Basis of Presentation - Note 1]

As at June 30 (Expressed in U.S. dollars)

	2001 $	2000 $
ASSETS *[note 9]*		
Current		
Cash and cash equivalents	**32,274**	38,963
Accounts receivable, net of allowance for doubtful accounts of $nil in 2001 and 2000 *[note 4]*	**19,087**	28,903
Other receivables	**7,192**	26,220
Prepaid expenses and other	**23,647**	159,557
Total current assets	**82,200**	253,643
Property and equipment, net *[note 5]*	**199,178**	67,348
eCommerce technology, net of amortization of $1,141,150 at June 30, 2001 and $668,950 at June 30, 2000 *[note 7]*	**275,334**	747,534
Total assets	**556,712**	1,068,525
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities *[note 6]*	**320,906**	361,921
Demand instalment loan *[note 9]*	**161,830**	167,213
Stockholders' loans *[note 10]*	**284,246**	252,900
Deferred revenue	**514**	1,206
Current portion of obligations under capital leases *[note 11]*	**17,209**	—
Total current liabilities	**784,705**	783,240
Obligations under capital leases *[note 11]*	**40,960**	—
Loans payable *[note 7]*	**290,000**	—
Convertible loan debentures *[note 8]*	**1,500,000**	—
Deferred tax liability *[note 14]*	**93,100**	253,100
Total liabilities	**2,708,765**	1,036,340
Commitments *[note 12]*		
Stockholders' equity (deficit)		
Share capital *[note 13]*		
Common stock - $0.001 par value		
Authorized shares: 50,000,000		
Issued and outstanding: 23,043,898 at June 30, 2001 and 23,008,098 at June 30, 2000	**14,533**	14,497
Additional paid in capital	**5,821,826**	5,687,761
Accumulated other comprehensive income	**19,625**	19,625
Deficit	**(8,008,037)**	(5,689,698)
Total stockholders' equity (deficit)	**(2,152,053)**	32,185
Total liabilities and stockholders' equity	**556,712**	1,068,525

See accompanying notes

On behalf of the Board:

/S/ Ken Bradley — Director

/S/ Phil Dubois — Director

CityXpress.com Corp.

CONSOLIDATED STATEMENTS OF LOSS

[See Nature of Operations and Basis of Presentation - Note 1]

Years ended June 30 (Expressed in U.S. dollars)

	2001 $	2000 $
Revenue *[note 4]*		
Advertising and promotional fees	**136,791**	58,157
Editorial content fees	**4,957**	—
Training fees	**43,670**	64,903
Custom development fees	**10,035**	10,060
Total revenues	**195,453**	133,120
Cost of sales	**389,647**	211,204
Gross loss	**(194,194)**	(78,084)
Operating expenses		
Sales and marketing	**505,969**	309,751
Product development and technology *[note 16]*	**348,765**	662,832
Finance and administration	**833,930**	1,024,065
Amortization of eCommerce technology	**472,200**	472,200
	2,160,864	2,468,848
Operating loss	**(2,355,058)**	(2,546,932)
Other income (expense)		
Loss on disposal of property and equipment	**(423)**	—
Interest expense	**(118,554)**	(17,117)
Interest and miscellaneous income	**196**	668
Foreign exchange gain (loss)	**(4,500)**	15,944
Total other expense	**(123,281)**	(505)
Loss before income taxes	**(2,478,339)**	(2,547,437)
Deferred income tax recovery *[note 14]*	**160,000**	160,000
Net loss and comprehensive loss for the year	**(2,318,339)**	(2,387,437)
Net loss per common share *[note 13[d]]*		
Basic and diluted	**(0.10)**	(0.14)
Weighted average number of common shares *[note 13[d]]*		
Basic and diluted	**23,008,294**	21,091,604

See accompanying notes

CityXpress.com Corp.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

[See Nature of Operations and Basis of Presentation - Note 1]

(Expressed in U.S. dollars)

	Common stock #	Common stock to be issued #	Common stock issued and outstanding $	Common stock to be issued $	Additional paid in capital $	Accumulated other comprehensive income $	Deficit $	Total stockholders' equity (deficit) $
Balance at June 30, 1999	19,893,333	627,860	11,383	266,790	3,282,029	19,625	(2,738,145)	841,682
Shares issued pursuant to share subscriptions *[note 13[a]]*	177,860	(177,860)	178	(266,790)	266,612	—	—	—
Shares issued for services rendered *[note 13[a]]*	450,000	(450,000)	450	—	(450)	—	—	—
Shares issued pursuant to private placement, net of share issue costs of $16,667 *[note 13[a]]*	2,234,438	—	2,234	—	1,007,268	—	—	1,009,502
Shares issued for services rendered or to be rendered *[note 13[a]]*	252,467	—	252	—	290,518	—	—	290,770
Stock based compensation *[notes 10[b] and 13[b]]*	—	—	—	—	277,668	—	—	277,668
Beneficial conversion feature *[note 13[a]]*	—	—	—	—	564,116	—	(564,116)	—
Net loss for the year	—	—	—	—	—	—	(2,387,437)	(2,387,437)
Balance at June 30, 2000	23,008,098	—	14,497	—	5,687,761	19,625	(5,689,698)	32,185
Shares issued for services rendered *[note 13[a]]*	35,800	—	36	—	8,914	—	—	8,950
Stock based compensation *[notes 10[b] and 13[b]]*	—	—	—	—	125,151	—	—	125,151
Net loss for the year	—	—	—	—	—	—	(2,318,339)	(2,318,339)
Balance at June 30, 2001	23,043,898	—	14,533	—	5,821,826	19,625	(8,008,037)	(2,152,053)

See accompanying notes

CityXpress.com Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[See Nature of Operations and Basis of Presentation - Note 1]

Years ended June 30 (Expressed in U.S. dollars)

	2001 $	2000 $
OPERATING ACTIVITIES		
Net loss for the year	**(2,318,339)**	(2,387,437)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization	**472,200**	472,200
Depreciation	**75,014**	44,741
Loss on disposal of property and equipment	**423**	—
Shares issued for services rendered	**217,971**	152,055
Deferred income tax recovery	**(160,000)**	(160,000)
Stock based compensation	**125,151**	277,668
Unrealized foreign exchange (gain) loss	**4,500**	(15,944)
Changes in operating assets and liabilities:		
Accounts receivable	**9,816**	(26,986)
Other receivables	**19,028**	1,213
Prepaid expenses and other	**(73,111)**	17,920
Accounts payable and accrued liabilities	**(41,015)**	70,825
Deferred revenue	**(692)**	(4,984)
Net cash used in operating activities	**(1,669,054)**	(1,558,729)
INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	**910**	—
Purchase of property and equipment	**(142,307)**	(1,378)
Net cash used in investing activities	**(141,397)**	(1,378)
FINANCING ACTIVITIES		
Proceeds from loans payable	**290,000**	—
Proceeds from convertible loan debentures	**1,500,000**	—
Borrowings under bank indebtedness	**—**	(7,999)
Proceeds from demand instalment loan	**—**	169,057
Repayment of demand instalment loan	**(5,383)**	(74,548)
Repayments under capital leases	**(7,701)**	—
Proceeds from shareholders' loans	**66,028**	252,900
Repayment of shareholders' loans	**(34,682)**	—
Proceeds from stock issued and to be issued, net of share issue costs	**—**	1,009,502
Net cash provided by financing activities	**1,808,262**	1,348,912
Effect of foreign exchange rate changes on cash	**(4,500)**	15,944
Net decrease in cash and cash equivalents during the year	**(6,689)**	(195,251)
Cash and cash equivalents, beginning of year	**38,963**	234,214
Cash and cash equivalents, end of year	**32,274**	38,963
Supplemental disclosure		
Interest paid	**14,147**	17,117

See accompanying notes

CityXpress.com Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2001 and 2000 (Expressed in U.S. dollars)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

CityXpress.com Corp. ("Company") was incorporated under the laws of the State of Florida on January 7, 1999.

The Company has developed a suite of online products that provide newspapers with solutions through which they can defend and extend their position as the dominant means for local advertisers to promote themselves to local consumers. The Company's suite of proprietary products, delivered to the market as the online version of a newspaper Special Section, integrates niche editorial content with advertising and promotional tools that offer a newspaper's brand and traffic. The Company intends to build further alliances with media companies who own newspaper and television stations. The Company currently operates in only one industry segment and its marketing efforts are currently targeted to the North American market.

The Company's consolidated financial statements for the year ended June 30, 2001 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business for the foreseeable future. The Company incurred a net loss of $2,318,339 for the year ended June 30, 2001 and has a working capital deficiency of $702,505 and accumulated deficit of $8,008,037 at June 30, 2001. These factors raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon its ability to achieve profitable operations and to obtain additional capital. Management expects to raise additional capital through private placements and other types of venture fundings and through financing agreements with its clients. The outcome of these matters cannot be predicted at this time. No assurances can be given that the Company will be successful in raising sufficient additional capital. Further, there can be no assurance, assuming the Company successfully raises additional funds, that the Company will achieve positive cash flow. If the Company is unable to obtain adequate additional financing, management will be required to curtail the Company's operating expenses. These consolidated financial statements do not include any adjustments to the specific amounts and classifications of assets and liabilities which might be necessary should the Company be unable to continue in business.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States. The Company's significant accounting policies are summarized below.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Principles of consolidation

The consolidated financial statements include the accounts of CityXpress.com Corp. and its wholly-owned subsidiaries: WelcomeTo Search Engine Inc. (British Columbia, Canada) and Xceedx Technologies Inc. (British Columbia, Canada). All significant intercompany balances and transactions have been eliminated on consolidation.

Cash equivalents

The Company considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents are recorded at cost, which approximates market value.

Leases

Leases are classified as either capital or operating leases. Leases which transfer substantially all the benefits and risks of ownership of the property to the Company are accounted for as capital leases. Capital lease obligations reflect the present value of future lease payments, discounted at the appropriate interest rate.

All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Property and equipment

Property and equipment are recorded at cost. Depreciation is computed on a straight-line basis over the estimated useful life of the assets as follows:

Computer equipment and software	3 years
Office furniture and equipment	5 years
Product development costs	3 years
Leasehold improvements	Lease term

Computer equipment acquired under capital leases is also depreciated on a straight-line basis over the shorter of the lease term and the estimated useful life on the asset.

Product development costs

Product development costs incurred after technological feasibility of a product is established are capitalized.

eCommerce technology

eCommerce technology arose as part of the acquisition of Xceedx Technologies Inc. and is being amortized on a straight-line basis over its useful life, which is 36 months.

Website development costs

Website development costs are charged to expense as incurred unless the development costs meet the criteria under generally accepted accounting principles for deferral and amortization. The Company has not deferred any website development costs to date.

Impairment of long-lived assets

The Company monitors the recoverability of long-lived assets, including capital and intangible assets, based upon estimates using factors such as future asset utilization, business climate and future non-discounted cash flows expected to result from the use of the related assets or to be realized on sale. The Company's policy is to write down assets to their fair value in the year when it is likely that the carrying amount of the asset will not be recovered.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Stock-based compensation

The Company accounts for stock-based compensation to employees based on Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees"* and related interpretations, whereby the intrinsic value of options granted is recorded at the measurement date. Compensation expense is calculated based on the difference, on the date of grant, between the fair value of the Company's stock and the exercise price and is recorded over the vesting period of the options. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, *"Accounting for Stock-Based Compensation"* for stock options granted to employees.

Stock options granted to non-employees are accounted for under SFAS No. 123 using the fair value method. Compensation expense is calculated using the Black Scholes pricing model and recorded over the period the services are rendered.

Foreign currency translation

Through March 31, 2000, the functional currency of the Company was the Canadian dollar, while the reporting currency in the consolidated financial statements was the U.S. dollar. Consolidated asset and liability accounts were translated into U.S. dollars at the exchange rate in effect at the balance sheet date. Consolidated revenue and expense amounts were translated at the average exchange rate for the period. Gains or losses resulting from this process were recorded in stockholders' equity as an adjustment to accumulated other comprehensive income.

Effective April 1, 2000, the functional currency of the Company and its subsidiaries changed to the U.S. dollar. Accordingly, for the Canadian subsidiaries, monetary assets and liabilities are translated into U.S. dollars at exchange rates prevailing at the balance sheet date and non-monetary items are translated at exchange rates prevailing at the historic rate. Revenue and expenses are translated at the average exchange rate for the year. Gains or losses arising on this foreign currency translation are recorded in income.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Revenue recognition

The Company enters into sales contracts that may encompass multiple elements, including advertising and promotional fees, editorial content fees, training fees and custom development fees. The total fee for a multiple element arrangement is allocated to each element based upon objective evidence of the fair value of each element. Fair value is established through the Company's policy to charge customers the same price as when the element is sold separately. Advertising and promotional, and editorial content fees are recognized monthly as the services are performed. Custom development fees are recognized when the client's web site is activated for the world wide web, at which time the Company retains no material conditions or obligations to the customer. Training fees are recognized as the services are performed.

Cash received in advance of services rendered is recorded as deferred revenue.

Government grants

Government grants towards current expenditures are applied to reduce product development and technology expenditures when there is reasonable assurance the Company has complied with all conditions necessary to receive the grants and collectibility is reasonably assured.

Advertising costs

Advertising costs are expensed as incurred and amounted to $145,532 in the year ended June 30, 2001 [2000 - $192,042].

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Recognition of deferred tax assets is limited to amounts considered by management to be more likely than not of realization in future periods.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Loss per common share

The basic loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding for the year. Diluted loss per common share is computed giving effect to all potential dilutive options and warrants that were outstanding during the year. For the years ended June 30, 2001 and 2000, all outstanding options and warrants were anti-dilutive.

Comprehensive loss

Comprehensive loss includes all changes in stockholders' equity (deficit) during the year except those resulting from capital transactions. Accumulated other comprehensive income represents foreign currency translation adjustments for all years presented.

Recent pronouncements

In July 2001, the Financial Accounting Standards Board issued Statement No. 142, "Goodwill and Other Intangible Assets," (SFAS 142) which requires that goodwill and indefinite lived intangible assets no longer be amortized to earnings, but instead be reviewed for impairment. The provisions of SFAS 142 are effective for its fiscal year beginning July 1, 2002. The Company has not determined the impact of SFAS 142, if any, on the consolidated financial statements.

3. FINANCIAL INSTRUMENTS

Amounts reported for cash equivalents, accounts receivable, other receivables, accounts payable and accrued liabilities, and stockholders' loans approximate their fair values due to the relatively short term nature or demand nature of the instruments. The carrying value of the demand instalment loan, loans payable, loan debentures and obligations under capital leases approximate fair value due to variable interest rates being charged on outstanding balances.

4. CREDIT RISK AND OTHER

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents and accounts receivable. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses which, when realized, have been within range of management's expectations.

For the year ended June 30, 2001, approximately 90% of the Company's total revenues were generated through sales to Lee Enterprises Incorporated [2000 - 89%]. At June 30, 2001, approximately 73% of the Company's accounts receivable balance was due from this customer [2000 - 87%].

The Company currently licenses the business listing content for its regional business directory under an annual license agreement. Failure of the licensor to renew this license agreement on favourable terms or on a timely basis could result in adverse consequences.

5. PROPERTY AND EQUIPMENT

	2001		**2000**	
	Cost	**Accumulated depreciation**	**Cost**	**Accumulated depreciation**
	$	$	$	$
Computer equipment and software	**157,780**	**114,458**	127,510	69,207
Computer equipment under capital leases	**65,870**	**9,497**	—	—
Office furniture and equipment	**18,458**	**4,105**	6,078	1,961
Product development costs	**98,322**	**16,387**	—	—
Leasehold improvements	**7,692**	**4,497**	7,692	2,764
	348,122	**148,944**	141,280	73,932
Net book value		**199,178**		67,348

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2001 $	2000 $
Trade accounts payable	**183,941**	314,311
Accrued interest	**72,347**	—
Accrued vacation	**39,680**	13,890
Accrued liabilities	**24,938**	33,720
	320,906	361,921

7. LOANS PAYABLE

On August 16, 2000, the Company entered into a Loan and Security Agreement with Lee Enterprises Incorporated (Lee). Under this agreement, the Company received $290,000 in funding in the form of promissory notes that bear interest at the monthly Wall Street Journal rate, as detailed below:

Loan date	Amount $	Maturity date	Weighted average effective interest rate (%) for the year ended June 30, 2001
August 17, 2000	125,000	October 31, 2002	9.00
August 28, 2000	125,000	October 31, 2002	9.00
September 19, 2000	40,000	October 31, 2002	9.00
	290,000		

Pursuant to an Investment Agreement [note 8], the maturity dates of these loans payable were extended from November 17, 2000, November 28, 2000 and December 19, 2000 respectively, to October 31, 2002. Interest payable on these loans is payable on demand.

In conjunction with these agreements, the Company entered into a Collateral License Agreement and Escrow Agreement covering the licensing of the Company's software to Lee in the event of a default pursuant to the loan and security agreement. Interest for the year ended June 30, 2001 on these loans amounted to $20,838.

8. CONVERTIBLE LOAN DEBENTURES

On November 1, 2000, the Company entered into an Investment Agreement with Lee Enterprises Incorporated (Lee) whereby Lee provided funding of $1,500,000 in the form of a floating rate subordinated convertible debenture. The $1,500,000 subordinated convertible debenture consists of a series of six debentures of $250,000 that were received by the Company during the year ended June 30, 2001. The Investment Agreement provides Lee the right to convert the floating rate subordinated convertible debenture into 6,902,429 common shares of the Company at a conversion price of $0.2173 per common share. At June 30, 2001, the Company has reserved 6,902,429 common shares for issuance. If Lee does not convert the debenture into common shares, the Company will be required to repay the $1,500,000 loan on October 31, 2003. The Investment Agreement also contains certain affirmative and negative covenants that restrict the Company's activities. As of June 30, 2001, the Company is in compliance with the covenants in the Investment Agreement. Each series of $250,000 subordinated convertible debenture bears interest at the Wall Street Journal rate less 1%. The weighted average effective rate for the year ended June 30, 2001 was 8%. Lee also has the option to convert the interest due into the Company's common shares at the fair market value on the date of conversion. The Investment Agreement includes a Registration Rights Agreement providing Lee the ability to require the Company to register the shares issuable under the Investment Agreement based on certain conditions. The Company may not issue shares of its common stock, warrants options or other securities convertible into common stock at a price less than $0.2173 during the term of the Investment Agreement. Interest for the year ended June 30, 2001 on these debentures amounted to $51,509.

These debentures rank subordinate to the demand instalment loan [note 9], loans payable [note 8] and shareholders' loans totaling $218,218 [note 10].

9. DEMAND INSTALMENT LOAN

The Company has a demand instalment loan of $169,687 that bears interest at the bank's prime rate plus 1% and is repayable in equal monthly principal and interest instalments of $1,619 through February 2015, unless the loan is called on demand by the bank.

Annual principal repayments for this loan for the years succeeding June 30, 2001 are:

	$
2002	7,312
2003	8,529
2004	9,167
2005	9,854
2006	10,594
Thereafter	116,374
	161,830

The loan is collateralized by a general security agreement on substantially all of the Company's assets, a collateral mortgage security for $168,600 (Cdn. $250,000) providing the bank a first security interest in the personal property of two of the Company's officers, personal guarantees from two of the Company's officers [note 10[b]] and the assignment of a life insurance policy on the Company's president.

At June 30, 2001, the bank prime's rate was 6.25% [2000 - 7.50%].

10. RELATED PARTY TRANSACTIONS

[a] Stockholders' loans

At June 30, 2001, the Company has several unsecured stockholder loans denominated in Canadian dollars outstanding with the Company's chief executive officer and chief financial officer. The stockholders' loans, all of which are without stated terms of repayment unless otherwise stated, are payable on demand.

	Annual interest rate at June 30, 2001	**Balance outstanding at June 30,**	
		2001	**2000**
	%	$	$
Loans payable bearing interest at 9.7% and repayable in equal monthly principal and interest instalments of $2,040 through January 2011 *[note 10[b][i]]*	**9.70**	**231,537**	168,600
Loan payable bearing interest at the CIBC Visa monthly interest rate *[note 10[b][ii]]*	**19.50**	**2,669**	16,860
Loan payable bearing interest at the Scotia McLeod monthly interest rate *[note 10[b][ii]]*	**9.50**	**16,680**	16,860
Loan payable bearing interest at 4.5% per annum *[note 10[b][ii]]*	**4.50**	**16,680**	33,720
Loan payable bearing interest at Toronto Dominion Bank monthly TD Select Line rate *[note 10[b][ii]]*	**9.75**	**16,680**	16,860
		284,246	252,900

Interest incurred on the loans amounted to $22,270 for the year ended June 30, 2001 [2000 - $2,874].

10. RELATED PARTY TRANSACTIONS (cont'd.)

[b] Other

[i] On June 13, 2000, the Company granted 541,600 warrants to two of the Company's officers, as consideration for their guarantee of the demand instalment loan [note 9] and as consideration for stockholders' loans totaling $168,600 that were made to the Company during the year ended June 30, 2000 [note 10[a]]. Each warrant is exercisable into one common share of the Company at a price of $0.25 per share through June 13, 2002 [note 13[c]]. The estimated fair value of these warrants at the date of issuance of $48,744 was recorded as an expense in the consolidated statement of loss for the year ended June 30, 2000. The Black Scholes option pricing model was used to value the warrants with the following assumptions: no dividend yield; risk-free interest rate of 6.0%; expected volatility of 1.09; and an expected life of 1.5 years.

[ii] On November 10, 2000, the Company granted 200,000 warrants to two of the Company's officers, as consideration for their guarantee of the demand instalment loan [note 9] and as consideration for stockholders' loans totaling $84,300 that were made to the Company during the year ended June 30, 2000 [note 10[a]]. Each warrant is exercisable into one common share of the Company at a price of $0.25 per share through November 10, 2002 [note 13[c]]. The estimated fair value of these warrants at the date of issuance of $14,000 was recorded as an expense in the consolidated statement of loss for the year ended June 30, 2001. The Black Scholes option pricing model was used to value the warrants with the following assumptions: no dividend yield; risk-free interest rate of 6.0%; expected volatility of 1.54; and an expected life of 2.0 years.

[iii] On June 26, 2001, the Company granted 160,000 warrants to two of the Company's officers, as consideration for stockholders' loans totaling $66,028 that were made to the Company during the year ended June 30, 2001 [note 10[a]]. Each warrant is exercisable into one common share of the Company at a price of $0.25 per share through June 26, 2003 [note 13[c]]. The estimated fair value of these warrants at the date of issuance of $3,200 was recorded as an expense in the consolidated statement of loss for the year ended June 30, 2001. The Black Scholes option pricing model was used to value the warrants with the following assumptions: no dividend yield; risk-free interest rate of 5.0%; expected volatility of 1.40; and an expected life of 2.0 years.

11. OBLIGATIONS UNDER CAPITAL LEASES

The Company leases certain of its computer equipment under capital leases through fiscal year 2005. The future minimum lease payments required under capital leases as at June 30, 2001 are as follows:

	$
2002	27,739
2003	27,739
2004	21,310
2005	628
Total minimum lease payments	77,416
Less: amount representing interest	(19,247)
Present value of minimum lease payments	58,169
Less: current portion of obligations under capital leases	(17,209)
Long-term portion of obligations under capital leases	40,960

12. COMMITMENTS

The Company leases its building premises and certain office equipment under operating leases expiring through fiscal year 2006. Future minimum lease commitments under these leases are as follows:

	Operating Leases $
2002	152,782
2003	101,482
2004	14,795
2005	4,696
2006	848
Total future minimum lease payments	274,603

Rent expense for the year ended June 30, 2001 amounted to approximately $106,841 [2000 - $86,402].

13. SHARE CAPITAL

[a] Common stock

In August 1999, the Company issued 450,000 common shares at $0.50 (Cdn $0.74) per share as finders fee costs of $225,000 related to the reverse acquisition of the Company that occurred in January 1999.

In August 1999, the Company issued 177,860 common shares at $1.50 per share, for $266,790, net of financing commissions payable. The net cash proceeds were received prior to June 30, 1999. Each common share issued has an attached warrant which entitles the holder to acquire one common share for $1.50 each for a one year period, and $2.00 each after one year. The warrants expired unexercised on June 10, 2001.

On August 15, 1999, the Company issued 100,000 units to a vendor for marketing and advertising services. Each unit comprised one common share and one warrant entitling the vendor to acquire one common share for $1.50 each for a one year period, and $2.00 each after one year [note 13[c]]. On May 18, 2000, the Company issued an additional 140,000 units to this vendor for marketing and advertising services. Each unit comprised one common share and one warrant entitling the vendor to acquire one common share for $.25 each for a one year period, and $.75 each after one year. In March 2001, the Company reduced the second year warrant price from $0.75 to $0.25 [note 13[c]]. The Company has recorded, in additional paid in capital, the units issued at their fair value of $281,200. Of this amount, approximately $142,500 has been recorded as an expense in the consolidated statement of loss for the year ended June 30, 2000 and the remainder was recorded as a prepaid expense and amortized over the period the services were rendered during the year ended June 30, 2001. The Black Scholes option pricing model was used to value the warrants with the following assumptions: no dividend yield; risk free interest rate of 6.0%; expected volatility of 1.09; and an expected life of 1.5 years.

13. SHARE CAPITAL (cont'd.)

[a] Common stock (cont'd.)

In October and December 1999, the Company issued 99,521 common shares and warrants to acquire 99,521 common shares for cash proceeds of $136,069. Each common share has one attached warrant which entitles the holder to acquire one common share for exercise prices of $1.25 to $1.50 during the first year and $1.75 to $2.00 during the second year. Pursuant to the subscription agreements, if at any time until March 31, 2000 the Company issued common shares at a share price of less than the subscription price paid by the investors, then additional common shares and warrants would be issued, such that the effective issue price of the common shares issued is equal to the lower price paid. In January 2000, the Company issued an additional 172,617 common shares for no additional consideration, pursuant to this subscription agreement. In addition, the number of warrants granted was increased by 172,617 to 272,138 and the exercise price decreased to $.50 during the first year and $0.75 during the second year. In March 2001, the Company reduced the second year warrant price from $0.75 to $0.25 [note 13[c]].

In March 2000, the Company issued 12,467 common shares at $.77 per share to a vendor for marketing services with a fair market value of $9,570.

During the year ended June 30, 2000, the Company issued 1,962,300 units for cash proceeds of $890,100 before share issue costs of $16,667. Each unit comprised one common share and one warrant entitling the holder to acquire one common share [note 13[c]]. The proceeds have been allocated to the common shares and the warrants based on their relative fair values. A beneficial conversion feature on the units of $564,116 was charged to the deficit.

On June 29, 2001, the Company issued 35,800 common shares at $0.25 per share to a vendor for public relations services with a fair market value of $8,950.

13. SHARE CAPITAL (cont'd.)

[b] Stock options

On August 25, 1999, and as amended on November 29, 2000 the Board of Directors approved the creation of the Corporate Stock Option Plan ("Plan") pursuant to which the Company has reserved 3,000,000 [2000 - 2,000,000] shares of common stock. The term and vesting period of options are determined by the directors at the date of grant. The majority of the options granted to date are exercisable over a four year period and vest on a cumulative basis at 1/3 per year.

In July 1999, subject to the Board approval of the Plan, the Company granted 675,000 stock options to employees below the fair market value of the underlying common shares on the date of grant. Compensation expense of $228,924, calculated based on the intrinsic value method, has been recorded in the consolidated statement of loss for the year ended June 30, 2000. On December 8, 2000, the Company cancelled the remaining 490,000 unforfeited stock options and recorded the remaining unvested compensation expense of $107,951 in the consolidated statement of loss for the year ended June 30, 2001. On June 14, 2001, 490,000 stock options were granted with an exercise price of $0.25, which was greater than the then-market price of the Company's common stock and a vesting schedule as follows: 1/3 immediate vesting at date of grant and 1/3 vesting each year thereafter for two years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2001 and 2000 (Expressed in U.S. dollars)

13. SHARE CAPITAL (cont'd.)

Stock option transactions for the years ended June 30, 2001 and 2000 are summarized below:

	Shares available under option #	Outstanding options	
		Shares #	Weighted average exercise price $
Balance, June 30, 1999	—	—	—
Reserve shares	2,000,000	—	—
Granted, July 13, 1999	(675,000)	675,000	1.50
May 15, 2000	(872,500)	872,500	0.25
June 27, 2000	(200,000)	200,000	0.25
Forfeited	110,000	(110,000)	1.50
Balance, June 30, 2000	362,500	1,637,500	0.68
Reserve shares	1,000,000	—	—
Granted, November 10, 2000	(65,000)	65,000	0.25
November 29, 2000	(85,000)	85,000	0.25
March 29, 2001	(90,000)	90,000	0.25
May 29, 2001	(60,000)	60,000	0.25
June 14, 2001	(600,000)	600,000	0.25
Forfeited	147,500	(147,500)	0.89
Cancelled	490,000	(490,000)	1.50
Balance, June 30, 2001	1,100,000	1,900,000	0.25

The following table summarizes information about stock options that are outstanding at June 30, 2001:

	Options outstanding		Options exercisable	
Exercise price $	Number outstanding at June 30, 2001 #	Weighted-average remaining contractual life	Number outstanding at June 30, 2001 #	Weighted-average exercise price $
0.25	1,900,000	2.99	666,667	0.25

13. SHARE CAPITAL (cont'd.)

[b] Stock options (cont'd.)

The weighted average fair value of options granted during the year ended June 30 was as follows:

	Options #	Weighted average fair value $
2001		
Exercise price:		
Greater than fair market value	900,000	0.07
	900,000	0.07
2000		
Exercise price:		
Equal to fair market value	1,072,500	0.19
Less than fair market value	675,000	2.21
	1,747,500	0.97

Pro forma information regarding net income and earnings per share is required by Statement of Financial Accounting Standard ("SFAS") No. 123, which also requires that the information be determined as if the Company had accounted for its employee stock options under the fair value method of that statement. The fair value of each option granted during the year was estimated at the date of grant using a Black-Scholes pricing model with the following weighted average assumptions: risk free interest rates of 5% [2000 - 6%]; dividend yields of nil; volatility factors of the expected market price of the Company's common stock of 1.39 [2000 - 1.09] and a weighted average expected life of the option of 2.99 years [2000 - 3.8 years].

13. SHARE CAPITAL (cont'd.)

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the vesting period. The Company's pro forma information for the year ended June 30, is as follows:

		2001 $	2000 $
Net loss	As reported	**(2,318,339)**	(2,387,437)
Beneficial conversion feature *[note 13[a]]*	As reported	**—**	(564,116)
APB 25 compensation expense	As recorded	**107,951**	228,924
SFAS 123 compensation expense	Pro forma	**(497,523)**	(788,645)
Pro forma net loss attributable to common stockholders	Pro forma	**(2,707,911)**	(3,511,274)
Weighted average number of common shares outstanding		**23,008,294**	21,091,604
Pro forma net loss per common share: Basic and diluted	Pro forma	**(0.12)**	(0.17)

[c] Warrants

The following represents a summary of warrants outstanding at June 30, 2001:

	Outstanding warrants		
	Shares	**Exercise price**	
Grant Date	#	$	**Expiry date**
July 14, 1999	45,260	0.25	July 14, 2001
August 15, 1999	100,000	0.25	August 15, 2001
September 30, 1999	465,800	0.25	September 30, 2001
October 13, 1999	132,138	0.25	October 13, 2001
December 10, 1999	408,000	0.25	December 10, 2001
January 18, 2000	138,000	0.25	January 18, 2002
January 31, 2000	500,000	0.25	January 31, 2002
May 1, 2000	405,240	0.25	May 1, 2002
May 18, 2000	280,000	0.25	May 18, 2002
June 13, 2000	541,600	0.25	June 13, 2002
November 10, 2000	200,000	0.25	November 10, 2002
June 26, 2001	160,000	0.25	June 26, 2003
Balance, June 30, 2001	3,376,038		

13. SHARE CAPITAL (cont'd.)

On March 29, 2001, the Company re-priced outstanding warrants issued in connection with private placements between June 10, 1999 and May 18, 2000. A total of 2,830,158 warrants with a second year warrant price ranging from $0.75 to $2.00 have been re-priced to $0.25, of which 177,860 expired unexercised during the year ended June 30, 2001.

[d] Loss per common share

The following table sets forth the computation of basic and diluted loss per share:

	2001 $	**2000** $
Numerator		
Net loss for the year	**(2,318,339)**	(2,387,437)
Beneficial conversion feature *[note 13[a]]*	**—**	(564,116)
Net loss attributable to common shareholders	**(2,318,339)**	(2,951,553)
Denominator		
Weighted average number of common shares outstanding	**23,008,294**	21,091,604
Basic and diluted loss per common share	**(0.10)**	(0.14)

For the years ended June 30, 2001 and 2000, all of the Company's common shares issuable upon the exercise of stock options and warrants were excluded from the determination of diluted loss per common share as their effect would be anti-dilutive.

14. INCOME TAXES

The Company is subject to United States Federal Taxes at an approximate rate of 34%. It is also subject to Canadian Federal and British Columbia provincial taxes of approximately 45%. No current provision or benefit for income taxes has been recorded for the years ended June 30, 2001 or 2000 as the Company has incurred operating losses and has no carryback potential.

The Company's deferred income tax recovery for the year ended June 30 comprises:

	2001 $	**2000** $
United States	**(160,000)**	(160,000)
Canada	**—**	—
	(160,000)	(160,000)

The reconciliation of income tax attributable to continuing operations computed at the U.S. federal statutory tax rates to income tax expense for the years ended June 30 is:

	2001 $	**2000** $
Tax at U.S. statutory rates	**(842,000)**	(812,000)
Higher effective income taxes of other country	**(197,000)**	(210,000)
Deferred tax assets not recognized for accounting purposes	**151,000**	467,000
Tax losses not recognized for accounting purposes	**606,000**	286,000
Non-deductible expenses	**134,000**	139,000
Other	**(12,000)**	(30,000)
Income tax recovery	**(160,000)**	(160,000)

14. INCOME TAXES (cont'd.)

Net deferred tax assets (liabilities) consist of the following at June 30:

	2001 $	2000 $
Deferred tax assets		
Loss carryforwards	**1,665,000**	1,059,000
Tax value in excess of book value	**613,000**	613,000
Valuation allowance for future tax assets	**(2,278,000)**	(1,672,000)
Net deferred tax assets	**—**	—
Deferred tax liability		
Excess book versus tax difference on eCommerce technology	**(93,100)**	(253,100)

The tax losses expire as follows:

	$
Canadian	
2005	170,000
2006	1,360,000
2007	842,000
2008	1,360,000
	3,732,000

15. SEGMENT INFORMATION

Predominantly all of the Company's assets and employees are located in Canada for the years presented. The following table represents total revenues based on the location of the customer:

	2001 $	**2000** $
U.S.A.	**185,466**	121,992
Canada	**9,987**	11,128
Total revenues	**195,453**	133,120

16. PRODUCT DEVELOPMENT AND TECHNOLOGY

Government grants of $32,412 for the year ended June 30, 2001 [2000 - $23,776] have been applied to reduce product development and technology expenditures in the consolidated statement of loss.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified from statements previously presented to conform to the presentation adopted in the current year.

18. SUBSEQUENT EVENTS

[i] Subsequent to June 30, 2001, 45,260 warrants with an exercise price of $0.25 expired unexercised.

[ii] On July 30, 2001, the Company amended the Investment Agreement dated November 1, 2000 [note 8] with Lee Enterprises Incorporated (Lee) whereby Lee would provide additional funding of up to $1,500,000 in the form of a floating rate subordinated convertible debenture. This would result in a total investment by Lee of $3,000,000 if all debentures were funded. The additional $1,500,000 subordinated convertible debenture would consist of a firm commitment of $710,000 and a discretionary commitment of $790,000 in the form of a series of twelve debentures (debentures "G-R") ranging in value from $50,000 to $310,000 each that would be funded during the period from August 10, 2001 to July 1, 2002. The Company received $310,000 under the series "G" debenture through August 14, 2001 and $200,000 under the Series H debenture on September 5, 2001. The Amended Investment Agreement provides Lee the right to convert the second $1,500,000 floating rate subordinated convertible debenture into 8,522,727 common shares of the Company at a conversion price of $0.176. Should Lee convert both investments of $3,000,000 it would result in the Company issuing 15,425,156 common shares. If Lee does not convert the second debenture to common shares the Company will have to repay the $1,500,000 loan on October 31, 2003. The Amended Investment Agreement also contains certain affirmative and negative covenants that restrict the Company's activities. As of June 30, 2001, the Company is in compliance with all the covenants in the Investment Agreement. Each Series "G-R" subordinated convertible debenture for the second investment of $1,500,000 bears interest at the Wall Street Journal rate less 1%. Interest due on the convertible debenture can be repaid or converted into shares of the Company's common stock at fair market value on the date of conversion at the option of Lee. In conjunction with the Amended Investment Agreement dated July 30, 2001, the Company also amended the November 30, 2000 Loan and Security Agreement [note 7] and the Collateral License Agreement and the Registration Rights Agreement to reflect the Series G-R debentures.

[iii] In July 2001, the Company issued 100,000 shares of its common stock at a price of $0.25 per share upon the exercise of 100,000 warrants. These common shares were issued as settlement for accounts payable of $25,000.