Consolidated Financial Statements

CityXpress Corp.

(Expressed in U.S. dollars)
June 30, 2002 and 2001

Grant Thornton LLP
Chartered Accountants
Management Consultants
Canadian Member of
Grant Thornton International

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of
CityXpress Corp.(formerly CityXpress.com Corp.)

We have audited the accompanying consolidated balance sheets of **CityXpress Corp.** (formerly CityXpress.com Corp.) as of June 30, 2002, and the related consolidated statements of operations, stockholders' deficiency 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 financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides 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 Corp. at June 30, 2002 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 set out 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.

Grant Thornton LLP

Vancouver, Canada,
August 16, 2002

Chartered Accountants

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 the related consolidated statements of operations, stockholders' deficiency 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 financial statements based on our audit.

We conducted our audit 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 audit provides 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 the results of its operations and its cash flows for the year 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 Corp.

CONSOLIDATED BALANCE SHEETS

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

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

	2002 $	2001 $
ASSETS *[note 9]*		
Current		
Cash and cash equivalents	**82,974**	32,274
Accounts receivable, net of allowance for doubtful accounts of $nil in 2002 and 2001 *[note 4]*	**3,091**	19,087
Other receivables	**4,288**	7,192
Prepaid expenses and other	**16,329**	23,647
Total current assets	**106,682**	82,200
Property and equipment, net *[note 5]*	**102,232**	117,243
Product development costs *[note 6]*	**149,634**	81,935
eCommerce technology, net of amortization of $1,416,484 at June 30, 2002 and $1,141,150 at June 30, 2001	**—**	275,334
Total assets	**358,548**	556,712
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current		
Accounts payable *[note 7]*	**209,200**	183,941
Accrued liabilities *[note 7]*	**244,196**	136,965
Demand instalment loan *[note 10]*	**152,910**	161,830
Stockholders' loans *[note 11]*	**272,836**	284,246
Deferred revenue	**11,266**	514
Current portion of obligations under capital leases *[note 12]*	**29,357**	17,209
Current portion of loans payable *[note 8]*	**350,000**	—
Total current liabilities	**1,269,765**	784,705
Obligations under capital leases *[note 12]*	**40,030**	40,960
Loans payable *[note 8]*	**—**	290,000
Convertible loan debentures *[note 9]*	**3,000,000**	1,500,000
Deferred income taxes *[note 15]*	**—**	93,100
Total liabilities	**4,309,795**	2,708,765
Commitments *[note 15]*		
Stockholders' deficiency		
Share capital *[note 14]*		
Common stock - $0.001 par value		
Authorized shares: 100,000,000		
Issued and outstanding: 23,303,898 at June 30, 2002 and 23,043,898 at June 30, 2001	**23,304**	23,044
Additional paid in capital	**5,843,305**	5,813,315
Accumulated other comprehensive income	**19,625**	19,625
Deficit	**(9,837,481)**	(8,008,037)
Total stockholders' deficiency	**(3,951,247)**	(2,152,053)
Total liabilities and stockholders' deficiency	**358,548**	556,712

See accompanying notes

CityXpress Corp.

CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

	2002 $	2001 $
Revenue *[note 4]*		
Advertising and promotional fees	**200,290**	136,791
Editorial content fees	**113,595**	4,957
Auction fees	**48,633**	—
Training fees	**17,567**	43,670
Custom development fees	**34,445**	10,035
Total revenues	**414,530**	195,453
Cost of sales	**511,425**	389,647
Gross loss	**(96,895)**	(194,194)
Operating expenses		
Sales and marketing	**439,882**	505,969
Product development and technology *[note 17]*	**280,836**	348,765
Finance and administration	**651,439**	833,930
Amortization of eCommerce technology	**275,334**	472,200
	1,647,491	2,160,864
Operating loss	**(1,744,386)**	(2,355,058)
Other income (expense)		
Loss on disposal of property and equipment	—	(423)
Interest expense	**(165,467)**	(118,554)
Interest and miscellaneous income	**78**	196
Foreign exchange loss	**(12,769)**	(4,500)
Total other expense	**(178,158)**	(123,281)
Loss before income taxes	**(1,922,544)**	(2,478,339)
Deferred income tax recovery *[note 15]*	**93,100**	160,000
Net loss and comprehensive loss for the year	**(1,829,444)**	(2,318,339)
Net loss per common share *[note 14[d]]*		
Basic and diluted	**(0.08)**	(0.10)
Weighted average number of common shares *[note 14[d]]*		
Basic and diluted	**23,222,231**	23,008,294

See accompanying notes

CityXpress Corp.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIENCY

[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) $
Year ended June 30, 2001								
Balance at June 30, 2000	23,008,098	—	23,008	—	5,679,250	19,625	(5,689,698)	32,185
Shares issued for services rendered *[note 14[a]]*	35,800	—	36	—	8,914	—	—	8,950
Stock based compensation *[notes 11[b] and 14[b]]*	—	—	—	—	125,151	—	—	125,151
Net loss	—	—	—	—	—	—	(2,318,339)	(2,318,339)
Balance at June 30, 2001	23,043,898	—	23,044	—	5,813,315	19,625	(8,008,037)	(2,152,053)
Year ended June 30, 2002								
Shares issued on exercise of warrants *[note 14[a]]*	100,000	—	100	—	24,900	—	—	25,000
Shares issued for services rendered *[note 14[a]]*	160,000	—	160	—	4,640	—	—	4,800
Stock based compensation *[notes [note 14[b]]*	—	—	—	—	450	—	—	450
Net loss	—	—	—	—	—	—	(1,829,444)	(1,829,444)
Balance at June 30, 2002	23,303,898	—	23,304	—	5,843,305	19,625	(9,837,481)	(3,951,247)

See accompanying notes

CityXpress 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)

	2002 $	2001 $
OPERATING ACTIVITIES		
Net loss for the year	**(1,829,444)**	(2,318,339)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization	**275,334**	472,200
Depreciation	**110,851**	75,014
Loss on disposal of property and equipment	**—**	423
Shares issued for services rendered	**4,800**	217,971
Stock based compensation	**450**	125,151
Deferred income tax recovery	**(93,100)**	(160,000)
Changes in operating assets and liabilities:		
Accounts receivable	**15,996**	9,816
Other receivables	**2,904**	19,028
Prepaid expenses and other	**7,318**	(73,111)
Accounts payable	**50,259**	(130,370)
Accrued liabilities	**107,231**	89,355
Deferred revenue	**10,752**	(692)
Net cash used in operating activities	**(1,336,649)**	(1,673,554)
INVESTING ACTIVITIES		
Sale of property and equipment	**—**	910
Purchase of property and equipment	**(8,964)**	(43,985)
Development costs	**(122,886)**	(98,322)
Net cash used in investing activities	**(131,850)**	(141,397)
FINANCING ACTIVITIES		
Proceeds from loans payable	**60,000**	290,000
Proceeds from convertible loan debentures	**1,500,000**	1,500,000
Repayment of demand instalment loan	**(8,920)**	(5,383)
Repayments under capital leases	**(20,471)**	(7,701)
Proceeds from stockholders' loans	**—**	66,028
Repayment of stockholders' loans	**(11,410)**	(34,682)
Net cash provided by financing activities	**1,519,199**	1,808,262
Net increase (decrease) in cash and cash equivalents during the year	**50,700**	(6,689)
Cash and cash equivalents, beginning of year	**32,274**	38,963
Cash and cash equivalents, end of year	**82,974**	32,274
Non cash financing and investing transactions not included in cash flows:		
Settlement of accounts payable through the issuance of shares	**25,000**	**—**
Investing and Acquisition of capital assets financed with capital leases	**31,689**	65,870
Supplemental disclosure		
Interest paid	**50,265**	46,207

See accompanying notes

CityXpress Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2002 and 2001 (Expressed in U.S. dollars)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

CityXpress 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 online special section product integrates niche editorial content with advertising and promotional tools that leverage a newspaper's brand and traffic. The Company's auction product allows newspapers to auction advertising clients' products in exchange for advertising credits with the newspaper, with the newspaper retaining the cash from all products that are sold in the auction. 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 consolidated financial statements for the year ended June 30, 2002 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 $1,829,444 for the year ended June 30, 2002 and has a working capital deficiency of $1,163,083 and an accumulated deficit of $9,837,481 at June 30, 2002. 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. Also, management expects to generate higher revenues and lower expenses over the 2003 fiscal year. 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 or increasing revenues. Further, there can be no assurance, assuming the Company successfully raises additional funds or increases revenues, that the Company will achieve positive cash flow. If the Company is unable to obtain adequate additional financing or additional revenues, 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 of America. The Company's significant accounting policies are summarized below

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 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 whereby rental payments are expensed as incurred.

Property and equipment

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Property and equipment (cont'd)

Computer equipment acquired under capital leases is also depreciated on the straight-line method 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 has been established are capitalized until the developed product is available for general release.

Product development costs are amortized on the straight-line method over a 3 year period.

eCommerce technology

eCommerce technology arose as part of the acquisition of Xceedx Technologies Inc. and is being amortized on the straight-line method over its useful life, which is 36 months. As of June 30, 2002, this asset was completely amortized.

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 option pricing model and recorded over the period the services are rendered.

Capital stock issued for consideration other than cash

Capital stock issued for consideration other than cash is recorded at an estimate of the fair value of the stock issued or issuable or at an estimate of the fair value of the goods or services received (whichever is more readily ascertainable).

Foreign currency translation

Until 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, custom development fees and auction fees. 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.

Auction fees are recognized on completion of the auction per customer newspaper. The Company receives a unit fee per auction article and a percentage of total auction revenue received by the newspaper

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 $58,398 in the year ended June 30, 2002 [2001 - $145,532].

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, 2002 and 2001, all outstanding options and warrants were anti-dilutive.

Recent pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 141. Business Combinations, and SFAS 142. Goodwill and Intangible Assets. SFAS 142 is effective for fiscal years beginning after December 15, 2001; however, certain provisions of this statement apply to goodwill and other intangible assets acquired between July 1, 2001 and the effective date of SFAS 142. Major provisions of these Statements and their effective dates for the company are as follows:

- all business combinations initiated after June 30, 2001 must use the purchase method of accounting. The pooling of interest method of accounting is prohibited except for transactions initiated before July 1, 2001.
- Intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licenced, rented or exchanged, either individually or as part of a related contract, asset or liability.
- Goodwill, as well as intangible assets with indefinite lives, acquired after June 30, 2001, will not be amortized. Effective January 1, 2002, all previously recognized goodwill and intangible assets with indefinite lives will no longer be subject to amortization.
- Effective January 1, 2002, goodwill and intangible assets with indefinite lives will be tested for impairment annually and whenever there is an impairment indicator.
- All acquired goodwill must be assigned to reporting units for purposes of impairment testing and segment reporting.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Recent pronouncements (cont'd)

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No.143. Accounting for Asset Retirement Obligations. This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement applies to all entities. It applies to legal obligations associated with the retirement of long-lived assets that result form the acquisition, construction, development and /or the normal operation of a long-lived asset, except for certain obligations of lessees. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002.

In August 2001, the FASB issued SFAS No. 144. Accounting for the Impairment or Disposal of Long-Lived Assets. This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes FASB Statement No. 121, Accounting for the impariment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The provisions of the statement are effective for financial statements issued for fiscal years beginning after December 15, 2001.

In April 2002, FASB issued SFAS No.145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". This statement eliminates the current requirement that gains and losses on debt extinguishment must be classified as extraordinary items in the income statement. Instead, such gains and losses will be classified as extraordinary items only if they are deemed to be unusual and infrequent, in accordance with the current GAAP criteria for extraordinary classification. In addition, SFAS 145 eliminates an inconsistency in lease accounting by requiring that modifications of capital leases that result in reclassification as operating leases be accounted for consistent with sale-leaseback accounting rules. The statement also contains other nonsubstantive corrections to authoritative accounting literature. The rescission of SFAS 4 is effective in fiscal years beginning after May 15, 2002. The amendment and technical corrections to SFAS 13 are effective for transactions occuring after May 15, 2002. All other provisions of SFAS 145 are effective for financial statements issued on or after May 15, 2002.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Recent pronouncements (cont'd)

In June 2002, the FASB issued SFAS No. 146, "Account for Costs Associated with Exit or Disposal Activities", which addresses accounting for restructuring and similar costs. SFAS No. 146 supersedes previous accounting guidance, principally Emerging Issues Task Force Issue No. 94-3. SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS No.146 may affect the timing of recognizing future restructuring costs as well as the amount recognized. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002.

Management assessment of these statements is that they will not have a material impact on the company's financial position or results of operations.

3. FINANCIAL INSTRUMENTS

Amounts reported for cash and 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 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, 2002, approximately 57% of the Company's total revenues were generated through sales to Lee Enterprises Incorporated [2001 - 90%]. At June 30, 2002, approximately nil% of the Company's accounts receivable balance was due from this customer [2001 - 73%].

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2002 and 2001 (Expressed in U.S. dollars)

5. PROPERTY AND EQUIPMENT

	2002		2001	
	Cost $	**Accumulated depreciation** $	**Cost** $	**Accumulated depreciation** $
Computer equipment and software	**165,534**	**140,040**	157,780	114,458
Computer equipment under capital leases	**96,081**	**33,907**	65,870	9,497
Office furniture and equipment	**20,853**	**7,814**	18,458	4,105
Leasehold improvements	**7,692**	**6,167**	7,692	4,497
	290,160	**187,928**	249,710	132,557
Net book value	**102,232**		117,243	

6. PRODUCT DEVELOPMENT COSTS

	2002 $	**2001** $
Cost	**221,208**	98,322
Accumulated depreciation	**71,574**	16,387
Total Accrued liabilities	**149,634**	81,935

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2002 $	**2001** $
Trade accounts payable	**209,200**	183,941
Accrued interest	**188,676**	72,347
Accrued vacation	**33,341**	39,680
Accrued liabilities	**22,179**	24,938
Total Accrued liabilities	**244,196**	136,965

8. 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 has received $350,000 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, 2002
August 17, 2000	125,000	October 31, 2002	5.35
August 28, 2000	125,000	October 31, 2002	5.35
September 19, 2000	40,000	October 31, 2002	5.35
July 12, 2001	60,000	October 31, 2002	5.35
	350,000		

Pursuant to an Investment Agreement [note 9], 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, 2002 on these loans amounted to $18,272.

9. CONVERTIBLE LOAN DEBENTURES

On November 1, 2000, the Company entered into an Investment Agreement with 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. 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. 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, 2002 on these debentures was 4.25%. Interest for the year ended June 30, 2002 on these debentures amounted to $63,832.

On July 30, 2001, the Company amended the Investment Agreement dated November 1, 2000 [note 9] with 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. As of June 30, 2002 the Company received all payments under the series "G-R" debentures.

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. 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%. The weighted average effective rate for the year ended June 30, 2002 on these debentures was 3.96%. Interest for the year ended June 30, 2002 on these debentures amounted to $33,099.

The Amended Investment Agreement also contains certain affirmative and negative covenants that restrict the Company's activities. As of June 30, 2002, the company is in compliance with the covenants in both investment agreements. 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.

9. CONVERTIBLE LOAN DEBENTURES (cont'd)

In conjunction with the Amended Investment Agreement dated July 30, 2001, the Company also amended the November 30, 2000 Loan and Security Agreement [note 8] and the Collateral License Agreement and the Registration Rights Agreement to reflect the Series G-R debentures.

These debentures rank subordinate to the demand instalment loan [note 10], loans payable [note 8] and shareholders' loans totaling $218,218 [note 11].

Subsequent to year end, the Company received $100,000 from Lee as the first of three instalments on the amended second debenture agreement. This agreement was amended to add three additional debenture series (S, T and U) which total an additional $300,000. Payments under the amendment are August 1, 2002 for $100,000, September 1, 2002 for $125,000 and $75,000 on October 1, 2002. All the terms of the second debenture remain with the extension.

10. 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 $1,625 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, 2002 are:

	$
2003	8,897
2004	9,554
2005	10,259
2006	11,016
2007	11,829
Thereafter	101,355
	152,910

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 11[b]] and the assignment of a life insurance policy on the Company's president.

At June 30, 2002, the bank prime's rate was 5.50% [2001 – 6.25%].

11. RELATED PARTY TRANSACTIONS

[a] Stockholders' loans

At June 30, 2002, 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, 2002 %	Balance outstanding at June 30, 2002 $	2001 $
Loans payable bearing interest at 9.7% and repayable in equal monthly blended instalments of $1,526 through January 2011 *[note 11[b][i]]*	**9.70**	**229,063**	231,537
Loan payable bearing interest at the CIBC Visa monthly interest rate *[note 11[b][ii]]*	**19.50**	**13,344**	2,669
Loan payable bearing interest at the Scotia McLeod monthly interest rate *[note 11[b][ii]]*	**9.50**	**5,873**	16,680
Loan payable bearing interest at 4.5% per annum *[note 11[b][ii]]*	**4.50**	**7,876**	16,680
Loan payable bearing interest at Toronto Dominion Bank monthly TD Select Line rate *[note 11[b][ii]]*	**6.75**	**16,680**	16,680
		272,836	284,246

Interest incurred on the loans amounted to $26,711 for the year ended June 30, 2002 [2001 - $22,270].

11. RELATED PARTY TRANSACTIONS (cont'd.)

[b] Other

[i] 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 11[a]]. Each warrant is exercisable into one common share of the Company at a price of $0.25 per share through November 10, 2005 [note 14[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 154%; and an expected life of 2.0 years.

[ii] 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 11[a]]. Each warrant is exercisable into one common share of the Company at a price of $0.25 per share through June 26, 2006 [note 14[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 140%; and an expected life of 2.0 years.

12. 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, 2002 are as follows:

	$
2003	40,309
2004	33,900
2005	11,545
2006	375
Total minimum lease payments	86,129
Less: amount representing interest	(16,742)
Present value of minimum lease payments	69,387
Less: current portion of obligations under capital leases	(29,357)
Long-term portion of obligations under capital leases	40,030

13. 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 $
2003	101,181
2004	14,752
2005	4,682
2006	846
Total future minimum lease payments	121,461

Rent expense for the year ended June 30, 2002 amounted to approximately $134,892 [2001 - $106,841].

14. SHARE CAPITAL

[a] Common stock

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.

On July 25, 2001, the Company issued 100,000 common shares at $0.25 per share upon exercise of warrants. In lieu of cash payment, the exercise price was settled in payment of accounts payable of $25,000.

On December 12, 2001, the Company issued 160,000 common shares to a vendor for marketing services with a fair market value of $4,800.

[b] Stock options

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.

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.

On November 29, 2001, the Company granted 75,000 stock options to a consultant for services rendered to the Company during the quarter ended December 31, 2001. Each stock option is exercisable into one common share of the Company at a price of $0.25 per share through November 30, 2004. The estimated fair value of these stock options at the date of issuance of $450 was recorded as an expense in the consolidated statement of operations for the quarter ended December 31, 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 153%; and an expected life of 3.0 years.

14. SHARE CAPITAL (cont'd.)

[b] Stock options

Stock option transactions for the years ended June 30, 2002 and 2001 are summarized below:

	Shares available under option #	Outstanding options	
		Shares #	Weighted average exercise price $
Balance, June 30, 2000	362,500	1,637,500	0.68
Shares reserved	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
Granted, November 29, 2001	(145,000)	145,000	0.25
June 28, 2002	(1,225,000)	1,225,000	0.25
Forfeited	380,000	(380,000)	0.25
Balance, June 30, 2002	110,000	2,890,000	0.25

The following table summarizes information about stock options that are outstanding at June 30, 2002:

	Options outstanding		Options exercisable	
Exercise price $	Number outstanding at June 30, 2002 #	Weighted-average remaining contractual life	Number outstanding at June 30, 2002 #	Weighted-average exercise price $
0.25	2,890,000	2.79	1,066,667	0.25

14. 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 $
2002		
Exercise price:		
Greater than fair market value	1,370,000	0.05
	1,370,000	0.05
2001		
Exercise price:		
Greater than fair market value	900,000	0.07
	900,000	0.07

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 the Black-Scholes pricing model with the following weighted average assumptions: risk free interest rates of 5% [2001 - 5%]; dividend yields of nil; volatility factors of the expected market price of the Company's common stock of 170% [2001 – 139%] and a weighted average expected life of the option of 2.79 years [2001 – 2.99 years].

14. 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:

		2002 $	2001 $
Net loss	As reported	**(1,829,444)**	(2,318,339)
APB 25 compensation expense	As recorded	**—**	107,951
SFAS 123 compensation expense	Pro forma	**(49,700)**	(497,523)
Pro forma net loss attributable to common stockholders	Pro forma	**(1,879,144)**	(2,707,911)
Weighted average number of common shares outstanding		**23,222,231**	23,008,294
Pro forma net loss per common share: Basic and diluted	Pro forma	**(0.08)**	(0.12)

[c] Warrants

The following represents a summary of warrants outstanding at June 30, 2002:

	Outstanding warrants		
Grant Date	**Shares** #	**Exercise price** $	**Expiry date**
September 30, 1999	465,800	0.25	September 30, 2004
October 13, 1999	132,138	0.25	October 13, 2004
December 10, 1999	408,000	0.25	December 10, 2004
January 18, 2000	138,000	0.25	January 18, 2005
January 31, 2000	500,000	0.25	January 31, 2005
May 1, 2000	405,240	0.25	May 1, 2005
May 18, 2000	280,000	0.25	May 18, 2005
June 13, 2000	541,600	0.25	June 13, 2005
November 10, 2000	200,000	0.25	November 10, 2005
June 26, 2001	160,000	0.25	June 26, 2006
Balance, June 30, 2002	3,230,778		

14. SHARE CAPITAL (cont'd.)

On July 14, 2001, 45,260 warrants with an exercise price of $0.25 expired unexercised.

On September 29, 2001, the Company extended the expiry dates of all outstanding warrants issued in connection with private placements and loan guarantees by one year.

On June 28, 2002, the Company extended the expiry dates of all outstanding warrants issued by an additional two years.

[d] Loss per common share

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

	2002 $	**2001** $
Net loss for the year	**(1,829,444)**	(2,318,339)
Net loss attributable to common shareholders	**(1,829,444)**	(2,318,339)
Weighted average number of common shares outstanding	**23,222,231**	23,008,294
Basic and diluted loss per common share	**(0.08)**	(0.10)

For the years ended June 30, 2002 and 2001, all of the Company's common shares issuable upon the exercise of 2,890,000 stock options and 3,230,778 warrants were excluded from the determination of diluted loss per common share as their effect would be anti-dilutive.

[e] Authorized share capital

On November 29, 2001, the shareholders approved in the Annual General Meeting an increase in the Company's authorized share capital from 50,000,000 no par value common shares to 100,000,000 no par value common shares.

15. 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, 2002 or 2001 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:

	2002 $	**2001** $
United States	**(93,100)**	(160,000)
Canada	**—**	—
	(93,100)	(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:

	2002 $	**2001** $
Tax at U.S. statutory rates	**(653,000)**	(842,000)
Higher effective income taxes of other country	**(168,000)**	(197,000)
Deferred tax assets not recognized for accounting purposes	**52,000**	3,000
Tax losses not recognized for accounting purposes	**640,000**	808,000
Non-deductible expenses	**4,500**	86,000
Other	**31,400**	(18,000)
Income tax recovery	**(93,100)**	(160,000)

15. INCOME TAXES (cont'd.)

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

	2002 $	2001 $
Deferred tax assets		
Loss carryforwards	**2,800,000**	2,187,000
Tax value in excess of book value	**44,000**	11,000
Valuation allowance for future tax assets	**(2,844,000)**	(2,198,000)
Net deferred tax assets	**—**	—
Deferred tax liability		
Excess book versus tax difference on eCommerce technology	**—**	(93,100)

The tax losses expire as follows:

	U,S. $	Canadian $
2003	**—**	55,000
2004	**—**	4,000
2005	**—**	180,000
2006	**—**	1,180,000
2007	**—**	1,610,000
2008	**—**	1,790,000
2009	**—**	1,410,000
2019	78,000	**—**
2020	5,000	**—**
2021	13,000	**—**
	96,000	6,229,000

16. 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:

	2002	**2001**
	$	$
U.S.A.	**363,509**	185,466
Canada	**51,021**	9,987
Total revenues	**414,530**	195,453

17. PRODUCT DEVELOPMENT AND TECHNOLOGY

Government grants of $Nil for the year ended June 30, 2002 [2001 - $32,412] have been applied to reduce product development and technology expenditures in the consolidated statement of loss.

18. COMPARATIVE FIGURES

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

19. SUBSEQUENT EVENTS

On July 10, 2002, the Company completed the acquisition of 10digit Communications, the online auction division of the Winnipeg Free Press owned by FP Canadian Newspapers Limited Partnership. The purchase price for the acquisition will be calculated on revenue recognized from current customers for 2002 and be satisfied through the issuance of CityXpress shares in two tranches at $0.25 US per share. The first tranche of shares to be issued will be 1,004,277 common shares based on revenue generated by 10 digit auctions for the first six month of 2002. These shares were issued on September 9, 2002.

The second tranche of shares will be issued in January 2003 based on revenue generated from existing 10digit auction customers for the final six months of 2002. CityXpress also entered into a thirty month Equipment Lease Agreement with payments of $2,215 commencing October 1, 2002 to lease the computer hardware used by 10digit Communications to run their auctions. As part of the acquisition CityXpress also entered into the following agreements with FP Newspapers Limited Partnership a Noncompete and Nonsoliciation Agreement, Registration Rights Agreement, Assignment of Intellectual Property and Assignment and Assumption of Contracts.