Consolidated Financial Statements

CityXpress Corp.

(Expressed in U.S. dollars)
June 30, 2005 and 2004

Grant Thornton LLP
Chartered Accountants
Management Consultants

Grant Thornton

Report of Independent Chartered Accountants

To the Shareholders of
CityXpress Corp.

We have audited the accompanying consolidated balance sheets of CityXpress Corp. as of June 30, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity (deficiency) 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 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, 2005 and 2004 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 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 accumulated losses from operations and is currently dependent on its ability to achieve profitable operations or to obtain additional capital. These factors raise some 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 18, 2005 except as to Note
18 which is as at October 27, 2005

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CityXpress Corp.

CONSOLIDATED BALANCE SHEETS

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

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

	2005 $	2004 $
ASSETS		
Current		
Cash and cash equivalents	**271,546**	1,329,248
Accounts receivable, net of allowance for doubtful accounts of $nil in 2005 and 2004 *[notes 4 **and 11[b]**]*	**616,951**	334,157
Other receivables	**9,211**	4,936
Prepaid expenses and other	**59,301**	21,424
Total current assets	**957,009**	1,689,765
Property and equipment *[note 5]*	**243,436**	141,389
Software development costs *[note 6]*	**304,305**	207,896
Intangible assets *[note 7]*	**3,531**	28,512
Total assets	**1,508,281**	2,067,562
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current		
Accounts payable *[note 8]*	**274,968**	173,526
Accrued liabilities *[note 8]*	**226,770**	198,178
Deferred revenue	**577,227**	532,349
Stockholders' loans *[note 11]*	**604,190**	559,829
Current portion of obligations under capital leases *[note 12]*	**76,026**	58,173
Total current liabilities	**1,759,181**	1,522,055
Obligations under capital leases *[note 12]*	**102,659**	46,111
Total liabilities	**1,861,840**	1,568,166
Commitments *[note 13]*		
Stockholders' equity (deficiency)		
Share capital *[note 14]*		
Common stock - $0.001 par value		
Authorized shares: 150,000,000		
Issued and outstanding: 86,177,862 at June 30, 2005 and 85,992,502 at June 30, 2004	**86,178**	85,993
Additional paid in capital	**12,058,698**	12,050,698
Accumulated other comprehensive income	**19,625**	19,625
Deficit	**(12,518,060)**	(11,656,920)
Total stockholders' equity (deficiency)	**(353,559)**	499,396
Total liabilities and stockholders' equity (deficiency)	**1,508,281**	2,067,562

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)

	2005 $	2004 $
Revenue *[notes 4 and 11[b]]*		
Auctions	**4,021,061**	2,395,089
Special Sections	**139,383**	267,837
Total revenues	**4,190,444**	2,662,926
Cost of sales (including amortization of product development costs of $ 164,307, 2004 - $124,204)	**1,786,421**	1,307,932
Gross profit	**2,404,023**	1,354,994
Operating expenses		
Sales, marketing and business development	**1,691,942**	887,402
Software development and technology	**685,082**	458,341
Finance and administration	**718,783**	562,374
	3,095,807	1,908,117
Operating loss	**(691,784)**	(553,123)
Other income (expense)		
Interest expense	**(58,812)**	(110,420)
Interest and miscellaneous income	**2,754**	299
Gain on disposal of property and equipment	**117**	250
Foreign exchange loss	**(113,209)**	(31,863)
Total other expense	**(169,150)**	(141,734)
Loss before income taxes	**(860,934)**	(694,857)
Corporate Income Taxes	**(206)**	—
Net loss and comprehensive loss for the year	**(861,140)**	(694,857)
Net loss per common share *[note 14[d]]*		
Basic and diluted	**(0.01)**	(0.02)
Weighted average number of common shares *[note 14[d]]*		
Basic and diluted	**86,008,245**	28,892,850

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, 2004								
Balance at June 30, 2003	24,520,033	198,587	24,520	12,650	5,984,090	19,625	(10,962,063)	(4,921,178)
Shares issued for services received in 2003	107,928	(107,928)	108	(6,875)	6,767	—	—	—
Shares issued for cancellation of stock options	90,659	(90,659)	91	(5,775)	5,684	—	—	—
Shares issued for convertible loan debentures *[notes [9] and 14[a]]*	18,266,065	—	18,266	—	3,481,734	—	—	3,500,000
Shares issued for loans payable and interest accrued *[notes [9] and 15[a]]*	12,370,876	—	12,371	—	680,398	—	—	692,769
Shares issued for Knight Ridder investment *[note 15[a]]*	30,636,941	—	30,637	—	1,969,363	—	—	2,000,000
Legal fees	—	—	—	—	(77,338)	—	—	(77,338)
Net loss for the year	—	—	—	—	—	—	(694,857)	(694,857)
Balance at June 30, 2004	85,992,502	—	85,993	—	12,050,698	19,625	(11,656,920)	499,396
Shares issued for services	185,360	—	185	—	11,919	—	—	12,104
Share issuance costs	—	—	—	—	(3,919)	—	—	(3,919)
Net loss for the year	—	—	—	—	—	—	(861,140)	(861,140)
Balance at June 30, 2005	86,177,862	—	86,178	—	12,058,698	19,625	(12,518,060)	(353,559)

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)

	2005 $	2004 **$**
OPERATING ACTIVITIES		
Net loss for the year	**(861,140)**	(694,857)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization	**24,981**	24,980
Depreciation	**316,797**	234,223
Shares to be issued for services rendered	**8,185**	—
Deferred revenue	**44,878**	281,586
Changes in operating assets and liabilities:		
Accounts receivable	**(282,794)**	(239,988)
Other receivables	**(4,275)**	2,196
Prepaid expenses and other	**(37,877)**	5,179
Accounts payable	**101,442**	(117,897)
Accrued liabilities	**28,591**	119,524
Net cash used in operating activities	**(661,212)**	(385,054)
INVESTING ACTIVITIES		
Software development costs	**(282,125)**	(181,886)
Purchase of property and equipment	**(78,135)**	(35,986)
Net cash used in investing activities	**(360,260)**	(217,872)
FINANCING ACTIVITIES		
Proceeds from issuance of common shares (net of share issue costs)	—	1,922,662
Proceeds from convertible loan debentures	—	200,000
Repayments under capital leases	**(80,542)**	(83,893)
Repayment of revolving loan	**—**	(66,790)
Repayment of stockholders' loans	**(12,513)**	(52,113)
Net cash provided by financing activities	**(93,055)**	1,919,866
Effect of foreign exchange rate changes on cash	**56,825**	—
Net (decrease) increase in cash and cash equivalents during the year	**(1,057,702)**	1,316,940
Cash and cash equivalents, beginning of year	**1,329,248**	12,308
Cash and cash equivalents, end of year	**271,546**	1,329,248
Non cash financing and investing transactions not included in cash flows:		
Capital assets acquired through the assumption of capital leases	**154,943**	69,592
Conversion of convertible loan debentures to common shares	—	3,500,000
Conversion of demand installment loan to common shares	—	350,000
Conversion of accrued interest on loans payable to common shares	—	342,769
Supplemental disclosure		
Interest paid	**58,812**	80,927

See accompanying notes

CityXpress Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2005 and 2004 (Expressed in U.S. dollars)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

CityXpress Corp. ("Company") is incorporated under the laws of the State of Florida.

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 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's online special section product integrates niche editorial content with advertising and promotional tools that leverage 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, European and Australian markets.

The consolidated financial statements for the year ended June 30, 2005 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 $861,140 for the year ended June 30, 2005 and has an accumulated deficit of $12,518,060 at June 30, 2005. These factors raise some 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 or to obtain additional capital. Management expects to generate higher revenues over the 2006 fiscal year. If the Company is unable to increase revenues or obtain additional capital, 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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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
Vehicle	4 years
Leasehold improvements	Lease term

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.

Software development costs

Cost for the development of new software and substantial enhancements to existing software are expensed as incurred until technological possibility has been established, at which time any additional development costs are capitalized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 86 "*Computer Software to be Sold, Leased or Otherwise Marketed*".

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Intangible assets

Intangible assets arose as part of the acquisition of 10digit Communications and are being amortized on a straight-line basis over their useful life, which is 36 months.

The estimated amortization expense related to the Company's intangible assets over the next five years is:

2006	$3,530
2007	$Nil
2008	$Nil
2009	$Nil
2010	$Nil

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 determined likely that the carrying amount of the asset will not be recovered.

Stock-based compensation

The Company has adopted the disclosure-only provisions of 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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Stock options

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

	Options #	Weighted average fair value $
2005		
Exercise price:		
Greater than fair market value	8,400,262	0.0653
	8,400,262	0.0653
2004		
Exercise price:		
Greater than fair market value	1,804,040	0.02
	1,804,040	0.02

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 3% [2004 - 5%]; dividend yields of nil; volatility factors of the expected market price of the Company's common stock of 269% [2004 – 140%] and a weighted average expected life of the option of 10.00 years [2004 – 4.00 years].

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:

		2005 $	2004 $
Net loss	As reported	**(861,140)**	(694,857)
SFAS 123 compensation expense	Pro forma	**(589,438)**	—
Pro forma net loss attributable to common stockholders	Pro forma	**(1,450,578)**	(694,857)
Weighted average number of common shares outstanding		**86,008,245**	28,892,850
Pro forma net loss per common share:			
Basic and diluted	Pro forma	**(0.02)**	(0.02)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

For the year ended June 30, 2004, all options issued were to replace warrants that were cancelled during 2004 (Note 14(c)). Variable accounting has been applied to these options using the fair value method in accordance with SFAS 123 with no resulting stock based compensation expense. As such, there is no proforma disclosure required for these options in 2004.

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.

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. Revenue for the various elements are allocated based on their relative fair value. Advertising and promotional fees, 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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Allowance for doubtful accounts

The Company establishes an allowance for doubtful accounts through review of open accounts, and historical collection and allowances amounts. The allowance for doubtful accounts is intended to reduce trade accounts receivable to the amount that reasonably approximates their fair value due to their short-term nature. The amount ultimately realized from trade accounts receivable may differ from the amount estimated in the financial statements based on collection experience and actual returns and allowances.

Advertising costs

Advertising costs are expensed as incurred and amounted to $107,601 in the year ended June 30, 2005 [2004 - $56,600].

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.

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, 2005 and 2004, all outstanding options and warrants were anti-dilutive.

3. FINANCIAL INSTRUMENTS

Amounts reported for cash and cash equivalents, accounts receivable, other receivables, accounts payable and accrued liabilities, revolving loan 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 the range of management's expectations.

For the year ended June 30, 2005, the Company has three (2004 - two) customers sales account for 37% (2004 - 29%) of the Company's total revenues. At June 30, 2005, approximately 21% of the Company's accounts receivable balance was due from these three customers (2004 – 24%).

5. PROPERTY AND EQUIPMENT

	2005		**2004**	
	Cost $	**Accumulated depreciation** $	**Cost** $	**Accumulated depreciation** $
Computer equipment and software	**258,766**	**199,551**	207,893	171,320
Computer equipment under capital leases	**370,572**	**254,374**	258,433	162,944
Office furniture and equipment	**42,316**	**22,922**	25,565	16,761
Vehicle	**53,315**	**5,073**	-	-
Leasehold improvements	**8,189**	**7,802**	8,189	7,666
	733,158	**489,722**	500,080	358,691
Net book value	**243,436**		141,389	

6. SOFTWARE DEVELOPMENT COSTS

	2005 $	2004 $
Cost	**806,913**	524,788
Accumulated depreciation	**502,608**	316,892
	304,305	207,896

7. ACQUISITION

On July 10, 2002, the Company completed the acquisition of 10digit Communications ("10digit"), the online auction division of the Winnipeg Free Press owned by FP Canadian Newspapers Limited Partnership. 10digit was acquired to facilitate expansion of the company's auction business. The purchase price for the acquisition was calculated on revenue recognized from current 10digit customers for 2002 and was satisfied through the issuance of CityXpress shares. The first tranche of 1,004,277 common shares was issued on September 9, 2002 based on revenue generated by 10 digit auctions for the first six month of 2002 and the shares were recorded at their fair value on the date of issuance.

The final tranche of 211,858 common shares was issued to FP Canadian Newspapers Limited Partnership in February 10, 2003 based on revenue generated from existing 10digit auction customers for the final six months of 2002. These shares were recorded at their fair value on the date of issuance.

The net identifiable assets of 10digit acquired from FP Canadian Newspaper Limited Partnership during the year ended June 30, 2003 were:

Equipment	$38,834
Intellectual property and contracts	74,942
	$113,776
1,216,135 shares issued	$61,357
Capital leases assumed	38,834
Acquisition costs	13,585
	$113,776

	2005 $	**2004** $
Intangible assets	**74,942**	74,942
Accumulated amortization	**71,411**	46,430
	3,531	28,512

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2005 $	**2004** $
Trade accounts payable	**274,968**	173,526
Accrued interest	**1,497**	1,662
Accrued vacation	**123,057**	73,617
Other accrued liabilities	**102,216**	122,898
Total Accrued liabilities	**226,770**	198,178

9. LOANS PAYABLE

On August 16, 2000, the Company entered into a Loan and Security Agreement with Lee Enterprises Incorporated ("Lee").

On June 14, 2004, the Company converted Lee's $350,000 loan to 6,250,000 common shares at $0.056 per share.

10. CONVERTIBLE LOAN DEBENTURES

On May 14, 2004, the Company converted Lee's $3,500,000 convertible debenture to 18,266,065 common shares at an average conversion price of $0.1916 per share.

11. RELATED PARTY TRANSACTIONS

[a] Stockholders' loans

At June 30, 2005 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, 2005	**Balance outstanding**	
		June 30 2005	**June 30 2004**
	%	$	$
Loans payable bearing interest at 4.55% and repayable in equal monthly blended installments of $1,450 through January 2028	**4.55**	**269,084**	251,550
Loans payable bearing interest at 4.55% and repayable in equal monthly blended installments of $1,468 through January 2028	**4.55**	**253,910**	238,361
Loans payable bearing interest at 4.55% and repayable in equal monthly blended installments of $1,468 through January 2028	**4.55**	**77,941**	69,918
Loans payable bearing interest at 4.55% and is due on demand	**4.55**	**3,255**	—
		604,190	559,829

Interest paid on the loans amounted to $27,726 for the year ended June 30, 2005 [2004 - $37,261].

11. RELATED PARTY TRANSACTIONS (cont'd.)

[b] Other

The following table summarizes sales made during the year and receivables balances at the year end with the two significant shareholders:

	2005 $	2004 $
Lee Enterprises, a 35.63% shareholder		
Sales	**271,141**	350,563
Accounts receivable balances	**6,912**	3,713
Knight Ridder Investment Company, a 35.63% shareholder		
Sales	**869,231**	409,421
Accounts receivable balances	**125,361**	76,449

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

12. OBLIGATIONS UNDER CAPITAL LEASES

The Company leases certain of its computer equipment under capital leases through fiscal year 2008. The future minimum lease payments required under capital leases as at June 30, 2005 are as follows:

	$
2006	103,494
2007	74,350
2008	22,710
2009	3,939
Total minimum lease payments	204,493
Less: amounts representing interest	(25,808)
Present value of minimum lease payments	178,685
Less: current portion of obligations under capital leases	(76,026)
Long-term portion of obligations under capital leases	102,659

13. COMMITMENTS

The Company leases its premises and certain office equipment under operating leases expiring through fiscal year 2009. Future minimum lease commitments under these leases are as follows:

	Operating Leases $
2006	123,029
2007	98,180
Total future minimum lease payments	221,209

Rent expense for the year ended June 30, 2005 amounted to approximately $141,166 [2004 - $123,345].

14. SHARE CAPITAL

[a] Common stock

On May 14, 2004, the Company issued 18,266,065 common shares at $0.1916 per share to Lee Enterprises for conversion of its $3,500,000 loan debenture. (Note 10)

On June 14, 2004, the Company issued 6,250,000 common shares at $0.056 per share to Lee Enterprises for conversion of its $350,000 loans payable. (Note 9)

On June 14, 2004, the Company issued 6,120,876 common shares at $0.056 per share to Lee Enterprises for conversion of $342,769 interest accrued on Lee's $3,500,000 convertible debenture and $350,000 loan payable.

On June 14, 2004, the Company issued 30,636,941 common shares at $0.0652 per share to Knight Ridder for its $2,000,000 equity investment.

On May 30, 2005, the Company agreed to issue 185,360 common shares at $0.0653 per share to its board of directors for services with a fair market value of $12,104.

14. SHARE CAPITAL (cont'd)

[b] Stock options

On August 25, 1999, and as amended on November 29, 2000, December 19, 2002 and May 28, 2004 the Board of Directors approved the creation of the Corporate Stock Option Plan ("Plan") pursuant to which the Company has reserved 10,500,000 [June 30, 2004 - 10,500,000] shares of common stock. The term and vesting period of options are determined by the directors at the date of grant.

On May 28, 2004, the Company cancelled 2,775,000 outstanding stock options issued to employees and directors.

On June 1, 2004, the Company granted 1,779,040 stock options to three directors pursuant to the Investment Agreement with Knight Ridder and approval by the shareholders at the Annual Shareholder Meeting. These stock options vest immediately and are exercisable for ten years with an exercise price of $0.0653 per share.

On December 23, 2004, the Company granted 8,258,262 stock options to employees and directors. These stock options vest 1/3 each year on December 23, 2004 and are exercisable for four years with an exercise price of $0.0653.

On May 18, 2005, the Company granted 142,000 stock options to employees. These stock options vest 1/4 each year on May 18, 2006 and are exercisable for four years with an exercise price of $0.0653.

Stock option transactions for the years ended June 30, 2005 and 2004 are summarized below:

	Shares available under option	Outstanding options	
		Shares	Weighted average exercise price
	#	#	$
Balance, June 30, 2003	1,050,000	2,950,000	0.25
Increase in reserved shares	6,500,000	—	—
Granted, July 17, 2003	(25,000)	25,000	0.25
Granted, June 1, 2004	(1,779,040)	1,779,040	0.0653
Forfeited	125,000	(125,000)	0.25
Cancelled	2,775,000	(2,775,000)	0.25
Balance, June 30, 2004	8,645,960	1,854,040	0.0728
Granted, December 23, 2004	(8,258,262)	8,258,262	0.0653
Granted May 18, 2005	(142,000)	142,000	0.0653
Expired	75,000	(75,000)	0.25
Balance, June 30, 2005	320,698	10,179,302	0.0653

14. SHARE CAPITAL (cont'd)

[b] Stock options (cont'd)

The following table summarizes information about stock options that are outstanding at June 30, 2005:

	Options outstanding		Options exercisable	
Exercise price $	Number outstanding at June 30, 2005 #	Weighted-average remaining contractual life	Number outstanding at June 30, 2005 #	Weighted-average exercise price $
0.0653	10,179,302	4.63	4,531,794	0.0653

[c] Warrants

On June 30, 2005, the Company has no warrants outstanding.

Warrant transactions for the years ended June 30, 2005 and 2004 are summarized below:

	Outstanding warrants	
	Warrants #	Weighted average exercise price $
Balance, June 30, 2003	5,323,591	0.22
Cancelled, June 14, 2004	(4,773,453)	0.22
Balance, June 30, 2004	550,138	0.25
Expired, October 13, 2004	(132,138)	0.25
January 18, 2005	(138,000)	0.25
May 18, 2005	(280,000)	0.25
Balance, June 30, 2005	—	—

On June 14, 2004, the Company cancelled 4,773,453 outstanding warrants and issued 1,779,040 replacement stock options pursuant to the Investment Agreement with Knight Ridder and approval by the shareholders at the Annual Shareholder Meeting. These stock options vested immediately and are exercisable for ten years with an exercise price of $0.0653 per share.

14. SHARE CAPITAL (cont'd.)

[d] Loss per common share

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

	2005 $	**2004** $
Net loss for the year	**(861,140)**	(694,857)
Net loss attributable to common shareholders	**(861,140)**	(694,857)
Weighted average number of common shares outstanding	**86,008,245**	28,892,850
Basic and diluted loss per common share	**(0.01)**	(0.02)

For the years ended June 30, 2005 and 2004, all of the Company's common shares issuable upon the exercise of 4,531,794 (2004 – 1,854,040) stock options were excluded from the determination of diluted loss per common share as their effect would be anti-dilutive.

[e] Authorized share capital

On May 28, 2004, the shareholders approved in the Annual General Meeting an increase in the Company's authorized share capital from 100,000,000 common shares with a par value of $0.001 per share to 150,000,000 common shares with a par value of $0.001 per share.

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 37%. No current provision or benefit for income taxes has been recorded for the years ended June 30, 2005 or 2004as the Company has incurred operating losses and has no carryback potential.

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:

	2005 $	**2004** $
Tax at U.S. statutory rates	**(293,000)**	(236,000)
Higher effective income taxes of other country	**5,000**	(17,000)
Deferred tax assets not recognized for accounting purposes	**109,000**	56,000
Tax losses not recognized for accounting purposes	**179,000**	132,000
Other		65,000
Income tax recovery	**—**	—

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

	2005 $	**2004** $
Deferred tax assets		
Loss carryforwards	**3,106,000**	2,600,000
Tax values in excess of book value	**391,000**	220,000
Valuation allowance for future tax assets	**(3,497,000)**	(2,820,000)
Net deferred tax assets	**—**	—

15. INCOME TAXES (cont'd.)

The tax losses expire as follows:

	U.S.	Canadian
	$	$
2006	—	1,386,000
2007	—	1,908,000
2008	—	2,058,000
2009	—	1,694,000
2010	—	498,000
2011	—	423,000
2012	—	522,000
2019	78,000	—
2020	5,000	—
2021	13,000	—
2022	140,000	—
	236,000	8,489,000

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:

	2005	2004
	$	$
U.S.A.	**3,218,629**	2329,910
Canada	**518,064**	304,199
Europe and Australia	**453,751**	28,817
Total revenues	**4,190,444**	2,662,926

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 EVENT

Subsequent to year end, the Company received $400,000 Cdn. under a Revolving Loan and General Security Agreement with a company controlled by a director. The Revolving Loan carries an interest rate of 10% per annum of the outstanding balance and is payable monthly. The outstanding balance of the loan cannot exceed 90% of the Company's 90 days accounts receivable outstanding balance. Under the General Security Agreement, the Company has pledged its accounts receivable and tangible assets as collateral and security for all loan advances outstanding.