Consolidated Financial Statements

CityXpress Corp.

(Expressed in U.S. dollars)
June 30, 2006 and 2005

Grant Thornton LLP
Chartered Accountants
Management Consultants

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of
CityXpress Corp.

We have audited the accompanying consolidated balance sheets of CityXpress Corp. and subsidiaries (the "Company") as of June 30, 2006 and 2005, and the related consolidated statements of operations, stockholders' 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 audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of CityXpress Corp. and subsidiaries as of June 30, 2006 and 2005 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company adopted the modified prospective application of Statement of Financial Accounting Standards No. 123(R), *"Share-Based Payment"*, on July 1, 2005.

As described in Note 3 to the consolidated financial statements, the Company has restated their consolidated financial statements for the year ended June 30, 2005 to correct an error in the calculation of corporate income taxes. Corporate income taxes for the year ended June 30, 2005 was increased by $83,000.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company incurred a net loss of $1,066,461 for the year ended June 30, 2006, has an accumulated deficit of $13,667,521 at June 30, 2006 and its current liabilities exceeded its current assets by $1,810,545 at June 30, 2006. These factors, among others, 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
April 23, 2007

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CityXpress Corp.

CONSOLIDATED BALANCE SHEETS

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

	2006 $	2005 $ (Restated - Note 3)
ASSETS		
Current		
Cash and cash equivalents	**100,993**	271,546
Accounts receivable, net of allowance for doubtful accounts of $nil in 2006 and 2005 *[notes 5 and 12[b]]*	**772,163**	616,951
Other receivables	**14,270**	9,211
Prepaid expenses and other	**52,078**	59,301
Total current assets	**939,504**	957,009
Property and equipment *[note 6]*	**227,517**	243,436
Software development costs *[note 7]*	**381,455**	304,305
Other intangible assets *[note 8]*	**—**	3,531
Total assets	**1,548,476**	1,508,281
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current		
Accounts payable	**378,442**	274,968
Accrued liabilities *[note 9]*	**264,957**	226,770
Corporate income taxes payable	**83,000**	83,000
Revolving loan *[note 10]*	**446,389**	—
Loan payable *[note 11]*	**250,000**	—
Deferred revenue	**503,955**	577,227
Stockholders' loans *[note 12[a]]*	**739,528**	604,190
Current portion of obligations under capital leases *[note 13]*	**83,778**	76,026
Total current liabilities	**2,750,049**	1,842,181
Obligations under capital leases *[note 13]*	**109,257**	102,659
Total liabilities	**2,859,306**	1,944,840
Commitments *[note 14]*		
Stockholders' deficiency		
Share capital *[note 15]*		
Common stock - $0.001 par value		
Authorized shares: 150,000,000		
Issued and outstanding: 86,374,539 at June 30, 2006 and 86,177,862 at June 30, 2005	**86,375**	86,178
Additional paid in capital	**12,250,691**	12,058,698
Accumulated other comprehensive income	**19,625**	19,625
Deficit	**(13,667,521)**	(12,601,060)
Total stockholders' deficiency	**(1,310,830)**	(436,559)
Total liabilities and stockholders' deficiency	**1,548,476**	1,508,281

See accompanying notes

CityXpress Corp.

CONSOLIDATED STATEMENT OF OPERATIONS

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

	2006 $	**2005** $ (Restated - Note 3)
Revenue *[notes 5 and 12[b]]*		
Auctions	**4,627,386**	3,951,936
Marketplaces	**514,907**	99,125
Special Sections	**48,339**	139,383
Total revenues	**5,190,632**	4,190,444
Cost of sales	**2,099,927**	1,786,421
Gross profit	**3,090,705**	2,404,023
Operating expenses		
Sales, marketing and business development	**2,314,634**	1,691,942
Software development and technology	**702,564**	685,082
Finance and administration	**842,963**	718,783
	3,860,161	3,095,807
Operating loss	**(769,456)**	(691,784)
Other income (expense)		
Interest expense	**(112,200)**	(58,812)
Interest and miscellaneous income	**—**	2,754
Gain on disposal of property and equipment	**—**	117
Foreign exchange loss	**(184,805)**	(113,209)
Total other expense	**(297,005)**	(169,150)
Loss before income taxes	**(1,066,461)**	(860,934)
Corporate income taxes (Note 16)	**—**	(83,206)
Net loss and comprehensive loss for the year	**(1,066,461)**	(944,140)
Net loss per common share *[note 15[d]]*		
Basic and diluted	**(0.01)**	(0.01)
Weighted average number of common shares *[note 15[d]]*		
Basic and diluted	**86,226,897**	86,008,245

See accompanying notes

CityXpress Corp.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIENCY

(Expressed in U.S. dollars)

	Common stock issued and outstanding #	Share capital $	Additional paid in capital $	Accumulated other comprehensive income $	Deficit $	Total stockholders' deficiency $
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 – restated	—	—	—	—	(944,140)	(944,140)
Balance at June 30, 2005 – restated	86,177,862	86,178	12,058,698	19,625	(12,601,060)	(436,559)
Stock-based compensation	—	—	179,347	—	—	179,347
Shares issued for services	196,677	197	12,646	—	—	12,843
Net loss for the year	—	—	—	—	(1,066,461)	(1,066,461)
Balance at June 30, 2006	86,374,539	86,375	12,250,691	19,625	(13,667,521)	(1,310,830)

See accompanying notes

CityXpress Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2006 $	2005 $ (Restated - Note 3)
OPERATING ACTIVITIES		
Net loss for the year	**(1,066,461)**	(944,140)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of software development costs	**250,834**	185,716
Amortization of other intangible assets	**3,531**	24,981
Depreciation of property and equipment	**122,249**	131,081
Stock-based compensation	**179,347**	—
Shares issued for services rendered	**12,843**	8,185
Changes in operating assets and liabilities:		
Accounts receivable	**(155,212)**	(282,794)
Other receivables	**(5,059)**	(4,275)
Prepaid expenses and other	**7,223**	(37,877)
Accounts payable	**103,474**	101,442
Accrued liabilities	**38,187**	28,591
Corporate income taxes payable	**—**	83,000
Deferred revenue	**(73,272)**	44,878
Net cash used in operating activities	**(582,316)**	(661,212)
INVESTING ACTIVITIES		
Software development costs	**(327,984)**	(282,125)
Purchase of property and equipment	**(17,706)**	(78,135)
Net cash used in investing activities	**(345,690)**	(360,260)
FINANCING ACTIVITIES		
Proceeds from loan payable	**250,000**	—
Proceeds from revolving loan	**446,389**	—
Proceeds from stockholders' loans	**135,338**	44,312
Repayments under capital leases	**(74,274)**	(80,542)
Net cash provided by (used in) financing activities	**757,453**	(36,230)
Net decrease in cash and cash equivalents during the year	**(170,553)**	(1,057,702)
Cash and cash equivalents, beginning of year	**271,546**	1,329,248
Cash and cash equivalents, end of year	**100,993**	271,546
Non cash financing and investing transactions not included in cash flows:		
Capital assets acquired through the assumption of capital leases obligations	**88,624**	154,943
Supplemental disclosure		
Interest paid	**106,341**	58,812
Taxes paid	**-**	-

See accompanying notes

CityXpress Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006 and 2005 (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.

Description of business

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 eMarketplace product allows newspapers to compete against free listing online classified services by creating stand-alone classified marketplaces that replace or parallel their existing classified sites. The eClassified product is designed to integrate easily with newspapers' existing online classified sites to extend the strength and value of their print and online classifieds. 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.

Future operations and going concern

The consolidated financial statements for the year ended June 30, 2006 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 $1,066,461 for the year ended June 30, 2006 and a net loss of $944,160 for the year ended June 30, 2005 and had an accumulated deficit of $13,667,521 at June 30, 2006. Furthermore, the Company's current liabilities exceeded its current assets by $1,810,545 at June 30, 2006. 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 or to obtain additional capital. 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 consolidated 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: CityXpress (Canada) Corp. (formerly 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. 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 using the straight-line method over the shorter of the lease term and the estimated useful life of the asset.

Software development costs

Cost for the development of new software and substantial enhancements to existing software are expensed as incurred until preliminary project activities have been completed, at which time the capitalization of related development costs commences in accordance with Statement of Position 98-1 "*Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*". Once software is ready for its intended use, it is amortized on a straight-line basis over a 3 year period.

Other intangible assets

Other intangible assets, which include intellectual property and contracts, arose as part of the acquisition of 10digit Communications in July 2002 and are being amortized on a straight-line basis over their estimated useful life, which is 36 months.

The Company's other intangible assets were fully amortized during the 2006 fiscal year.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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 long-lived assets, including property and equipment and definite-lived intangible assets for indicators of impairment, 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 adopted the modified prospective application of Statement of Financial Accounting Standards ("SFAS") No. 123(R), *"Share-Based Payment"* for stock options granted to employees using the modified prospective method of adoption on July 1, 2005. Compensation expense is calculated by the fair value of stock options vested during the year.

Stock options granted to non-employees are also accounted for under SFAS No. 123(R) using the fair value method.

Fair value is estimated using the Black Scholes option pricing model and is recognized over the period the services are rendered.

Pro forma information regarding net income and earnings per share is required SFAS No. 123(R), which 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 2.75% [2005 – 3.50%]; dividend yields of nil; volatility factors of the expected market price of the Company's common stock of 304% [2005 – 447%] and a weighted average expected life of the option of 5.00 years [2005 – 4.02 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, 2005 is as follows:

	2005 $
Net loss for the year – restated (Note 3)	(944,140)
Less: Total stock–based employee compensation expense determined under fair value based method for all awards, net of related income tax effects	(589,438)
Net loss for the year – proforma	(1,533,578)
Weighted average number of common shares outstanding	86,008,245
Weighted average number of common shares outstanding – proforma	86,008,245
Loss per common share: Basic and diluted	(0.01)
Loss per common share: Basic and diluted – proforma	(0.02)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Stock-based compensation (cont'd)

From adopting SFAS 123(R), the Company reported a stock-based compensation expense of $179,347 and the impact on the consolidated financial statements is as follows:

	2006 $
Net loss before stock-based compensation	(887,114)
Employee stock-based compensation SFAS No.123(R)	(179,347)
Net loss for the year	(1,066,461)

On the consolidated financial statements, the $179,347 stock based compensation expense was allocated to cost of sales and various expenses as follows:

	2006 $
Costs of sales	8,462
Operating expenses	
Sales, marketing and business development	33,521
Software development and technology	13,250
Finance and administration	124,114
	170,885
Total stock-based compensation expense	179,347

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 US dollar. Foreign currency assets and liabilities are remeasured into U.S. dollars at current exchange rates except for non-monetary assets and capital accounts which are remeasured at historical exchange rates. Revenue and expenses are generally remeasured at monthly exchange rates which approximate average exchange rates in effect during each period. Gains or losses from foreign currency remeasurement are recorded in income.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Revenue recognition

The Company enters into sales contracts that may comprise multiple elements, including advertising and promotional fees, editorial content fees, training fees, custom development fees and auction fees. Revenue attributable to each of the various elements is allocated based on their relative fair value, assuming that the items delivered to date have standalone value and the arrangement meets all other criteria for separation. Advertising and promotional fees, and editorial content fees are recognized monthly as the services are performed.

Custom development fees are recognized when the Company retains no material conditions or obligations to the customer.

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.

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

Allowance for doubtful accounts

The Company establishes an allowance for doubtful accounts through review of open accounts, and historical collection and allowances amounts. 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. The Company issues credit to customers based on its knowledge and experience of the customer and payment history.

Advertising costs

Advertising costs are expensed as incurred and amounted to $87,050 in the year ended June 30, 2006 [2005 - $107,601].

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. 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, 2006 and 2005, all outstanding options and warrants were anti-dilutive.

3. RESTATEMENTS

The Company has restated its 2005 consolidated financial statements to correct an underaccrual of corporate income taxes payable for the year ending June 30, 2005. The restatement will impact the consolidated financial statements as follows:

	2005 $ restated
Net loss for the year	
As previously reported	(816,140)
Accrual of corporate income taxes	(83,000)
As restated	(944,140)
Corporate income taxes payable	
As previously reported	—
Accrual of corporate income taxes	83,000
As restated	83,000
Deficit	
As previously reported	(12,518,060)
Accrual of corporate income taxes	(83,000)
As restated	(12,601,060)

4. 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 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.

5. 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, 2006, the Company has three (2005 - three) customers sales accounting for 25% (2005 - 37%) of the Company's total revenues as follows:

	2006 %	2005 %
Customer A	11	10
Customer B	10	21
Customer C	4	6
	25	37

At June 30, 2006, approximately 12% of the Company's accounts receivable balance was due from these three customers (2005 – 21%).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006 and 2005 (Expressed in U.S. dollars)

6. PROPERTY AND EQUIPMENT

	2006		2005	
	Cost $	**Accumulated depreciation** $	**Cost** $	**Accumulated depreciation** $
Computer equipment and software	**264,830**	**234,542**	**258,766**	**199,551**
Computer equipment under capital leases	**410,507**	**319,218**	**370,572**	**254,374**
Office furniture and equipment	**53,958**	**31,403**	**42,316**	**22,922**
Vehicles	**102,004**	**18,859**	**53,315**	**5,073**
Leasehold improvements	**8,189**	**7,949**	**8,189**	**7,802**
	839,488	**611,971**	**733,158**	**489,722**
Net book value	**227,517**		**243,436**	

7. SOFTWARE DEVELOPMENT COSTS

	2006 $	2005 $
Cost	**1,134,897**	806,913
Accumulated amortization	**753,442**	502,608
	381,455	304,305

8. OTHER INTANGIBLE ASSETS

	2006 $	**2005** $
Intangible assets	**74,942**	74,942
Accumulated amortization	**74,942**	71,411
	—	3,531

9. ACCRUED LIABILITIES

	2006 $	**2005** $
Accrued interest	**7,356**	1,497
Accrued vacation	**136,610**	123,057
Other accrued liabilities	**120,991**	102,216
Total Accrued liabilities	**264,957**	226,770

10. REVOLVING LOAN

On September 19, 2005, the Company entered into a Revolving Loan and General Security Agreement with a company controlled by a director. Under this agreement, the Company has received $500,000 Cdn ($446,389 US) in funding. 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. Interest for the year ended June 30, 2006 on this loan amounted to $32,227. This loan has no due date or expiry date.

11. LOANS PAYABLE

On April 25, 2006, the Company entered into a Promissory Loan Agreement with Lee Enterprises Incorporated for the amount of $250,000. The terms of the agreement requires the loan be repaid in full by September 15, 2006 and interest be applied at an annual rate of 12%. This loan is unsecured.

As of March 20, 2007, the Company has not repaid the loan. Consequently, the loan now bears a higher rate of interest of 15%.

12. RELATED PARTY TRANSACTIONS

[a] Stockholders' loans

At June 30, 2006 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 due on demand with respect to principal and interest and are without stated terms of repayment unless otherwise stated.

	Annual Interest Rate at June 30, 2006	**Balance outstanding**	
		June 30 2006	**June 30 2005**
	%	$	$
Loans payable bearing interest at 4.55% due on demand and currently repaying by the Company in equal monthly blended installments of $1,450 through January 2028	**4.55**	**287,403**	269,084
Loans payable bearing interest at 4.55% due on demand and currently repaying by the Company in equal monthly blended installments of $1,468 through January 2028	**4.55**	**270,117**	253,910
Loans payable bearing interest at 4.55% due on demand and currently repaying by the Company in equal monthly blended installments of $1,468 through January 2028	**5.10**	**83,482**	77,941
Loans payable bearing interest at 4.55% due on demand	**4.55**	**3,571**	3,255
Loan payable bearing interest at Canadian Imperial Bank of Commerce monthly Line rate	**10.50**	**11,189**	—
Loan payable bearing interest at Canadian Imperial Bank of Commerce monthly Line rate	**9.50**	**11,112**	—
Loan payable bearing interest at the CIBC Visa monthly interest rate	**19.50**	**20,285**	—
Loan payable bearing interest at Toronto Dominion Bank monthly TD Select Line rate	**8.75**	**37,833**	—
Loan payable bearing interest at Toronto Dominion Bank monthly TD Select Line rate	**19.75**	**6,249**	—
Loan payable bearing interest at North Shore Credit Union monthly Line rate	**8.00**	**8,287**	—
		739,528	604,190

Interest paid on the loans amounted to $35,311 for the year ended June 30, 2006 [2005 - $27,726].

12. 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:

	2006 $	2005 $
Lee Enterprises, a 35.63% shareholder		
Sales	**228,255**	271,141
Accounts receivable balances	**9,637**	6,912
Knight Ridder Investment Company, a 35.63% shareholder		
Sales	**527,809**	869,231
Accounts receivable balances	**40,370**	125,361

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.

13. OBLIGATIONS UNDER CAPITAL LEASES

The Company leases certain of its computer equipment under capital leases through fiscal year 2010. The future minimum lease payments required under capital leases as at June 30, 2006 are as follows:

	$
2007	107,879
2008	51,232
2009	40,153
2010	26,233
Total minimum lease payments	225,497
Less: amounts representing interest	(32,462)
Present value of minimum lease payments	193,035
Less: current portion of obligations under capital leases	(83,778)
Long-term portion of obligations under capital leases	109,257

14. COMMITMENTS

The Company leases its premises and certain office equipment under operating leases expiring through fiscal year 2010. Future minimum lease commitments under these leases are as follows:

	Operating Leases $
2007	148,005
2008	2,989
2009	2,989
2010	498
Total future minimum lease payments	154,481

Rent expense for the year ended June 30, 2006 amounted to approximately $208,711 [2005 - $141,166].

15. SHARE CAPITAL

[a] Common stock

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.

On March 31, 2006, the Company agreed to issue 196,677 common shares at $0.0653 per share to its board of directors for services with a fair market value of $12,843.

[b] Stock options

On August 25, 1999, and as amended on November 29, 2000, December 19, 2002, May 28, 2004 and November 30, 2005, the Board of Directors approved the creation of the Corporate Stock Option Plan (“Plan”) pursuant to which the Company has reserved 13,000,000 [June 30, 2005 - 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 18, 2005, the Company granted 142,000 stock options to employees. These stock options vest 1/4 each year beginning on May 18, 2006 and are exercisable until May 18, 2010 with an exercise price of $0.0653.

On January 12, 2006, the Company granted 527,000 stock options to employees. These stock options vest 1/4 each year beginning on January 12, 2007 and are exercisable until January 12, 2011 with an exercise price of $0.0653.

15. SHARE CAPITAL (cont'd)

[b] Stock options (cont'd)

Stock option transactions for the years ended June 30, 2006 and 2005 are summarized below:

	Shares in treasury available for granting options	Outstanding options	
		Number	Weighted average exercise price
			$
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)	0.2500
Balance, June 30, 2005	320,698	10,179,302	0.0653
Increase in reserved shares	2,500,000	—	—
Granted, January 12, 2006	(527,000)	527,000	0.0653
Forfeited	192,000	(192,000)	0.0653
Balance, June 30, 2006	2,485,698	10,514,302	0.0653

The following table summarizes information about stock options that are outstanding at June 30, 2006:

	Options outstanding		Options exercisable	
Exercise price $	Number outstanding at June 30, 2006	Weighted-average remaining years of contractual life	Number outstanding at June 30, 2006	Weighted-average remaining years of contractual life
0.0653	10,514,302	3.52	7,219,965	3.83

The aggregate intrinsic value of non-vested and vested and exercisable stock options for the year ending June 30, 2006 is nil.

Non vested stock option transactions for the year ended June 30, 2006 are summarized below:

	Non Vested Shares	Weighted average grant-date fair value
	#	$
Balance, June 30, 2005	5,647,508	0.0653
Granted, January 12, 2006	527,000	0.0653
Vested	(2,746,504)	0.0653
Forfeited	(133,667)	0.0653
Balance, June 30, 2006	3,294,337	0.0653

15. SHARE CAPITAL (cont'd)

[b] Stock options (cont'd)

During the year ending June 30, 2006, the Company has recorded compensation expenses of $179,347 for vested stock options granted to employees.

As of June 30, 2006, there was $215,120 of total unrecognized compensation expenses related to non-vested stock options granted under the Plan. Under SFAS No. 123(R), this expense is expected to be recognized over the next four years.

[c] Warrants

On June 30, 2006 and 2005, the Company has no warrants outstanding.

Warrant transactions for the years ended June 30, 2006 and 2005 are summarized below:

	Outstanding warrants	
	Warrants #	**Weighted average exercise price** $
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, 2006 and 2005	—	—

[d] Loss per common share

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

	2006 $	**2005** $ Restated
Net loss for the year	**(1,066,461)**	(944,140)
Weighted average number of common shares outstanding	**86,226,897**	86,008,245
Basic and diluted loss per common share	**(0.01)**	(0.01)

For the years ended June 30, 2006 and 2005, all of the Company's common shares issuable upon the exercise of 10,514,302 (2005 – 10,179,302) stock options were excluded from the determination of diluted loss per common share as their effect would be anti-dilutive.

16. 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 34.12%. No material current provision or benefit for income taxes has been recorded for the year ended June 30, 2006 as the Company has incurred operating losses and has no carryback potential and the likelihood of future recovery is not more likely than not.

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:

	2006 $	**2005** $
Tax at U.S. statutory rates	**(362,000)**	(293,000)
Higher effective income taxes of other country	**(1,000)**	5,000
Deferred tax assets not recognized for accounting purposes	**109,000**	109,000
Tax losses not recognized for accounting purposes	**249,500**	262,000
Other	**4,500**	206
Income tax provision	**—**	83,206

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

	2006 $	**2005** $
Deferred tax assets		
Loss carryforwards	**2,570,000**	3,106,000
Tax values in excess of book value	**508,000**	391,000
Valuation allowance for deferred tax assets	**(3,078,000)**	(3,497,000)
Net deferred tax assets	**—**	—

16. INCOME TAXES (cont'd.)

The tax losses expire as follows:

	U.S.	Canadian
	$	$
2007	—	2,115,000
2008	—	2,280,000
2009	—	1,891,000
2010	—	555,000
2011	—	474,000
2012	—	85,000
2016	—	49,000
2022	70,000	—
2023	18,000	—
	88,000	7,449,000

In the United States of America, the net operating losses are restricted under Internal Revenue Code Section 382. As such, the Company may not be able to fully utilize the loss carryforward in each of any future years.

17. 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 by customer based on the location:

	2006	2005
	$	$
U.S.A.	2,384,237	3,218,629
Canada	635,517	518,064
Europe	1,497,953	431,074
Australia	705,925	22,677
Total revenues	5,223,632	4,190,444

18. SUBSEQUENT EVENT

The Company's subsidiary, WelcomeTo Search Engine Inc., has changed its name to CityXpress (Canada) Corp. in December 2006.