CYPOST CORP
Form 10KSB
April 15, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

(Mark One)
[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For Fiscal Year Ended: December 31, 2001

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to ______________________

Commission file number 000-26751

CyPost Corporation
(Exact name of small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

98-0178674
(IRS Employer Identification No.)

900-1281 West Georgia St.
Vancouver, British Columbia, Canada V6E 3J7
(Address of principal executive offices) (Zip Code)

Issuer's telephone number (604) 904-4422

Securities registered under Section 12(b) of the Act: NONE

Securities registered under Section 12(g) of the Act: Common Stock, par value $.001 per share

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation SB is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB

or any amendment to this Form 10-KSB. [ ]

State issuer's revenues for its most recent fiscal year: $3,706,386

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity, as of a specified date within the past 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act.) $2,087,057 as of March 5, 2002.

Note: If determining whether a person is an affiliate will involve an unreasonable effort and expense, the issuer may calculate the aggregate market value of the common equity held by non-affiliates on the basis of reasonable assumptions, if the assumptions are stated.

ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS

Indicate by check mark whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes [ ] No [ ]

APPLICABLE ONLY TO CORPORATE REGISTRANTS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 23,189,525 as of March 5, 2002.

DOCUMENTS INCORPORATED BY REFERENCE

If the following documents are incorporated by reference, briefly describe them and identify the part of the Form 10-KSB (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933 ("Securities Act"). The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1990).

No documents are incorporated by reference into this Annual Report on Form 10-KSB.

Transitional Small Business Disclosure Format (check one): Yes [ ]; No [X]

CYPOST CORPORATION

ANNUAL REPORT ON FORM 10-KSB
For the Year Ended December 31, 2001

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Certain statements contained in this Annual Report on Form 10-KSB that are not related to historical results, including, without limitation, statements regarding the issuer's business strategy and objectives, future financial position and expectations about future operations, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and involve risks and uncertainties. Although the Company believes that the assumptions on which these forward-looking statements are based are reasonable, there can be no assurance that such assumptions will prove to be accurate and actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, regulatory policies, competition from other similar businesses, and market and general economic factors. All forward-looking statements contained in this Annual Report on Form 10-KSB are qualified in their entirety by this statement.

PART I

Item 1. Description of Business

General

CyPost Corporation ("CyPost") is engaged in the business of providing Internet connection and related services (the "ISP Services") for business and personal use. See "ISP Business" below. Previously, the Company was also involved in developing certain software products using encryption components to

enhance user security and convenience for communication across digital networks, and in securing local data storage equipment (the "Software Products"), which activities the Company no longer pursues. See "Software Products Business" below. As used in this Annual Report on Form 10-KSB, the term "Company" refers to CyPost and its consolidated subsidiaries.

CyPost was incorporated on September 5, 1997, under the laws of the State of Delaware. The original name of CyPost was "ePost Corporation", which name was changed shortly after incorporation to CyPost Corporation.

The Company was a development stage company until the first quarter of 1999, when it began to offer the first of its Navaho brand Software Products and broaden its strategic focus through the acquisition of six Internet service providers (collectively, "ISPs" or individually, an "ISP"). Currently, providing ISP Services is the focus of the Company's business. The Company derives virtually all of its revenues from its ISP Services. No single customer accounts for a significant portion of the Company's revenue. The Company's business operations are presently conducted in Canada and the United States. Dollar values in this Report are expressed in U.S. Dollars, unless indicated otherwise. On December 31, 2001, one Canadian Dollar ("CDN") was worth $.62870 U.S. Dollars.

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The Company's principal executive offices are located at 900-1281 West Georgia Street Vancouver, British Columbia, V6E 3J7, Canada. The Company's telephone number is (604) 904-4422, and its website is www.cypost.com.

ISP Business

Overview

The Company offers a full range of consumer Internet access services and a broad selection of business services, both of which are offered nationwide in the United States and Canada.. The Company's services are tailored to the specific demands of both its business and residential customers and include connectivity, server co-locations, domain name registration, e-mail (list servers for corporate e-mailing), hosting other parties' websites ("Web hosting"), high-speed Internet access and other value-added services, including customer care available 24 hours a day, seven days a week, 365 days a year. Over time, these functions may be expanded to include additional privacy and protection solutions such as managed anti-virus, firewall, secure connections from personal computers to corporate networks (Virtual Private Network ("VPN")), intrusion detection and filtering services.

The Company's ISP business focuses on a niche market of small to medium-sized businesses and residential customers primarily in second and third tier markets, rather than larger businesses. The Company believes that it provides critically important high levels of customer service, managed networking, Web hosting and other technical support issues that are key concerns for this market.

Through a vendor agreement with WorldCom Canada Ltd. ("WorldCom"), successor in interest to UUNet Canada, Inc. , the Company provides Internet access services to approximately 100 communities in Canada, in which approximately 95% of the Canadian population resides. The Company through a vendor agreement with Dialup USA Inc. ("Dialup") provides Internet access services nationwide across 50 states in the U.S. As of December 31, 2001, the Company had approximately 17,600 business and residential ISP customers.

At present, most of the revenue from ISP Services can be attributed to

connectivity, although the Company's network of ISP Services is moving towards focusing on Web hosting, server co-location, and domain name registration, anticipating a strong hold over connectivity by the larger ISPs in a few years' time. The Company believes that many large and medium size businesses have already established a Web presence on the Internet, but that many small companies and residential customers in second and third tier markets have yet to make this move. As a result, the Company intends to focus its marketing efforts on this segment of the business community as well as second and third tier markets across the US and Canada by offering services at a competitive price point, and by providing tools that will enable customers to build a Web presence with minimal cost or expertise.

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While the Internet is growing at an exponential rate, the managed security service market is currently in its infancy. The Company plans to offer certain managed security services including anti-virus detection systems, setting up and monitoring firewalls, developing VPNs and providing intrusion detection services. The Company will continue to explore additional opportunities to expand into the managed security service market in order to provide greater value-added services to its ISP customers. The Company will require third-party financing in order to expand into the managed security service market. There can be no guaranty that such financing will be available or, if it is available, that it will be on terms acceptable to the Company. See "Risk Factors - Significant Capital Investment" below, and Part II, Item 6, "Management's Discussion and Analysis of Financial Condition and Results of Operations".

The Company's ISP business began in mid-1999 with the acquisition of the first two of six ISP providers acquired by the Company. The CyPost Network of Service Providers consists of (i) the following wholly-owned subsidiaries: NetRover Inc. ("NetRover") and NetRover Office Inc. ("NetRover Office"), both of which are located in Toronto; and Hermes Net Solutions Inc. ("Hermes") and Intouch Internet Inc. ("Intouch"), both of which are located in Vancouver, and (ii) the following DBAs: Connect Northwest Internet Services ("CNW") in Mount Vernon and Seattle, Washington; and Internet Arena ("Internet Arena") in Portland, Oregon. See "CyPost Network of Service Providers" below. Despite the fact that each of the Company's ISP businesses operates under its own trade name, most of the customer care, network operations and administration functions have now been centralized. See "Consolidation of ISP Operations" below. This has given the Company's ISP businesses the ability to enjoy the benefits of promoting themselves as regional providers, while obtaining the economic benefits of centralized network operations, technical support and administration.

Industry Background

Growth of the Internet and Electronic Commerce

The Internet is a collection of computer networks that links millions of public and private computers to form the largest computer network in the world, the Worldwide Web (the "Web"). It has become an important global communications medium, enabling millions of people to obtain and share information and conduct business electronically, and is a critical tool for information and communications for many users. The Internet has grown rapidly in recent years, both in the number of Web users and websites. Many factors are driving the growth in the number of Web users and websites, including the large and growing number of personal computers, advances in the performance and speed of personal computers and modems, easier access to the Internet and the increasing importance of the Internet for communications, information and commerce. For many businesses, the Internet has created a new communications and sales channel enabling large numbers of geographically dispersed organizations and consumers

to be reached quickly and cost-effectively.

Evolution of the Internet Services Market

Today, the Internet services market consists primarily of Internet access. Access services include dial-up and high-speed Digital Subscribe Lines ("DSL") access for individuals and small businesses and high-speed dedicated access primarily for larger organizations. The rapid development and growth of the Internet have resulted in a highly fragmented industry, consisting of more than 5,000 ISPs in the U.S. and Canada, most of which operate as small, local businesses. The Internet services industry is expected to undergo substantial consolidation, especially among mid-sized ISPs, over the next few years.

ISPs vary widely in geographic coverage, customer focus and the nature and quality of services provided to subscribers. Few ISPs offer nationwide coverage, have a brand name with nationwide recognition or can grow significantly without additional investment in infrastructure. ISPs may concentrate on specific types of customers that differ from the target markets of other ISPs. Services offered by ISPs can range from simple dial-up access to highly organized, personalized access coupled with value-added services. The Company believes that consumers generally focus on speed and reliability of access, ease of use, customer service and price, as they evaluate ISPs. In addition, the Company believes many business customers want all their Internet-based requirements, such as Internet access, Web hosting and electronic commerce applications, met by a single provider.

Internet operations, including Web hosting, domain name registration and electronic commerce, are increasingly becoming critical to businesses. However, many businesses lack the resources and expertise to develop, maintain and enhance, on a cost-effective basis, successful Internet operations. As a result, businesses increasingly use outside companies to enhance website reliability and performance, provide continuous operation of their Internet-based functions and reduce operating expenses. By outsourcing these services, companies can focus on their business rather than using their resources to support Internet operations.

There is increasing demand for ISPs to offer electronic commerce or Web hosting services that businesses can establish quickly and easily. An increasing number of ISPs supplement their basic Internet access services with a variety of commercial services that facilitate electronic commerce, such as Web hosting, co-location, domain name registration and other value-added services. These services expand an ISP's potential revenue sources from basic monthly access fees to other fees such as set-up and maintenance charges. In addition, some larger and more sophisticated ISPs market other Internet-based services, such as paging, long-distance and cellular telephone services, to both consumers and business customers.

The Company's ISP Solutions

The Company offers a full range of consumer Internet access services and a broad selection of business services, both of which are offered nationwide in the United States and Canada, at competitive prices. The Company believes that its services provide customers with the following benefits:

Fast and Reliable Quality Service. The Company's systems and network infrastructure are designed to provide consumer and business customers with fast and reliable quality service through its state-of-the-art equipment, its network

operations center that is monitored on a 24 hours a day, seven days a week basis by its engineers and third-party network providers. In addition, the Company offers bilingual customer support in English and French, for its French-speaking customers, and additional online customer support at www.helptek.net.

Cost-Effective Access. The Company offers high quality Internet connectivity and enhanced business services at price points that are generally lower than those charged by other ISPs with Canadian national coverage. The Company offers pre-bundled access services packages under monthly or prepaid plans.

Nationwide U.S. and Canadian Network Coverage. Through a vendor agreement with Dialup USA Inc. ("Dialup"), the Company provides Internet access services nationwide across 50 states in the US. Through a vendor agreement with WorldCom, the Company provides Internet access services to approximately 100 communities in Canada, in which approximately 95% of the Canadian population resides. See "Dependence on Key Suppliers" below. The Company has additional telecommunications agreements with other vendors in Canada and the Pacific Northwest.

Summary of ISP Services Offered

Narrowband Access

The Company offers a range of narrowband (low-speed) access including dial-up, and dedicated Integration Services Digital Network ("ISDN") services, to both residential and business customers. These services are offered in various competitively priced plans designed to meet the needs of customers. The price plans for all Internet services vary and are subject to change.

The price plans for the Company's narrowband Internet service vary depending on the region and are subject to change. The Company offers a variety of plans which include a fixed number of hours to unlimited plans.

- Fixed hourly plans start at $10.00 and unlimited dial-up plans range from $14.00 to $24.00 per month.

The Company's principal price plan for dedicated ISDN for corporate customers is currently as follows:

- $199 per month for dedicated ISDN (64 kilobytes) or $330 for dedicated ISDN (128 kilobytes), plus a one time setup fee of $100

Broadband Access

Broadband access consists of high-speed, high-capacity access services such as DSL. Many of the Company's customers have upgraded from the dial-up service, and the Company continues to expand its broadband service so that all dial-up customers will have the option to upgrade to a broadband service rather than use a competing ISP elsewhere. These services are currently available through CNW, Internet Arena and Hermes.

The Company's principal price plan for dedicated high-speed DSL service for residential customers is currently as follows:

- $25 per month for dedicated DSL (1.5 Mbps) with one e-mail account, 20 megabytes of storage space, and 5 gigabytes of transfer

The Company's principal price plan for dedicated high-speed Asymmetric

Digital Subscribe Line ("ADSL") service for corporate customers is currently as follows:

- $66 per month plus a one time setup fee of $44, for dedicated ADSL (1.5 Mbps) with 10 e-mail accounts, 20 Megabytes of storage space, and 5 Gigabytes of transfer

- $99 per month plus a one time setup fee of $56, for dedicated ADSL (2.5 Mbps) with 25 e-mail accounts, 20 Megabytes of storage space, and 10 Gigabytes of transfer

- $130 per month plus a one time setup fee of $70, for dedicated ADSL (4.0 Mbps) with 50 e-mail accounts, 20 Megabytes of storage space, and 15 Gigabytes of transfer

E-Mail

The Company offers a range of basic and enhanced e-mail services to individuals and businesses. Often, the decision is made to outsource services to a provider in order to avoid the financial cost, time and expertise requirements of maintaining e-mail services internally. While the geographic coverage of the Company's e-mail services customer base is worldwide, the Company targets prospective customers in Canada and the U.S.

Customer Security

The Company offers password protected access to all of its customers. The Company also offers some e-mail filtering services to limit computer viruses from being delivered to mailboxes. In addition, the Company employs monitoring mechanisms to block e-mail from companies that are known to generate junk e-mail, commonly known as "spam".

Web Hosting

The Company offers a range of basic and enhanced Web hosting services to individuals and businesses wishing to place their own website on the Internet. Often the decision is made to outsource services to a provider in order to avoid the financial cost, time and expertise requirements of self-hosting the website and obtaining enhanced services internally. While the geographic coverage of the market for Web hosting services is worldwide, the Company targets prospective customers in Canada and the U.S.

Web hosting can be differentiated into shared or dedicated hosting, both of which the Company offers. Shared hosting involves multiple customers who have their websites hosted on a shared computer server. Dedicated server hosting is available to customers that prefer not to host their websites on a shared server. Dedicated servers provide significantly more server and network resources than those available from a shared server and give customers the ability to run complex, high volume or high bandwidth websites and applications. The Company offers a number of dedicated server options at various prices depending upon the specific hardware configuration, level of service and data transfer rates required by the customer. The Company hosts customer websites and indirectly provides access to the Internet through its Network of Service Providers.

The Company's principal price plans for Web hosting are currently as follows:

- WebHost Classic $6.95 per month includes 5 megabytes of storage space,

website statistics and personalized e-mail

- WebHost Bronze $19.95 per month includes 10 megabytes of storage space, 1000 megabytes of data transfer, detailed website statistics and personalized e-mails

- WebHost Silver $29.95 per month includes 20 megabytes of storage space, 1500 megabytes of data transfer, detailed website statistics and personalized e-mails

- WebHost Gold $34.95 per month includes 40 megabytes of storage space, 2000 megabytes of data transfer, detailed website statistics and personalized e-mails

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Server Co-Location

The Company provides server co-location services, whereby a customer gains access to the Company's Internet support and maintenance services, high-speed Internet connections, security systems and appropriate physical environment for the server (e.g., static free, air-conditioned environments).

The Company's pricing policy for this service varies and is largely dependent on the customer's individual requirements.

Customer Care

A critical factor in selecting an ISP is quality and availability of technical support and customer care. With increasing complexity of today's technology, an effective ISP must offer customers a clearly defined means of reporting and resolving unexpected problems.

The Company is committed to customer service and support demonstrated by its outstanding customer service record, 24 hours a day, seven days a week, 365 days a year coverage, and local service and support. The Company's Network Operations Centers and technical support staff offer customers individualized support for their business-critical Internet solutions and provide network monitoring 24 hours a day, seven days a week, 365 days a year, in both English and French, for the Company's French-speaking customers, and additional online customer support at www.helptek.net.

The Company's Customer Care Center is the communications hub of the Company's network. The Customer Care Center is comprised of monitoring engineers, call analysts, Internet systems engineers, key senior technical agents and billing services staff.

The Company has established detailed protocols to effectively assess and route customer communications, service or trouble requests and event notification or alerts. In this way, the Company can ensure that its clients are operating at peak performance at all hours of the day and night.

Network Operations Centers

The Company has two network operation centers, located in Etobicoke (suburban Toronto), Ontario and Seattle, Washington. These operation centers monitor network traffic, quality of services and security issues, as well as the performance of the equipment located at each of its physical locations, to ensure reliable service. The operation centers are monitored on a 24 hours a day, seven days a week, 365 days a year basis, and maintain responsibility for communications between their internal departments (customer care) as well as

with external providers of services.

High-Quality Data Centers

The Company operates all of its core servers from four Internet Data Centers. With locations in both Canada and the U.S., these data centers provide the physical environment necessary to keep servers up and running 24 hours a day, seven days a week, 365 days a year.

The Toronto data center includes HVAC temperature systems with separate cooling zones, physical security features, including state of the art smoke detection and fire suppression systems, motion sensors and 24 hours a day, seven days a week and 365 days secure access, as well as video camera surveillance. This facility delivers high levels of reliability through redundant sub-systems such as on-site power with multiple backup generators.

Global Backbone, High Performance Network Architecture

The Company invests significant resources in developing a scalable network infrastructure. The Company's strategy is to outsource the process of building a scalable national or regional dial-up network. This eliminates the need for the Company to purchase equipment, negotiate leases throughout Canada and the U.S. to house the equipment, and provide Internet connectivity to all these locations. By outsourcing its network and dial-up infrastructure, the Company also has the ability to offer its services in areas where network costs would be prohibitive. Because it is not committed to leasing or building its own network, the Company can take advantage of the market opportunities that develop due to technological advances or regulatory changes. In addition, in some cases the Company has negotiated agreements with its telecommunication suppliers that are priced on a per customer basis, including its principal telecommunications agreements with WorldCom in Canada and Dialup in the U.S. As a result, the Company is only billed for the clients that actually use these services. In such cases, the Company's telecommunication costs only increase if the customer base increases. Conversely, if the customer base decreases, the Company's telecommunications costs decrease. Thus, the Company does not need to build its own network and work to fill any spare capacity that may exist. The Company has entered into agreements with telecommunications network suppliers for network capacity. These agreements are for fixed terms from one to five years.

The Company plans to modify its network over time to enhance its performance, provide access demanded by the market and allow it to serve a larger subscriber base. The Company's goal is to minimize both network costs and exposure to technological obsolescence of equipment.

Wherever feasible, the Company makes its network fault tolerant with redundant equipment. Such actions include standby equipment to handle additional capacity if a server has to be replaced for reasons such as malfunction of a hard drive or software. The redundancy allows for operations to continue as efficiently as possible, while the failure can be isolated to a particular piece

of equipment. In most cases, the availability of redundancy of equipment or excess capacity allows for the alternative processing of data until the defective equipment or software can be replaced or repaired. These measures, along with continuous monitoring, are designed to minimize network downtime and provide early identification of potential sources of failure. The Company believes that it will require third-party financing to acquire the additional

equipment required to further enhance the reliability of its network. There can be no guarantee that such financing will be available or, if available, it will be available on terms acceptable to the Company. See "Risk Factors - Significant Capital Investment" below.

Dependence on Key Suppliers

On November 8, 2001, the Company entered into an Amendment agreement with WorldCom, which provides network infrastructure for some of the Company's ISP Services operations. The term of the agreement is two years, commencing on May 1, 2001 and terminating on April 30, 2003 with a minimum payment of $90,000 CDN per month.

Marketing

The Company is actively seeking to market broadly its ISP Services and has taken a number of steps in that direction, including the use of a variety of print and communications media. The Company intends to market its services to resellers and wholesalers, as well as enter into strategic partnerships and joint ventures.

Consolidation of ISP Services Operations

During 2001, the Company continued to streamline and consolidate its ISP Services operations to enhance efficiency and reduce operating expenses. The Company has embarked on a program to centralize ISP Services to the greatest extent possible, as follows:

- Customer Support. In early 2001, the Company began consolidating all aspects of customer support (including end user technical issues) for its Oregon ISP customers into the Chatham, Ontario facility. The Washington state ISP customer support is handled in the Mt. Vernon office.

- Billing and Collections. In early 2001 the billing and collections for the Oregon ISP customers were consolidated into the Chatham facility, billing and collections for the Washington ISP Services customers is expected to be consolidated in Q2 2002.

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The Company is also consolidating Web hosting and dedicated services into Toronto, a process which began in late-2000 and is expected to be completed by Q2 -2002. Other ISP Services such as e-mail and user authentication (i.e., customer security) will continue to be handled from regional data centers. Beginning in early 2001, all new Web hosting customers, wherever located, were hosted from Toronto. The Company is also considering implementing other consolidated services to achieve greater efficiency and cost savings.

Network of Service Providers

The Company's Network of Service Providers consists of the following entities:

NetRover/NetRover Office. NetRover, based in Toronto, Etobicoke (suburban Toronto) and Chatham, Ontario, is the largest of the Company's ISP Services entities, currently serving approximately 12,700 residential and small business customers throughout Canada. NetRover offers inexpensive packages focusing on Web hosting and dial-up connections, as well as some server co-location.

NetRover currently offers dial-up service with the network infrastructure provided through WorldCom and has dial-up availability across Canada. With this

national reach, the Company intends to use the NetRover trade name for expansion. The Chatham facility is the backbone of the Company's customer support and billing functions.

Hermes. Based in Vancouver, British Columbia, Hermes serves approximately 450 customers in British Columbia. Hermes offers a range of services including connectivity (including ADSL), server co-location, Web hosting and e-mail services.

Intouch. Based in Vancouver, British Columbia, Intouch serves approximately 800 residential and small office/home office customers in British Columbia. Intouch has a "community" feel, and is primarily focused on dial-up connectivity, basic Web hosting, high-speed DSL and e-mail services.

Internet Arena. Based in Portland, Oregon, Internet Arena serves approximately 840 primarily residential and small office/home office customers in Oregon. Internet Arena offers a similar range of services to Intouch.

CNW. Based in Mt. Vernon and Seattle, Washington, CNW serves approximately 2800 business and residential customers in Washington. More focused on custom work, CNW's experience includes ethical hacking and other security monitoring. CNW also offers dial-up, DSL connectivity and Web hosting for its customers.

Software Products Business

Prior to January 1, 2001 the Company had developed its Navaho brand software products, which utilized encryption for email and data files. The Company discontinued software development as of end of 2000 and does not intend to recommence further development until appropriate financing is available to do so.

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Competition

The market for providing Internet access services is extremely competitive and highly fragmented. As there are no significant barriers to entry, the Company expects that competition will continue to intensify. Many of the Company's ISP competitors in connectivity, wholesale services and value-added services include large companies that have substantially greater market presence, financial, technical, marketing and other resources than the Company.

The Company competes directly or indirectly with the following types of companies:

- established online services, such as Bell Sympatico, Sprint Canada and Look Communication in Canada
- America Online, the Microsoft Network, Earthlink and Prodigy in the US
- local, regional and national ISPs
- national telecommunications companies, such as AT&T and Verizon
- regional Bell operating companies
- online cable services in Canada and the U.S.

The Company believes that the primary competitive factors determining success as an ISP are:

- a reputation for reliability and high-quality service
- effective customer support
- access speed
- pricing
- scope of geographic coverage

The Company believes that it competes favorably based on these factors, particularly due to:

- its emphasis on providing fast and reliable, high quality services and superior customer service and support
- its policy of pricing services at prices lower than or competitive to those of other national ISPs
- its policy to focus on second- and third-tier markets where competition from larger ISPs is reduced
- its goal to establish a niche market in response to the growing concerns for privacy and protection, rather than establishing itself as a competitor of the large ISPs, including telecommunication and cable companies

Competition in the future is likely to increase and the Company believes this will happen as diversified telecommunications and media companies acquire ISPs, and as ISPs consolidate into larger, more competitive entities.

Moreover, competitors may bundle security services and products with Internet connectivity services, potentially placing the Company at a significant competitive disadvantage. In addition, competitors may charge less than the Company does for Internet services, forcing the Company to reduce and/or preventing the Company from raising its fees. In such event, future revenue growth and earnings could suffer. The Company will attempt to compete against such companies by offering various value-added services, such as managed security services from partners to its ISP customers. While other larger ISPs offer some security solutions (many are offering client-end filtering as an example), the Company is reviewing the entire spectrum of services available in-house or through partnerships, to ensure that the Company has a thorough selection of security options to utilize and offer its customers.

Government Regulation

Internet access and online services are not subject to direct regulation in Canada and the U.S. However, changes in the laws and regulations relating to the telecommunications and media industry could impact the Company's business. For example, the U.S. Federal Communications Commission could begin to regulate the Internet and online services industry.

The Company is unable to predict the impact such regulation in either Canada or the U.S. would have on the Company's business, financial condition and results of operations.

In addition, from time to time, legislative and regulatory proposals from various international bodies and foreign and domestic governments in the areas of telecommunications regulation, particularly related to the infrastructures on

which the Internet rests, access charges, encryption standards and related export controls, content regulation, consumer protection, advertising,

intellectual property, privacy, electronic commerce, and taxation, tariff and other trade barriers, among others, have been adopted or are under consideration. The Company is unable to predict which, if any, of the proposals under consideration may be adopted and, with respect to proposals that have been or will be adopted, whether they will have a beneficial or an adverse effect on the Company's business, financial condition and results of operations. Similarly, the Company is unable to predict the effect on the Company from the potential future application of various domestic and foreign laws governing content, export restrictions, privacy, consumer protection, export controls on encryption technology, tariffs and other trade barriers, intellectual property and taxes.

Proprietary Rights

The Company has registered the NetRover trade name in Canada, but has not registered that name in the U.S. since, until recently, NetRover ISP Services have been offered exclusively in Canada. The Company has applied for registration in the U.S. of the CyPost trade name. The Company has not registered the Hermes or Intouch trade names in either Canada or the U.S. While the Company believes trade name identification is important to the Company's ISP Services business, the Company does not believe that any one trade name is essential to the success of the Company's operations.

The Company has not registered the Navaho brand name and is unlikely to do so. If the Company pursues Software Products development again in the future, it is likely to do so under a different brand name.

Employees

At December 31, 2001, the Company had 35 full-time employees, of whom 8 are management, 3 are marketing, and 24 are administration and 14 were considered to be either temporary or part-time employees of whom all are administration. None of the Company's employees was subject to collective bargaining agreements at year-end.

Risk Factors

In addition to other information in our Annual Report on Form 10-KSB, you should consider the following important factors in evaluating the Company and its business. These factors may have a significant impact on our business, financial condition or results of operations. We are involved in litigation, which, if not resolved favorably, would significantly increase our losses. The Company is currently involved in the following two lawsuits: Tami Hellen Allan, and Berry Litigation. If we do not prevail in these lawsuits, our losses could significantly increase. See Item 3 "Legal Proceedings".

Early-Stage Company

We were incorporated on September 5, 1997. From 1997 through the first quarter of 1999, we focused on developing our Software Products business. Thereafter, we focused on our ISP Services business as we began to acquire our ISP operating businesses. It is the ISP Services business on which we focus presently. Our limited operating history makes an evaluation of our business and

prospects very difficult, and our business strategy and mix is still evolving. Our ability to operate profitably is unproven and uncertain. You must consider our business and prospects in light of the risks and difficulties we encounter as an early stage company in the new and rapidly evolving market of the Internet, and the rapidly changing environment of software development. These risks and difficulties include, but are not limited to:

- a complex and unproven business system
- lack of sufficient customers, orders, net sales or cash flow
- difficulties in managing rapid growth in personnel and operations
- high capital expenditures associated with our business systems and technologies
- lack of widespread acceptance of the Internet as a means of gathering and exchanging information and purchasing products

We cannot be certain that our business strategy will be successful or that we will successfully address these risks. Our failure to address any of the risks described above could have a material adverse effect on our business, financial condition and results of operations.

Overall Industry Risks

Our business and prospects must be considered in light of the risks, expenses and difficulties encountered by companies in the new and rapidly evolving market for dial-up, ISDN, DSL connectivity services, server co-location, Web hosting and e-mail services. To address these risks, we must market our services and build our trade names effectively, provide scalable, reliable and cost-effective services, continue to grow our infrastructure to accommodate additional customers and increased use of our network bandwidth, expand our channels of distribution, continue to respond to competitive developments and retain and motivate qualified personnel.

Dependence Upon the Internet and Internet Infrastructure Development

Our success depends largely upon continued growth in the use of the Internet and increased demand for our ISP Services. Critical issues concerning the commercial use of the Internet, including security, reliability, cost, ease of access, quality of service and necessary increases in bandwidth availability,

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remain unresolved and are likely to affect the development of the market for our services. The adoption of the Internet for information retrieval and exchange, commerce and communications, particularly by those enterprises that have historically relied upon alternative means of information gathering, commerce and communications, generally will require the acceptance of a new medium of conducting business and exchanging information. Demand and market acceptance of the Internet are subject to a high level of uncertainty and depend upon a number of factors, including growth in consumer access to and acceptance of new interactive technologies, the development of technologies that facilitate interactive communication between organizations and targeted audiences and increases in the speed of user access. If the Internet, as a commercial or business medium, fails to develop further or develops more slowly than expected, our business, financial condition and results of operations could be materially adversely affected.

Intense Competition From More Traditional ISPs

The Internet and e-commerce market is extremely competitive. Our competition is comprised of local, regional, national and international companies. Many of our existing and potential competitors are larger and have substantially greater resources than we do. We expect this competition in the Internet and e-commerce markets to intensify as our competitors offer more competitive services. The number and nature of competitors and the amount of competition we will experience will vary by market area. The principal competitive factors that affect our business are breadth of product selection, quality, service, price and customer loyalty. If we fail to effectively compete in any one of these areas, we may lose existing and potential customers, which would have a material adverse effect on our business, financial condition and results of operations.

Complex Business System, and Operational Difficulties

Our business systems and technologies are based on the complex integration of numerous software and hardware subsystems that utilize advanced algorithms to manage the entire process from the receipt and processing of orders and services at our customer service and administration centers. We have, from time to time, experienced operational "bugs" in our systems and technologies, which have resulted in order and service errors and interruptions. Operational difficulties may arise from one or more factors including electro-mechanical equipment failures, computer server or system failures, network outages, software performance problems or power failures. We expect operational difficulties to continue to occur from time to time, and it is possible that our operations could be adversely affected. Computer viruses, electronic break-ins or other similar disruptive problems could also adversely affect our website. In addition, fires, floods, earthquakes, power losses, telecommunications failures, break-ins and similar events could damage our systems or cause them to fail completely. For instance, a fire on January 31, 2000, at our Etobicoke (suburban Toronto), Ontario facility caused service interruption for 36 hours. The efficient operation of our business systems is critical to consumer acceptance of our services. If we are unable to meet customer demand or service expectations as a result of operational issues, we may be unable to develop sustainable, customer relationships, which could have a material adverse effect on our business, financial condition and results of operations.

Dependence on Telecommunication Providers

Our success also depends upon the capacity, scalability, reliability and security of our network infrastructure, including the telecommunications capacity leased from WorldCom and other telecommunications network suppliers. We depend on such companies to maintain the operational integrity of their own telecommunications networks. Therefore, our operating results depend, in part, upon the pricing and availability of telecommunications network capacity from a limited number of providers in a consolidated market. A material increase in pricing or decrease in telecommunications capacity available to us could have a material adverse effect on our business, financial condition and results of operations.

Significant Capital Investment

We require substantial amounts of working capital to further build, equip and market certain aspects of our ISP Services in the markets in which we seek to operate. Our competitors have developed or may develop equipment and systems that are more highly automated or less capital-intensive than ours. This could enable them to commence operations in a particular geographic market before we are able to do so, which could harm our competitive position. In addition,

because of the substantial capital costs associated with the development of our ISP business, we may be unable to achieve profitability or reduce our operating losses if we do not process sufficient order volumes or significantly expand our customer base.

As the total number of our ISP customers increases, and their usage of bandwidth increases, we will need to make additional investments in our infrastructure to maintain adequate service, the availability of which may be limited or the cost of which may be significant. Additional network capacity may not be available from third-party suppliers as we need it, and, as a result, our ISP network may not be able to achieve or maintain a sufficiently high capacity of service, especially if the usage of our subscribers increases. Our failure to achieve or maintain high-capacity data transmission could significantly reduce consumer demand for our services and have a material adverse effect on our business, results of operations and financial condition. To accommodate a higher degree of scalability from the present infrastructure, we may have to increase spending on capital assets, such as upgrading and partially replacing existing capital assets and increasing bandwidth.

At present, we lack the capital to pursue our Software Products business. Any continued development of Software Products would require significant amounts of capital from third parties. We do not have any agreements for that funding and we cannot say if that funding will be available in the future.

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The rate at which our capital is utilized is affected by the pace of our expansion. Since our inception, we have experienced negative cash flow from operations. In the past, we have funded our operating losses and capital expenditures borrowings of debt and convertible debt from private sources. We continue to evaluate alternative means of financing to meet our needs on terms that are attractive to us. We currently anticipate that our available funds will be sufficient to meet our anticipated needs for working capital and capital expenditures with respect to our existing ISP Services business for at least the next 12 months. We must either raise additional funds to support aspects of our business for 2002 or we will be forced to curtail certain aspects of our business operations, particularly in terms of the growth of and further enhancements to our ISP Services business, or recommencing research and development of Software Products. We need a minimum of $500,000 and a maximum of $4,500,000 to support current operations, grow and further enhance our ISP services business, and a minimum of $250,000 and a maximum of $500,000 to recommence the research and development of the Software Products. If financing were made available we would first apply the proceeds to the further enhancement of our ISP services business. We cannot be certain that additional financing will be available to us on favorable terms when required, or at all. If we are unable to obtain sufficient additional capital when needed, we could be forced to alter our business strategy, delay or abandon some of our expansion plans or sell assets. Any of these events could have a material adverse effect on our business, financial condition and results of operations. In addition, if we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences or privileges senior to those of the rights of our Common Stock and our stockholders may also experience dilution.

The Loss of the Services of One or More of Our Key Personnel, or our Failure to Attract, Integrate New Hires and Retain Other Highly Qualified Personnel in the Future Could Harm our Business

The loss of the services of one or more of our key personnel could harm our business. We depend on the continued services and performance of our senior management and other key personnel. Our future success also depends upon the

continued service of our executive officers and other key personnel. The competition for talented employees is intense and our ability to attract and retain key employees is a function of a number of factors, some of which are beyond our control, such as the value of other opportunities perceived to be available elsewhere. None of our executive officers or key employees are bound by an employment agreement and our relationships with these officers and key employees are at will.

Item 2. Description of Property

The Company has entered into a net lease with Mansa Holdings Ltd. in respect to its office premises located at 900-1281 West Georgia St., Vancouver, British Columbia for approximately 6500 square feet of office space. The term of the lease is for 60 months and ends on June 1, 2005. The current monthly net

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rent under this lease is $6019 CDN$. The property taxes and operating expenses are currently estimated at 6437 CDN$ per square feet per month. The lease contains escalation clauses throughout the term. For the period between June 1,2003 and May 31,2005 the monthly net rent under this lease will be $6566.00 CDN$ per month.

Customer Support and billing Center

On November 2nd, 2000, NetRover Inc. entered into an assignment of a net lease between H.V.M. Holdings Inc. (Landlord) and Garden Green Realty Inc. (Previous Tenant) in respect to NetRover's office premises located at 405 Riverview Drive, Chatham, Ontario for approximately 2100 square feet of office space. The term of the lease starts December 1st , 2000 and ends on May 31st , 2003. The current monthly net rent under this lease is $ 1420 CDN$. The property taxes and operating expenses are currently estimated at $1800. CDN$ per month. The lease contains escalation clauses throughout the term. For the period between May 31st 2001 and May 31, 2002 the monthly net rent under this lease will be $1420 CDN$ per month. For the period between May 31st 2002 and May 31, 2003 the monthly net rent under this lease will be $1509 CDN$ per month

Administration / Accounting

On July 1,1995 NetRover Inc. entered into a net lease with The Imperial Life Assurance Company of Canada in respect to Net rover's office premises located at 93 Skyway Ave., Suite 105, Etobicoke, Ontario for approximately 1783 square feet of office space. The term of the lease is for 5 years and ended on June 30, 2000. For the period between July 1, 1998 and June 30, 2000 the monthly net rent under this lease was $1333 CDN$ per month

On June 13th, 2000, NetRover Inc. amended the net lease with The Imperial Life Assurance Company of Canada in respect to Net rover's office premises located at 93 Skyway Ave., Suite 106, (previously unit 105) Etobicoke, Ontario for approximately 1700 square feet of office space. The term of the lease is for 3 years starting July 1,2000 and endings on July 31, 2003. The monthly net rent throughout the term of the lease is $1435 CDN$. The property taxes and operation expenses are currently estimated at $1413 CDN$ per month.

Network Operations Center

On January 28th, 2000, the Company entered into a gross lease with 890 West Pender Ltd. in respect to its office premises located at 890 West Pender Street, Vancouver, British Columbia for approximately 650 square feet of office space. The term of the lease is for one year and ended on January 31st, 2001. The monthly gross rent throughout the term of the lease is $775 CDN$ per month.

Subsequently, on January 15th, 2002, the Company entered into a Lease Amendment Agreement with 890 West Pender Ltd. in respect to this location. The

term of the lease is for one year commencing February 1st, 2002 and ending on January 31st, 2003. The monthly gross rent throughout the term of the lease is $1087 CDN$ per month. Retail Space (Empty at this time)

The Company assumed a lease obligation with the former owners of Intouch in respect to an office located at 3448 Cambie Street, Vancouver, British Columbia for approximately 825 square feet of office space. The term of the lease ended on December 31, 2001. The monthly net rent due was$1581 CDN$ per month. The property taxes and operating expenses are were $964 CDN$ per month. This lease was not renewed.

Network Operations Center

The Company has entered into an assignment of a lease with American Property Management in respect to two offices located at 1016 & 1008 SW Taylor Street, Portland, Oregon comprising approximately 1902 and 457 square feet of space, respectively. The term of the lease ends January 31, 2002. The monthly net rent is $2801 US$ per month. The additional expenses are currently estimated at $284 US$ per month. (Internet access in the amount of $232 per month and water usage in the amount of $52. per month.)

Subsequently, on February 6th , 2002, the Company entered into a Lease Amendment Agreement with American Property Management in respect to its office located at 1016 SW Taylor Street, Portland, Oregon. for approximately 1902 square feet of office space. The term of the lease is for one year commencing February 1st, 2002 and ending on January 31st, 2003. The monthly gross rent throughout the term of the lease is $2377 US$ per month. The additional expenses are currently estimated at $284 US$ per month. (Internet access in the amount of $232 per month and water usage in the amount of $52 per month). The Company did not renew the office space located at 1008 SW Taylor Street, Portland, Oregon, which comprised of 457 square feet.

Sales and Regional customer support

The Company entered into an Amendment and Novation Agreement dated October 27, 1999 with Timothy B. White Properties and Connect Northwest LLC in respect to an office located at 117 North First Street, Mount Vernon, Washington. The lease ends August 31, 2003. The current net rent under the lease is $ 3200 US$ per month. In addition the Company is responsible for 87% of the electrical bill which are currently estimated at $231 US$ per month. The lease contains escalation clauses throughout the term. For the period between September 1st, 2000 and August 31st, 2001 the monthly net rent was $3000 US$. For the period between September 1st, 2001 and August 31st, 2002 the monthly net rent under this lease will be $3200 US$ per month. For the period between September 1st, 2002 and August 31st,2003 the monthly net rent under this lease will be $3400 US$ per month. The company has the option to renew the lease for 1 additional term of 5 years.

Network Operations Center

The Company entered into an Assignment of Lease and Acceptance dated October 26, 1999 with Sixth & Virginia Properties and Connect Northwest LLC in

respect to an office located at 2001 Sixth Avenue, Suite 705, Seattle for approximately 210 square feet of office space. The term of the lease ended on June 30, 2001. The monthly rent was $1299 US$ per month.

On August 8th, 2001, the Company entered into a Lease Amendment Agreement with Sixth and Virginia Properties, in respect to this location. The term of the lease is for three years commencing September 1st, 2001 and ending on August 31st, 2004. The lease contains escalation clauses throughout the term. For the period between September 1st , 2001 and August 31st ,2003 the monthly net rent under this lease will be $1225 US$ per month. For the period between, and September 1s t, 2003 to August 31s t, 2004 the monthly net rent under this lease will be $1287 US$ per month.

Item 3. Legal Proceedings

Canada Post Litigation

On June 11, 1999, Canada Post Corporation filed a Statement of Claim in the Federal Court of Canada (Court File No. T-1022-99) in which it sought injunctive and unspecified monetary relief for the allegedly "improper" use by the Company's subsidiary, ePost Innovations, of certain marks and names which contain the component "post". On October 18, 1999, ePost Innovations filed its Defense and Counterclaim. In a motion heard November 24, 1999, Canada Post Corporation challenged certain parts of the Counterclaim and the Federal Court reserved judgment. On May 25, 1999, ePost Innovations filed a statement of Claim in the British Columbia Court (Court File No. C992649) seeking a declaration that the public notice of Canada Post Corporation's adoption and use of CYBERPOSTE and CYBERPOST on November 18, 1998 and December 9, 1998 respectively, did not affect the Company's use of CYPOST and ePost Innovations as trademarks and trade-names prior to said dates. ePost Innovations sought summary judgment for such a declaration and on September 14, 1999, the BC Court rejected summary judgment on the basis that no right of the Company was being infringed and that a trial of the issues was more appropriate. There was no pre-trial discovery (except to the extent that some was done as part of the summary judgment application).

Canada Post was seeking relief in the form of preventing ePost Innovations from using trademarks, trade names or brand names and did not seek monetary damages.

On June 20, 2001 ePost Innovations, Canada Post and the Company entered into a Settlement and Release Agreement effective as of May 30, 2001 (the "Settlement Agreement"). Pursuant to the Settlement Agreement, the parties executed mutual releases and discontinued their respective claims. The release

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by Canada Post to ePost Innovations was made subject to the Company and ePost Innovations ceasing all use of the trade name EPOST within Canada within 90 days of the effective date of the Settlement Agreement and transferring all right, title and interest they had with respect to the trade name and trademark EPOST and any goodwill associated therewith to Canada Post upon execution of the Settlement Agreement. On August 30, 2001 the Company changed the name of its subsidiary to NetRoverUSA Online Inc.

The Company has complied with all terms of the Settlement Agreement.

Berry Litigation

On March 31, 2000, the Company commenced suit in the Supreme Court of British Columbia, Action #S001822, Vancouver Registry against Tia Berry (the "Tia Action"), the wife of Steven Berry ("Berry"), the former President and Chief Executive Officer of the Company. In the Tia Action, the Company claims $42,516 (CDN) from Tia Berry on account of monies paid to her by the Company which she was not entitled to receive. Tia Berry has filed a Statement of Defense in the Tia Action in which she alleges that the payments which she received from the Company were to reimburse her for business expenses which she had charged to her credit cards on behalf of Berry. An Examination for Discovery of Sandra Lynn Warren took place on February 19, 2002 in conjunction with this action. The Tia Action has not yet been set for trial.

On April 4, 2000, Berry commenced an action in the Supreme Court of the State of New York, County of New York (Index No. 601448/2000), against the Company and Continental Stock Transfer Company ("Continental"), (the "New York Action"). In the New York Action, Berry claimed damages for alleged conversion, fraud, breach of contract and breach of fiduciary duty all arising from the alleged wrongful Stop Transfer Order which the Company placed relating to 75,000 shares of the Company's Common Stock registered in Berry's name and the Company's cancellation of a further 600,000 shares (the "Contingent Shares"). The complaint in the New York Action claims damages in excess of $3,000,000 with the precise amount to be determined at trial.

Berry received the 600,000 Contingent Shares upon condition that he would remain in the Company's employ as Chief Executive Officer for at least two years. Berry commenced his employment with the Company on January 4, 1999, and resigned his employment with the Company on January 17, 2000. Following Berry's resignation, the Company attempted to have a Stop Transfer Order issued with respect to the 75,000 shares registered in Berry's name and cancel the 600,000 Contingent Shares. The Stop Transfer Order was not effective and Berry subsequently sold the 75,000 shares.

On May 19, 2000 CyPost and ePost Innovations commenced suit in the Supreme Court of British Columbia, Action #S002798, Vancouver Registry, against Berry and his wife, Tia Berry (the "BC Action"). In the BC Action, the Company seeks an order directing Berry to return the 600,000 Contingent Shares to the Company for cancellation for an order entitling the Company to cancel the same on the basis that Berry did not fulfill the employment conditions which were the condition precedent to his becoming the beneficial owner of the Contingent Shares.

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In the BC Action, the Company also claims at least Cdn$800,000 from Berry on account of breach of fiduciary duty, negligence, breach of statutory duties and breach of contract arising from Berry's failure to properly carry out his employment responsibilities. In the BC Action, the Company also claims Cdn$34,013 from Berry and Tia Berry on account of conspiracy to defraud and injure the Company and ePost Innovations by causing certain personal expenses to be paid by the Company rather than by Berry and Tia Berry personally. The Company also claims punitive and exemplary damages from Berry and Tia Berry in the BC Action. The trial date has been set for Monday, January 20, 2003.

On May 25, 2000, the Company moved in the New York Action for an order dismissing the action against the Company for lack of jurisdiction or, in the alternative, on the basis of forum non conveniens. On September 5, 2000, the court dismissed the New York Action on forum non conveniens grounds, subject to the Company making certain stipulations in the New York Action. Those stipulations have been made and the appeal period in the New York Action has expired without Berry or any other party appealing the September 5, 2000 order.

The issues raised by Berry and the Company in the New York Action will be litigated in the BC Action together with the further issues raised by the Company in the BC Action. The Company feels that Berry's claims in the New York Action were without merit and that the Company will be successful in obtaining an order declaring that Berry's 600,000 Contingent Shares be cancelled and further entitling the Company to substantial damages, although no assurance can be given that this will be the case. The Company will vigorously pursue its position in all respects.

On December 21, 2000, Berry and Tia Berry commenced suit in the Supreme Court of British Columbia, Action #S006790, Vancouver Registry, against CyPost, ePost Innovations, Kelly Shane Montalban, J. Thomas W. Johnston, Carl Whitehead and Robert Sendoh (the "Berry Action"). Statements of Defense have been filed on behalf of the Company and the other defendants.

The Plaintiffs in the Berry Action allege that the Tia Action, the BC Action, and the action by Kelly Shane Montalban (Supreme Court of British Columbia, Action #S002147, Vancouver Registry), against Berry for specific performance of an option agreement (the "Montalban Action"), collectively, amount to an abuse of process, malicious prosecution, unlawful interference with the Plaintiffs' economic rights, or were commenced pursuant to a civil conspiracy to injure the Plaintiffs.

In the Berry Action, the Plaintiffs seek a declaration that Berry is entitled to the 600,000 Contingent Shares and claim unspecified damages which are estimated at Cdn$2,000,000 based on the Statement of Claim. They also claim punitive or aggravated damages and costs. The Company believes that the allegations in the Berry Action are without merit and they will be vigorously defended. An Examination for Discovery of Kelly Shane Montalban took place over two days on January 31, 2002 and February 1, 2002 in conjunction with this action.

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The Tia Action, the BC Action and the Berry Action may be consolidated for the purposes of trial due to the fact that there are numerous issues of fact and law which are common to all of these actions.

A loss by the Company of the claim for monetary damages would have a material adverse effect on the Company's future results of operations, financial condition and liquidity; however, the Company does not expect to lose this action and believes additionally that it would be able to negotiate reasonable payment terms should it lose this suit.

The Company has entered into negotiations to settle outstanding litigation. On February 5, 2002, counsel for Steven and Tia Berry presented to counsel for the Company an offer to settle the Tia Action, the BC Action, the Berry Action and the Montalban Action ("All Actions"). On March 4, 2002, counsel for the Company sent to counsel for Steven and Tia Berry a counter-offer to settle All Actions. On March 12, 2002, counsel for the Company received a letter for Steven and Tia Berry rejecting the counter-offer to settle of March 2, 2002. The Company has entered into settlement negotiations motivated by the best interests of the Company but without any admission of liability.

SHANE MONTALBAN LITIGATION

On June 15, 2001 the Company filed a Summons and Complaint against Kelly Shane Montalban in the United States District Court for the Southern District of New York (CyPost Corp. v. Kelly Shane Montalban, Civ. 5447). The Complaint alleged that, between September 1999 and June 15, 2001 (the "Recovery Period"), numerous purchases and sales of the Company's common stock were made in

violation of the short swing profit recovery provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended. ("Section 16(b)").

Section 16(b) imposes strict liability on corporate insiders, including principal stockholders, for engaging in short swing trading activities (a sale and purchase or purchase and sale occurring within any six (6) month period) without regard as to whether true profits were realized by the insider from such trading activities. During the Recovery Period, numerous purchases and sales of the Company's common stock were made in violation of Section 16(b). Although the Company did not believe that any of such purchases and sales were based on non-public information, the Company nonetheless required by the strict liability provisions of Section 16(b) to seek recovery. The Company ultimately determined that the amount of short swing profits realized within the Recovery Period was $2,498,449 (the "Recovery Amount"). Mr. Montalban cooperated fully with the

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Company's investigation and agreed to make payment in full of the Recovery Amount. Pursuant thereto, on September 20, 2001 the Company entered into a Settlement Agreement. Part of the Recovery Amount was paid by Mr. Montalban by way of his delivery to the Company for cancellation, on September 20, 2001, various promissory notes of the Company on which the Company owed an aggregate of $2,344,788 in principal and $44,450 in interest or a total of $2,389,238.

The notes delivered for cancellation included a note which had been assigned to Mr. Montalban by the holder to satisfy an obligation of the holder to Mr. Montalban, notes which had been purchased by Mr. Montalban from various individuals, and a note held by Pacific Gate Capital Corporation, a corporation owned by Mr. Montalban. The balance of the Recovery Amount was paid by the issuance to the Company of his five (5) year, 5% promissory note, dated September 20, 2001, in the principal amount of $109,211. In consideration of the execution of the Settlement Agreement and payment of the Recovery Amount, on October 9, 2001 the Company voluntarily dismissed its action.

WORLDCOM DISPUTE

On June 30, 1999 NetRover Inc ("NetRover") entered into a Virtual Internet Provider Agreement with WorldCom Canada Ltd ("WorldCom"). A dispute arose between the parties regarding certain credits claimed by NetRover and amounts claimed as owed by NetRover to WorldCom in the amount of Cdn$633,368.

On November 8, 2001 NetRover entered into a Settlement Agreement ("Settlement") with WorldCom. The parties have agreed to a settlement of Cdn$91,000, which have been paid in three installments.

The Company has complied with all terms of the Settlement Agreement.

DOMINION ACTION

On September 13, 2001, Dominion Information et al ("Dominion") commenced suit in the Supreme Court of British Columbia, Action # S015127, Vancouver Registry (the "Dominion Action") against Hermes Net Solutions, CyPost Corporation and Stephen Choi, a former shareholder, director and secretary of Hermes Net Solutions until June 30, 1999. As of June 30, 1999, Hermes was a wholly owned subsidiary of CyPost Corporation. In the Dominion Action, Dominion claims $19,339 (CDN) from the defendant Hermes Net Solutions pursuant to an agreement whereby Dominion published advertisements on behalf Hermes Net Solutions. In the alternative, Dominion claims that CyPost Corporation was unjustly enriched by the amount claimed. The defendants Hermes Net Solutions and CyPost Corporation filed a Statement of Defense in the Dominion Action in which

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they state that the defendant Stephen Choi did not have authority to enter any agreement on their behalf. Furthermore, the Statement of Defense denies the existence of an agreement, any benefit from an agreement or any unjust enrichment from an agreement.

On February 16, 2002, settlement terms were proposed by Dominion. Hermes Net Solutions and CyPost Corporation decided it would be in their best interest to settle this litigation by making a lump sum payment and twelve monthly payments commencing April 1, 2002 and to March 1, 2003. When Hermes Net Solutions has completed the payment schedule in March, 2003, Dominion will file the Consent Dismissal Order, dismissing the Dominion Action.

CNW ACTION

On January 14, 2002, Connect Northwest Internet Services, LLC, a Washington limited liability company, d/b/a Skagit County Networking LLC ("CNW") commenced suit in the Superior Court of Washington for King County, Case No. 02-2-01906-4SEA, against CyPost Corporation (the "CNW Action"). In the CNW Action, CNW claims $30,529 (U.S.) plus interest, costs and attorney's fees from the Company on account of monies owing pursuant to an asset purchase agreement of October 27, 1999.

On February 13, 2002, the Company was able to settle this litigation. The Company agreed to make a lump sun payment of $6,000 U.S. to CNW by February 28, 2002 followed by payments of $4,000 U.S. on the 15th of each month thereafter until August 15, 2002 for a total payment of $30,000 U.S. Once the Company has made its final payment on August, 15, 2002, CNW will dismiss the action.

TAMI HELEN ALLAN

On November 2, 2001, Tami Helen Allan ("Allan") commenced suit in the Ontario Superior Court of Justice of Chatham-Kent, against NetRover Inc., CyPost Corporation, Robert Sendoh, Kelly Shane Montalban, Angela Belcourt and J. Thomas W. Johnston (the "Allan Action"). In the Allan Action, Allan claims that as a result of the wrongful termination of Allan's employment, Allan has sustained damages including loss of salary in the amount of $600,000 (CDN).

On November 9, 2001 the Company filed a Notice of Defense. At the date of this filing, the litigation remains at the pleadings stage. Management of the Company intends to vigorously defend the case.

. A loss by the Company of the claim for monetary damages would have a material adverse effect on the Company's future results of operations, financial condition and liquidity; however, the Company does not expect to lose this action and believes additionally that it would be able to negotiate reasonable payment terms should it lose this suit.

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The Company is also subject to routine litigation from time to time in the operations of its business. None of such routine litigation is material to the Company, its assets or results of operations.

Due to the inherent uncertainties of litigation, the Company cannot predict the outcome of any litigation to which it is a party.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

Due to an amendment to the Company's article of incorporation on January 29, 2002, the authorized capital stock of the Company currently consists of 205,000,000 shares, of which 200,000,000 shares are designated as Common Stock and 5,000,000 shares are designated as Preferred Stock, par value $.001 per share. On September 24, 1999, the Company effected a 3-for-2 split of its shares of Common Stock. All share amounts stated in this filing have been adjusted retroactively to give effect to this stock split.

The Company's Common Stock was first listed on the Over the Counter Bulletin Board ("OTCBB") on September 24, 1998, under the symbol "POST." Prior to that time, there was no market for the Company's Common Stock.

On April 17, 2000, the Company's Common Stock was removed from trading on the OTCBB, because of its failure to remain current in its Securities and Exchange Commission ("SEC") reporting obligations as required by NASD Rule 6530. Thereafter, the Company's Common Stock was quoted in the "Pink Sheets", pending the Company's compliance with Exchange Act reporting requirements and the OTCBB listing requirements. On March 27, 2001, the Company's Common Stock re-commenced trading on the OTCBB, where it currently trades under the symbol "POST".

The table below sets forth, for the periods indicated, the high and low bid prices of the Common Stock, for the period January 1, 2000 through December 31, 2001, as reported by Yahoo! Historical Prices.

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	2001		2000	
	High Bid	Low Bid	High Bid	Low Bid
1st Quarter	$0.52	$0.06	$4.50	$3.00
2nd Quarter	$0.53	$0.07	$3.25	$0.75
3rd Quarter	$0.11	$0.05	$0.91	$0.05
4th Quarter	$0.35	$0.03	$0.73	$0.16

These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

There were approximately 96 record holders of the Company's Common Stock as of March 5, 2002.

The Company has never declared or paid any cash dividends and does not intend to pay cash dividends in the foreseeable future on the shares of Common Stock. Cash dividends, if any, that may be paid in the future to holders of Common Stock will be payable when, as and if declared by the Board of Directors of the Company, based upon the Board's assessment of the financial condition of the Company, its earnings, need for funds, capital requirements, and other factors, including any applicable laws. The Company is not a party to any agreement restricting the payment of dividends.

Recent Sales of Unregistered Stock

On March 2, 2000, the Company issued 26,500 shares of its commons stock in an aggregate amount of $92,750 at the closing price of $3.50 per share on February 29, 2000, to Kaplan, Gottbetter and Levenson, as payment of services accrued at December 31, 1999 and through February 29, 2000.

On March 13, 2000, the Company issued 80,558 shares of its common stock at the closing price of $2.98 on July 12, 1999 (as adjusted for a 3-for-2 stock split), the date of signing the Letter of Intent, to the owners of Internet Arena, Inc., as payment for the balance due in the amount of $240,000 in connection with the Company's acquisition of that entity.

On June 8, 2000, the Company issued 785,455 shares of its common stock to the selling stockholders of Playa as partial payment of the purchase price $3,000,000 in connection with the Company's acquisition of that company. See Note 3 to "Notes to Consolidated Financial Statements - Acquisition of Playa Corporation".

On August 1, 2000, the Company issued an aggregate 129,500 shares of its common stock in an aggregate amount of $76,897 to seven employees at the closing price of $0.5938 per share on July 17, 2000 in consideration for their providing certain services to the Company from June 16, 2000 through July 15, 2000. Subsequently 10,000 of these shares were canceled. For purposes of financial statement presentation, those shares were deemed canceled as of October 1, 2000.

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On August 1, 2000, the Company issued 75,000 shares of its common stock in an aggregate amount of $133,605 to each of the Company's three directors at the closing price of $0.5938 on July 17, 2000 in consideration for their providing certain services to the Company from June 16 through July 15, 2000.

On August 17, 2000, the Company issued an aggregate 43,500 shares of its common stock in an aggregate amount of $25,787 to six people at the closing price of $0.5938 per share on July 25, 2000 in consideration for their providing consulting work to the Company from April 1, 2000 through June 30, 2000.

On October 1, 2000, the Company accrued the issuance of an aggregate 27,500 shares of its common stock in an aggregate amount of $8,800 to three employees and one consultant at the closing price of $0.32 per share in consideration for their providing certain services to the Company. Subsequently in the first quarter 2001, 25,000 of these shares were issued and 2,500 shares were issued in the second quarter 2001. For purposes of financial statement presentation, all shares were deemed issued as of October 1, 2000.

On December 29, 2000, the Company accrued the issuance of 2,500 shares of its common stock in an aggregate amount of $450 to a consultant at the closing price of $0.18 per share in consideration for his providing certain services to the Company. As of December 31, 2000, these shares were not issued, however for purposes of financial statement presentation, all shares were deemed issued as of December 29, 2000. These shares were issued in 2001

On March 31, 2001, the Company reflected the issuance of 2,500 shares of its common stock in an aggregate amount of $1,275 to one consultant at the closing price of $0.51 per share in consideration for his providing certain services to the Company. These shares were issued on May 16, 2001, however for purposes of financial statement presentation, all shares were deemed issued as of March 31, 2001.

On November 16, 2001, the Company issued 1,000,000 shares of its common stock in an aggregate amount of $85,000 to Adam Gottbetter at the closing price

of $0.085 per share in consideration for his providing legal services to the Company.

On December 11, 2001, the Company issued 400,000 shares of its common stock in an aggregate amount of $100,000 to Martin and Associates at the closing price of $0.25 per share in consideration of them providing legal services to the Company.

On December 11, 2001, the Company issued 230,000 shares of its common stock in an aggregate amount of $57,500 to Andrew Stack, LLP at the closing price of $0.25 per share in consideration of them providing legal services to the Company.

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Stock Options

On January 10, 2001, the Company issued an option to purchase 1,000,000 shares of the Company's common stock to Robert Adams, who, at such time, was serving as President, Chief Operating Officer, Secretary, Treasurer and Director of the Company. On that date, the Company also issued an option to purchase 125,000 shares of the Company's common stock to Tami Allan, who, at that time was serving as Vice President of North American Operations of the Company. The exercise price of each option is $.10 per share and vests over time. The options were issued pursuant to the exemption from registration contained in Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), for transactions by an issuer not involving a public offering. Mr. Adams and Ms. Allan are no longer employees of the Company. On December 10, 2001, Mr. Adams gave notice to the Company indicating that he wished to exercise 2,500 options pursuant to the non-qualified stock option agreement. On January 2002 2,500 shares were issued to Mr. Adams. Unvested options for Mr. Adams in the amount of 500,000 have been cancelled.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is provided to increase the understanding of, and should be read in conjunction with, the Consolidated Financial Statements of the Company and Notes thereto included elsewhere in this Report. Historical results and percentage relationships among any amounts in these financial statements are not necessarily indicative of trends in operating results for any future period. The statements which are not historical facts contained in this Report, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, and Notes to the Consolidated Financial Statements, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based on currently available operating, financial and competitive information, and are subject to various risks and uncertainties. Future events and the Company's actual results may differ materially from the results reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, dependence on existing and future key strategic and strategic end-user customers, limited ability to establish new strategic relationships, ability to sustain and manage growth, variability of operating results, the Company's expansion and development of new service lines, marketing and other business development initiatives, the commencement of new engagements, competition in the industry, general economic conditions, dependence on key personnel, the ability to attract, hire and retain personnel who possess the technical skills and experience necessary to meet the service requirements of its clients, the potential liability with respect to actions taken by its existing and past employees, risks associated with international sales, and other risks described herein and in the Company's other SEC filings.

Overview

The Company is engaged in the business of providing Internet service provider ("ISP") services ("ISP Services") for business and personal use. Previously, the Company was also involved in developing certain software products, which activities the Company no longer pursues.

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The Company was a development stage company until the first quarter of 1999, when it began to broaden its strategic focus through the acquisition of six ISPs. Currently, providing ISP Services is the focus of the Company's business. The Company's business operations are presently conducted in the United States and Canada.

The Company derives virtually all of its revenues from its ISP Services. At present, most of the revenue from ISP Services can be attributed to connectivity, although the Company's network of ISP Services is moving towards focusing on Web hosting and server co-location, anticipating a strong hold over connectivity by the larger ISPs in a few years' time.

During 2001, the Company continued to streamline and consolidate its ISP Services operations to enhance efficiency and reduce operating expenses. The Company has embarked on a program to centralize ISP Services to the greatest extent possible, as follows:

o Customer Support. During early 2001, the Company began consolidating all aspects of customer support (including end user technical issues) for its Oregon ISP customers into the Chatham, Ontario facility. The Washington state ISP customer support is handled in the Mt. Vernon office.

o Billing and Collections. In early 2001 the billing and collections for the Oregon ISP customers were consolidated into the Chatham facility, billing and collections for the Washington ISP Services customers is expected to be consolidated in Q2 2002.

o Network Operations. The Company has two regionally-based maintenance and repair teams. A team based in Toronto provides primary monitoring and repair of all servers and routers covering all Canadian ISP Services customers and provides overflow assistance to the Pacific Northwest, while a Seattle team provides primary monitoring and repair of all servers and routers covering all of the US ISP Services customers and provides overflow assistance to Canada.

The Company is also consolidating Web hosting and dedicated services into Toronto, a process which began in late-2000 and is expected to be completed by Q2 -2002. Other ISP Services such as e-mail and user authentication (i.e., customer security) will continue to be handled from regional data centers. Beginning in early 2001, all new Web hosting customers, wherever located, were hosted from Toronto. The Company is also considering implementing other consolidated services to achieve greater efficiency and cost savings.

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On January 31, 2000, the Company suffered a fire loss at its Etobicoke (suburban Toronto), Ontario facility. The loss was completely covered by insurance. During the fiscal year ended December 31, 2001 and 2000, the Company received net proceeds from fire insurance in the amount of $11,449 and $228,966, respectively.

During Q4 of 2001, the Company signed an agreement with Dialup USA Inc, a leading ISP wholesale aggregator, to provide nationwide 56K dialup access to potentially over 5600 points of presence (POP's) in the United States.

Also during Q4, the Company launched NetRoverUSA Online Inc, a national ISP operating in the United States offering consumers a reliable, affordable alternative to the "Bigger ISP's".

Results of Operations for the Year Ended December 31, 2001 Compared to the Year Ended December 31, 2000

Substantially all of the Company's revenue was earned from ISP Services during the fiscal year ended December 31, 2001. The Company generated net revenue of $3,706,386 during fiscal 2001, compared to $4,595,823 during fiscal 2000. This decrease is primarily due to the discontinuation of Playa Corporation during the fourth quarter of 2000, a decrease in marketing related activities, and the softening of technology related sector spending.

Direct costs, which consist primarily of telecommunications charges associated with providing Internet connection services to customers, were $1,858,619 during fiscal 2001, compared to $2,138,456 during fiscal 2000. The decrease results primarily reflect the renegotiation of several telecommunication contracts to the Company's benefit.

Selling, general and administrative expenses were $2,655,940during fiscal 2001, compared to $3,599,690 during fiscal 2000. The decrease in such expenses during fiscal 2001 results primarily from a further reduction in salaries and benefits, consolidation of the operation of the Company's ISP businesses and a decrease in marketing related activities.

Amortization and depreciation was $2,151,090 during fiscal 2001, compared to $2,859,519 during fiscal 2000. The decrease in such expenses during fiscal 2001 is primarily due to the discontinuation of Playa Corporation during the fourth quarter of 2000.

The Company had interest expense in the amount of $117,935 during fiscal 2001, compared to $2,113,570 during fiscal 2000. The amount expensed in fiscal 2000 consists of (i) a beneficial conversion feature in the amount of $1,962,500 attributable to renegotiation of the conversion feature of loans made to the Company by Blue Heron Venture Fund Ltd. ("Blue Heron"), which loans are unsecured, bear interest at 8% per annum and are payable on demand and (ii) interest expense in the amount of $151,070 attributable to interest for Blue Heron and Pacific Gate Capital Corporation ("Pacific Gate"), another of the Company's lenders.

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On June 18, 2001 at the request of Blue Heron Venture Fund, Ltd. (Blue Heron), Blue Heron Notes in the aggregate principal amount of $2,085,000 were cancelled and on June 19, 2001 new promissory notes (the "Blue Heron Shareholder Notes") in the aggregate principal amount of $2,319,788 were issued to the shareholders of Blue Heron and Blue Heron's fund manager, Monet Management Group Ltd. See "Exhibits 2.2 through 2.8" below. The principal amount of the Blue Heron Shareholder Notes was comprised of the $2,085,000 principal amount of the Blue Heron Notes and the $234,788 in interest due on the Blue Heron Notes at the time of cancellation. The Blue Heron Shareholder Notes were unsecured and were payable on demand. $2,085,000 in principal amount of the Blue Heron Shareholder Notes bore interest at 8% per annum. The balance of the Blue Heron Shareholder Notes did not provide for the payment of interest.

On September 20, 2001 the Company entered into a Settlement Agreement (the "Settlement Agreement") with Kelly Shane Montalban with regard to a lawsuit it had instituted against him on June 15, 2001 in the United States District Court for the Southern District of New York seeking recovery of short swing profits realized by Mr. Montalban and other persons whose purchases and sales of Company common stock were attributed to Mr. Montalban in violation of Section 16(b)] of the Securities Exchange Act of 1934, as amended (see Shane Montalban Litigation below). Pursuant to the Settlement Agreement, Mr. Montalban paid the Company an aggregate of approximately $2,498,449 (the "Recovery Amount"), which amount represented recovery in full of Mr. Montalban's short swing profits. He did so by delivering to the Company for cancellation (1) the Blue Heron Shareholder Notes in the aggregate principal amount of $2,319,788, which notes had been previously purchased by or assigned to Mr. Montalban; (2) the accrued interest of $42,384 due on the principal portion of the Blue Heron Shareholder Notes at the time of cancellation; (3) 8% demand notes of the Company dated August 25, 2000 and September 11, 2000, respectively, in the aggregate principal amount of $25,000 issued to Pacific Gate Capital Corporation, a corporation owned by Mr. Montalban (the "Pacific Gate Capital Notes"); and (4) the accrued interest of $2,066 due on the principal portion of the Pacific Gate Capital Notes at the time of cancellation. The balance of the Recovery Amount was paid by Mr. Montalban's issuance to the Company of a five (5) year, 5% promissory note, dated September 20, 2001, in the principal amount of $109,211. In consideration of the execution of the Settlement Agreement and payment of the Recovery Amount, on October 9, 2001 the Company voluntarily dismissed
its action.

On October 1, 2001 the Company entered into a consulting agreement with Pacific Gate Capital Corporation for a one year period in the amount of $27,750 minimum per month for providing certain services to the Company. This agreement was subsequently cancelled. In the year 2001 the consulting payments reduced the principal amount owing by Mr. Montalban in the amount of $109,211 by $53,250.

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The Company has accrued interest of $1,237 for the period September 20 to December 31, 2001. See "Liquidity and Capital Resources" below.

The Company had a net loss of $570,352, or $.03 per share, for the fiscal year ended December 31, 2001, compared to a net loss of $8,288,879, or $.39 per share, for the fiscal year ended December 31, 2000. The decrease in net loss was primarily a result of the increase in other revenue due to a recovery of short swing profits from a principal shareholder as well as a decrease in direct costs; selling, general and administrative expenses; amortization and depreciation; and interest expense. The loss from operations in fiscal 2000 was augmented by the write off of certain assets, and partially offset by net proceeds from fire insurance and gain on sale of CyPost KK. During the quarter ended December 31, 2000, the Company abandoned Playa's business, resulting in a loss of $2,201,253, and wrote off its impaired Software Products assets in the amount of $128,726. During fiscal 2000, the Company recognized gain on the sale of CyPost KK in the amount of $36,202 and received net proceeds from fire insurance in the aggregate amount of $228,966, in connection with a fire suffered at the Etobicoke (suburban Toronto), Ontario facility in January 2000.

Liquidity and Capital Resources

The accompanying financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for at least one year and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company incurred a net loss for the year

ended December 31, 2001 of $570,352, compared to a net loss for the year ended December 31, 2000 of $8,288,879. For the year ended December 31, 2001, the Company had a working capital deficit of $1,409,518, which is primarily due to the Company's general operating activities and professional fees. These factors indicate that the Company's continuation as a going concern is dependent upon its ability to obtain adequate financing.

The Company has obtained most of its financing through Blue Heron. The loans were made under agreements pursuant to which the Company could borrow up to $16,000,000 in unsecured loans from Blue Heron. The loans are evidenced by the Company's Convertible Demand Notes (the "Blue Heron Demand Notes"). The Blue Heron Demand Notes bear interest at 8% per annum, are payable on demand and are convertible into shares of the Company's Common Stock at the lender's option, in which case Blue Heron would waive its right to be paid interest under the Blue Heron Demand Notes. During 1999, $4,000,000 of outstanding loans were converted into 4,500,000 shares of the Company's Common Stock. On August 16, 1999, $1,000,000 aggregate principal amount of Blue Heron Demand Notes were converted into 1,500,000 shares of Common Stock, at a conversion price of $0.67 per share. On November 24, 1999, an aggregate additional principal amount of $3,000,000 of Blue Heron Demand Notes were converted into an additional 3,000,000 shares of Common Stock, at a conversion price of $1.00 per share.

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On April 27, 2000, the Company renegotiated the conversion share price of its remaining $2,000,000 and $10,000,000 loan facilities with Blue Heron. The conversion feature with respect to the loan facility in the amount of $2,000,000 was reduced from $1.33 per share to $.75 per share, and the conversion feature with respect to the loan facility in the amount of $10,000,000 was reduced from $2.67 per share to $.75 per share.

During the fiscal year ended December 31, 2000, the Company borrowed an additional $1,210,000 from Blue Heron, resulting in an aggregate outstanding principal amount of the loans of $2,085,000 as of December 31, 2000. The loans were unsecured, bore interest at 8% per annum, and the principal and accrued interest were due on demand. The lender had the option to withdraw its offer to lend at any time and to convert the loans into shares of common stock of the Company. As of December 31, 2001, pursuant to the September 20, 2001 Montalban Settlement Agreement, the loan balance was canceled and deemed to have been paid in full.

During the fiscal year ended December 31, 2000, the Company borrowed an aggregate $125,000 from Pacific Gate, of which amount $25,000 was outstanding on December 31, 2000. The loan was unsecured, bore interest of 8% per annum, and the principal and accrued interest were due on demand. As of December 31, 2001, pursuant to the September 20, 2001 Montalban Settlement Agreement, the loan balance was canceled and deemed to have been paid in full.

On June 18, 2001 at the request of Blue Heron Venture Fund, Ltd. (Blue Heron), Blue Heron Notes in the aggregate principal amount of $2,085,000 were cancelled and on June 19, 2001 new promissory notes (the "Blue Heron Shareholder Notes") in the aggregate principal amount of $2,319,788 were issued to the shareholders of Blue Heron and Blue Heron's fund manager, Monet Management Group Ltd. The principal amount of the Blue Heron Shareholder Notes was comprised of the $2,085,000 principal amount of the Blue Heron Notes and the $234,788 in interest due on the Blue Heron Notes at the time of cancellation. The Blue Heron Shareholder Notes were unsecured and were payable on demand. $2,085,000 in principal amount of the Blue Heron Shareholder Notes bore interest at 8% per annum. The balance of the Blue Heron Shareholder Notes did not provide for the payment of interest.

On September 20, 2001 the Company entered into a Settlement Agreement (the "Settlement Agreement") with Kelly Shane Montalban with regard to a lawsuit it had instituted against him on June 15, 2001 in the United States District Court for the Southern District of New York seeking recovery of short swing profits realized by Mr. Montalban and other persons whose purchases and sales of Company common stock were attributed to Mr. Montalban in violation of Section 16(b)] of the Securities Exchange Act of 1934, as amended (see Shane Montalban Litigation below). Pursuant to the Settlement Agreement, Mr. Montalban paid the Company an aggregate of approximately $2,498,449 (the "Recovery Amount"), which amount

represented recovery in full of Mr. Montalban's short swing profits. He did so by delivering to the Company for cancellation (1) the Blue Heron Shareholder Notes in the aggregate principal amount of $2,319,788, which notes had been previously purchased by or assigned to Mr. Montalban; (2) the accrued interest of $42,384 due on the principal portion of the Blue Heron Shareholder Notes at the time of cancellation; (3) 8% demand notes of the Company dated August 25, 2000 and September 11, 2000, respectively, in the aggregate principal amount of $25,000 issued to Pacific Gate Capital Corporation, a corporation owned by Mr. Montalban (the "Pacific Gate Capital Notes"); and (4) the accrued interest of $2,066 due on the principal portion of the Pacific Gate Capital Notes at the time of cancellation. The balance of the Recovery Amount was paid by Mr. Montalban's issuance to the Company of a five (5) year, 5% promissory note, dated September 20, 2001, in the principal amount of $109,211. In consideration of the execution of the Settlement Agreement and payment of the Recovery Amount, on October 9, 2001 the Company voluntarily dismissed its action.

On October 1, 2001 the Company entered into a consulting agreement with Pacific Gate Capital Corporation for a one year period in the amount of $27,750 minimum per month for providing certain services to the Company. This agreement was subsequently cancelled. In the year 2001 the consulting payments reduced the principal amount owing by Mr. Montalban in the amount of $109,211 by $53,250.

In connection with the acquisition of Playa, the Company assumed certain loans payable by Playa. As of September 30, 2000, the last date for which financial statements for Playa were available, the aggregate outstanding principal amount of the loans was $608,392. This loan balance has been written off in connection with the abandonment of Playa's business. See Note 3 to "Notes to Consolidated Financial Statements - Acquisition of Playa Corporation".

During its period of ownership of CyPost KK, the Company loaned CyPost KK $64,764 and CyPost KK paid certain expenses on behalf of the Company in the amount of $25,542, leaving a balance of $39,222 owed by CyPost KK to the Company at the time of sale. In connection with the sale by the Company of all of its interest in CyPost KK, the Company canceled the net outstanding balance of $39,222 in loans made by the Company to CyPost KK and CyPost KK canceled $39,222 in loans made by CyPost KK to Playa. At September 30, 2000, the last date for which financial statements for Playa were available, there was a balance of $168,062 owed by Playa to CyPost KK. This loan balance has been written off in connection with the abandonment of Playa's business. See Note 3 to "Notes to Consolidated Financial Statements - Acquisition of Playa Corporation".

The Company's cash position on December 31, 2001 decreased to $73,124, compared to $250,631 on December 31, 2000. This decrease is primarily due to the Company not borrowing additional funds during the fiscal year ended December 31, 2001.

The Company's net cash used in operating activities totaled $(91,885) during the fiscal year ended December 31, 2001, compared to $(925,162) during the fiscal year ended December 31, 2000. The decrease in cash used from operations is due to the Company's mandate of reducing its direct costs and selling, general and administrative expenses in order to bring the Company's expenses in line with its revenues.

The Company's net cash used in investing activities totaled $61,388 during the fiscal year ended December 31, 2001, compared to $569,521 during the fiscal year ended December 31, 2000. This decrease is primarily due to the Company not being as aggressive as previous years in acquisitions.

Capitalized software development costs during the fiscal year ended December 31, 2000 totaled $87,431. The Company has written off its Software Products assets. See Part I, Item 1, "Description of Business - Software Products Business"

The Company did not receive any proceeds from financing activities during the fiscal year ended December 31, 2001, compared to the financing activities during the fiscal year ended December 31, 2000 which consisted of $1,413,589 of gross loan proceeds provided by Blue Heron, CyPost KK management and Pacific Gate. As of December 31, 2001, pursuant to the September 20, 2001 Montalban Settlement Agreement, the loan balance was canceled and deemed to have been paid in full. See "Liquidity and Capital Resources" above.

Item 7. Financial Statements

The Consolidated Financial Statements of the Company are submitted as a separate section of this Annual Report on Form 10-KSB commencing on Page F-1 immediately following Part III of this Annual Report on Form 10-KSB.

Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None

Part III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

The following table sets forth certain information concerning the directors and executive officers of the Company as of March 31 2002:

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Name	Age	All Positions with the Company
J. Thomas W. Johnston	60	Chairman of the Board
Javan Khazali	38	Managing Director, Director and Treasurer
Sandra Lynn Warren	35	President, Director and Secretary

J. Thomas W. Johnston joined the Company as a Director on January 17, 2000 and was elected Chairman of the Board November 5, 2001. Mr. Johnston retired at the end of October 2001 as an airline pilot for Canadian Airlines, now known as Air Canada, and served more than 35 years in that capacity, including 29 years of service as a Captain. Mr. Johnston has also been active in representing the

airline pilot's association in a number of high-level capacities, primarily in the fields of industrial relations, contract negotiations and administration, and has been involved in many high-level contract settlements.

Javan Khazali became Managing Director on February 20, 2002. Mr. Khazali joined the Company in July of 2001 as Vice President of Administration and was elected Director and Treasurer February 8, 2002. With extensive experience in the services sector, Mr. Khazali is responsible for the day to day operations of CyPost, including the development and continuing management of our business and training programs. Mr. Khazali has held various senior management positions including (i) Operation Manager for 10 high-end chain restaurants in the U.S. and Canada, (ii) Director of Operations for nine restaurants where he was responsible for supervision of 300 plus employees, and (iii) most recently as Managing Partner of two local restaurants where he was responsible for supervision of 45 employees.

Sandra Lynn Warren has been with the Company for more than three years and became a Director on October 12, 2001 and was appointed as President on October 30, 2001. Ms. Warren was appointed as Secretary on February 8, 2002. She has a diverse background in office and administrative management. Mrs. Warren has worked in administration and accounting in a variety of industries including print media, hospitality and group insurance. Mrs. Warren's responsibilities include handling internal accounting matters, overseeing SEC filings, interacting with our legal counsel and independent accountants, and serving as our contact person for dealings involving the listing and sale of the Company's stock

Robert Sendoh served as Chairman of the Board since the Company's inception on September 5, 1997 until November 5, 2001 and continued as a Director until February 8, 2002. On January 17, 2000, Mr. Sendoh succeeded Steven M. Berry as Chief Executive Officer and resigned from that position on August 31, 2000.

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Angela Belcourt joined CyPost in 2000, and was appointed President June 8, 2001. Ms. Belcourt resigned as a Director from the Company for health reasons on October 12, 2001, and President on October 30, 2001.

Robert Adams served as a Director, President, Chief Operating Officer, Secretary and Treasure of the Company from July 25, 2000 to June 8, 2001. Mr. Adams did not furnish the Company any correspondence requesting disclosure of any matter concerning his resignation as a Director, President, Chief Operating Officer, Secretary and Treasurer of the Company. Mr. Adams resigned from all positions with the Company September 28, 2001.

Tami Allan served as Vice President of North American Operations for the Company from July 25, 2000 to August 2, 2002. Ms. Allan was terminated from the Company, see Part I, Item 3, "Legal Proceedings".

The present term of each director expires at the next Annual Meeting of Stockholders of the Company. Executive officers are elected at the Annual Meeting of the Board of Directors held immediately following the Annual Meeting of Stockholders and serve at the pleasure of the Board of Directors.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors and executive officers, and persons who beneficially own more than 10% of a registered class of the Company's equity securities, to file reports of beneficial ownership and changes in beneficial ownership of the Company's securities with the SEC on Forms 3 (Initial Statement of Beneficial

Ownership), 4 (Statement of Changes of Beneficial Ownership of Securities) and 5 (Annual Statement of Beneficial Ownership of Securities). Directors, executive officers and beneficial owners of more than 10% of the Company's Common Stock are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms that they file. Except as otherwise set forth herein, based solely on review of the copies of such forms furnished to the Company, or written representations that no reports were required, the Company believes that for the period from January 1, 2001 through December 31, 2001, all directors, executive officers and greater than 10% beneficial owners complied with all Section 16(a) filing requirements applicable to them.

Item 10. Executive Compensation

Cash Compensation

The following table sets forth compensation paid or awarded by the Company during each of the fiscal years ended December 31, 2001 and December 31, 2000 to all the persons that served as the Company's Chief Executive Officer. No executive officers of the Company received compensation in excess of $100,000 during the fiscal year ended December 31, 2001:

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SUMMARY COMPENSATION TABLE

	Annual Compensation		Long Term Compensation
			Restricted Stock
Name and Principal Position	Year	Salary	Awards
Robert Sendoh (1), Former Chairman of the Board And Former Chief Executive Officer	2000 2001	$ 44,115 $ 3,770	75,000(2)
Robert Adams (3), - Former President and Former Chief Operating Officer	2000 2001	$ 46,704 $ 36,072	 500,000(4)
Angela Belcourt,(5) Former President	2001 2000	$ 22,246 $ 15,302	 35,000(6)
Sandra Warren, (7) President	2001 2000	$ 41,706 $ 30,167	 25,000(8)
Steven M. Berry(9), Former Executive Officer, Chief Operating Officer and President	2000	$ 5,207	

The Company does not have written employment agreements with any of its Officers. The Company currently does not have any key person insurance.

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(1) Mr. Sendoh was Chairman of the Company from September 5, 1997 until November 5, 2001 and continued as a Director until February 8, 2002. Mr. Sendoh was Chief Executive Officer of the Company from January 17, 2000 through August 31, 2000.

(2) On August 1, 2000, Mr. Sendoh received 75,000 shares of the Company's Common Stock, valued at $.5938 per share, for his service as a director of the Company from June 16, 2000 through July 15, 2000.

(3) The Company has not had a Chief Executive Officer since August 31, 2000. Mr. Adams served as President and Chief Operating Officer of the Company from July 25, 2000 to June 8, 2001. Mr. Adams resigned from all positions with the Company on September 28, 2001.

(4) Pursuant to the non-qualified stock option agreement, Mr. Adams has a total of 500,000 shares vested, which he may exercise at $0.10 per share for a period of twelve (12) months after he ceased being an employee, expiring on September 28, 2002.

(5) Ms. Belcourt was appointed President June 8, 2001. Ms. Belcourt resigned as a Director from the Company for health reasons on October 12, 2001, and subsequently resigned as President on October 30, 2001.

(6) On August 1st, 2000, the Company issued 35,000 shares of its common stock to Ms. Belcourt, valued at $0.5938 per share in consideration for providing certain services to the Company from June 16, 2000 through July 15, 2000.

(7) Ms. Warren became a Director on October 12, 2001 and was appointed as President on October 30, 2001. Ms. Warren was appointed as Secretary on February 8, 2002.

(8) On August 1st, 2000, the Company issued 25,000 shares of its common stock to Ms. Warren, valued at $0.5938 per share in consideration for providing certain services to the Company from June 16, 2000 through July 15, 2000.

(9) Mr. Berry became Chief Executive Officer of the Company on January 4, 1999, and served in that capacity until his resignation on January 17, 2000.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information with respect to all persons, or groups of persons, known by the Company to own beneficially more than five percent of the Common Stock of the Company, and as to the beneficial ownership thereof of the directors and executive officers of the Company, individually and as a group, all as at January 14, 2002:

Name and Address of Beneficial Owner	Shares Beneficially Owned	Percentage Ownership
Kelly Shane Montalban(2) P.O. Box 700, Lions Bay Vancouver, British Columbia V0N 2E0 Canada	2,116,957	9.13%
Robert Sendoh 900-1281 West Georgia Street Vancouver, British Columbia V6E 3J7 Canada	355,000	1.53%

J. Thomas W. Johnston (1)	206,000	.89%

900-1281 West Georgia Street Vancouver, British Columbia V6E 3J7 Canada		
Sandra Lynn Warren 900-1281 West Georgia Street Vancouver, British Columbia V6E 3J7 Canada	20,000	.08%
Javan Khazali 900-1281 West Georgia Street Vancouver, British Columbia V6E 3J7 Canada	41,000	.17%
All Directors and Executive Officers as a Group (4 Persons)	622,000	2.68%

(1) Includes 25,000 shares owned by Mr. Johnston's wife and an aggregate of 75,000 shares owned in trust for Mr. Johnston's three daughters.

(2) Includes 7,500 shares owned by Mr. Montalban's wife and 7,500 shares owned in trust for Mr. Montalban's daughter.

Item 12. Certain Relationships and Related Transactions

The Company has obtained most of its financing through Blue Heron Venture Fund Ltd. ("Blue Heron"), a corporation in which Kelly Shane Montalban may be deemed to have an "indirect pecuniary" interest as a result of his status as fund manager for Blue Heron. Blue Heron and Mr. Montalban are principal stockholders of the Company. Blue Heron may be deemed to be an affiliate of Pacific Gate, another of the Company's lenders, in which Mr. Montalban is the sole stockholder, sole director and sole officer. Blue Heron loans were unsecured and were convertible into Common Stock at the lender's option, in which case Blue Heron would waive its right to be paid interest. The balance of these loans as of December 31, 2001 and 2000 are $0 and $2,085,000, respectively.

During the fiscal year ended December 31, 2000, the Company borrowed an aggregate $125,000 from Pacific Gate Capital Ltd. ("Pacific Gate"), of which amount $25,000 was outstanding on December 31, 2000. These loans bear interest at 8% per annum and are payable on demand. The balance of these loans as of December 31, 2001 is $0.

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On June 18, 2001 at the request of Blue Heron Venture Fund, Ltd. (Blue Heron), Blue Heron Notes in the aggregate principal amount of $2,085,000 were cancelled and on June 19, 2001 new promissory notes (the "Blue Heron Shareholder Notes") in the aggregate principal amount of $2,319,788 were issued to the shareholders of Blue Heron and Blue Heron's fund manager, Monet Management Group Ltd. The principal amount of the Blue Heron Shareholder Notes was comprised of the $2,085,000 principal amount of the Blue Heron Notes and the $234,788 in interest due on the Blue Heron Notes at the time of cancellation. The Blue Heron Shareholder Notes were unsecured and were payable on demand. $2,085,000 in principal amount of the Blue Heron Shareholder Notes bore interest at 8% per annum. The balance of the Blue Heron Shareholder Notes did not provide for the payment of interest.

On September 20, 2001 the Company entered into a Settlement Agreement (the "Settlement Agreement") with Kelly Shane Montalban with regard to a lawsuit it

had instituted against him on June 15, 2001 in the United States District Court for the Southern District of New York seeking recovery of short swing profits realized by Mr. Montalban and other persons whose purchases and sales of Company common stock were attributed to Mr. Montalban in violation of Section 16(b)] of the Securities Exchange Act of 1934, as amended (see Shane Montalban Litigation below). Pursuant to the Settlement Agreement, Mr. Montalban paid the Company an aggregate of approximately $2,498,449 (the "Recovery Amount"), which amount represented recovery in full of Mr. Montalban's short swing profits. He did so by delivering to the Company for cancellation (1) the Blue Heron Shareholder Notes in the aggregate principal amount of $2,319,788, which notes had been previously purchased by or assigned to Mr. Montalban; (2) the accrued interest of $42,384 due on the principal portion of the Blue Heron Shareholder Notes at the time of cancellation; (3) 8% demand notes of the Company dated August 25, 2000 and September 11, 2000, respectively, in the aggregate principal amount of $25,000 issued to Pacific Gate Capital Corporation, a corporation owned by Mr. Montalban (the "Pacific Gate Capital Notes"); and (4) the accrued interest of $2,066 due on the principal portion of the Pacific Gate Capital Notes at the time of cancellation. The balance of the Recovery Amount was paid by Mr. Montalban's issuance to the Company of a five (5) year, 5% promissory note, dated September 20, 2001, in the principal amount of $109,211. In consideration of the execution of the Settlement Agreement and payment of the Recovery Amount, on October 9, 2001 the Company voluntarily dismissed
its action.

On October 1, 2001 the Company entered into a consulting agreement with Pacific Gate Capital Corporation for a one year period in the amount of $27,750 minimum per month for providing certain services to the Company. This agreement was subsequently cancelled. In the year 2001 the consulting payments reduced the principal amount owing by Mr. Montalban in the amount of $109,211 by $53,250.

PART IV

Item 13. Exhibits and Reports on Form 8-K

(a) List of documents filed as part of this Report

1. FINANCIAL STATEMENTS INCLUDED IN ITEM 7:

Independent Auditors' Report F-1

Consolidated Balance Sheets as of December 31, 2001 and 2000 F-2

Consolidated Statements of Operations for the years ended December 31, 2001 and 2000 F-3

Consolidated Statements of Cash Flows for the years ended December 31, 2001 and 2000 F-4

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2001 and 2000 F-5

Notes to the Consolidated Financial Statements F-6

2. EXHIBITS:

The following exhibits listed are filed as part of this Report:

Exhibit
No.   Description

Exhibit No.	Description
10.1	Promissory Notes executed by CyPost Corporation dated June 19, 2001; in favor of James A. Mylock, JR.
10.2	Promissory Notes executed by CyPost Corporation dated June 19, 2001; in favor of Amanda E. Johnson.
10.3	Promissory Notes executed by CyPost Corporation dated June 19, 2001; in favor of John M. Peragine.
10.4	Promissory Notes executed by CyPost Corporation dated June 19, 2001; in favor of Joseph A. Fiore.
10.5	Promissory Notes executed by CyPost Corporation dated June 19, 2001; in favor of Berkshire Capital Management Co., Inc.
10.6	Promissory Notes executed by CyPost Corporation dated June 19, 2001; in favor of Bayshore Trading LTD.
10.7	Promissory Notes executed by CyPost Corporation dated June 19, 2001; in favor of Kelly Shane Montalban.
10.8	Settlement Agreement dated as of September 20, 2001 between CyPost Corporation and Kelly Shane Montalban. regarding violations of Section 16(b) of the Securities Exchange Act of 1934.
10.9	Promissory Note executed by CyPost Corporation dated September 2001; in favor of CyPost Corporation.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-KSB to be signed on its behalf by the undersigned, thereunto duly authorized.

DATE: April 12, 2002 CYPOST CORPORATION

By: /s/ Javan Khazali

Javan Khazali
Managing Director, Treasurer, Principal Financial, Executive, and Accounting Officer

In accordance with the Exchange Act, this Report has been signed below by the following persons on behalf of registrant and in the capacities indicated and on the dates indicated.

Name	Title	Date
/s/ J. Thomas W. Johnston -------------------------- J. Thomas W. Johnston	Chairman of the Board and Director	April 12, 2002
/s/ Javan Khazali -------------------------- Javan Khazali	Managing Director Treasurer, Principal Financial, Executive, Accounting Officer and Director	April 12, 2002

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CYPOST CORPORATION AND SUBSIDIARIES
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
CyPost Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of CyPost Corporation and Subsidiaries (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standard 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 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 the Company as of December 31, 2001 and 2000, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated 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 has incurred operating losses since its inception and requires additional financing to continue operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 1. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that may result should the Company be unable to continue as a going concern.

GOOD SWARTZ BROWN & BERNS LLP.

Los Angeles, California
April 1, 2002

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CYPOST CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2001 AND 2000

	2001	2000
ASSETS		
CURRENT ASSETS		
CASH	$ 73,124	$ 250,6
ACCOUNTS RECEIVABLE, NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS of $76,405 & $71,368, RESPECTIVELY	138,311	173,2
INSURANCE PROCEEDS RECEIVABLE	-	58,4
PREPAID EXPENSES	45,982	134,6
NOTE RECEIVABLE & ACCRUED INTEREST	57,199	
TOTAL CURRENT ASSETS	314,616	616,9
PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	501,565	751,0
GOODWILL AND OTHER INTANGIBLES, NET OF ACCUMULATED AMORTIZATION of $4,134,376 & $2,302,528, RESPECTIVELY	1,361,167	3,193,0
DEPOSITS	92,609	115,9
OTHER ASSETS	8,483	5,3
	$ 2,278,440	$ 4,682,2

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
ACCOUNTS PAYABLE & ACCRUED LIABILITIES	1,275,586	1,026,6
LOANS	-	2,110,0
DEFERRED REVENUE	448,548	640,4
TOTAL CURRENT LIABILITIES	1,724,134	3,777,1
COMMITMENTS AND CONTINGENCIES (NOTE 11)		
STOCKHOLDERS' EQUITY		
SHARE CAPITAL		
AUTHORIZED		
5,000,000 PREFERRED STOCK WITH A PAR VALUE OF $.001		
30,000,000 COMMON STOCK WITH A PAR VAUE OF $.001		
ISSUED AND OUTSTANDING		
PREFERRED STOCK - NONE	-	
COMMON STOCK 23,189,493 - 2001, 21,556,993 - 2000, RESPECTIVELY	23,190	21,5
PAID-IN CAPITAL	14,289,686	14,047,5
ACCUMULATED DEFICIT	(13,767,358)	(13,197,0
CURRENCY TRANSLATION ADJUSTMENT	8,788	33,0
TOTAL STOCKHOLDERS' EQUITY	554,306	905,1
	$ 2,278,440	$ 4,682,2

The accompanying notes are an integral part of these consolidated statements.

CYPOST CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
REVENUE	$ 3,706,386	$ 4,595,823
DIRECT COSTS	1,858,619	2,138,456
	1,847,767	2,457,367
EXPENSES		
SELLING, GENERAL AND ADMINISTRATIVE	2,655,940	3,599,690
AMORTIZATION AND DEPRECIATION	2,151,090	2,859,519
	4,807,030	6,459,209

LOSS FROM OPERATIONS	(2,959,263)	(4,001,842)
OTHER INCOME (EXPENSE)		
SECTION 16(b) SETTLEMENT	2,498,449	-
NET RECOVERY FROM FIRE INSURANCE	11,449	228,966
GAIN ON SALE OF INVESTMENT OF CYPOST KK	-	36,202
LOSS ON ABANDONMENT OF PLAYA OPERATIONS	-	(2,201,253)
IMPAIRMENT LOSS OF LONG LIVED ASSETS	(3,052)	(128,726)
INTEREST EXPENSE, NET	(117,935)	(2,113,570)
TOTAL OTHER INCOME (EXPENSE)	2,388,911	(4,178,381)
MINORITY INTEREST	-	(108,656)
NET LOSS	$ (570,352)	$(8,288,879)
BASIC LOSS PER SHARE	$ (0.03)	$ (0.39)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	21,719,418	21,182,796

The accompanying notes are an integral part of these consolidated statements.

CYPOST CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	20
CASH FLOWS FROM OPERATING ACTIVITIES		
NET LOSS	$ (570,352)	$(8,28
Adjustments to reconcile net loss to cash used by operating activities:		
Amortization and depreciation	2,151,090	2,85
Bad debt expense	38,615	6
Section 16b settlement	(2,498,449)	
Interest (income) expense	120,294	1,96
Net recovery from fire insurance	(11,449)	(22
Consulting fees offsetting note receivable	52,373	
Gain on sale of investment on CyPost KK	-	(3

Minority interest	-	10
Loss on abandonment of Playa operations	-	2,20
Impairment loss of long-live assets	3,052	12
Casualty loss on equipment	-	
Fair value of stock issued for services	243,775	33
Currency translation adjustments on loss on abandonment	-	6
Changes in assets and liabilities		
Accounts receivable	(3,719)	
Insurance receivable	58,488	(5
Prepaid Expenses	88,635	3
Deposits	23,308	(11
Other assets	(3,114)	6
Accounts payable and accrued liabilities	407,503	(3
Deferred revenue	(191,935)	1
NET CASH USED BY OPERATING ACTIVITIES	(91,885)	(92
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of business	-	(59
Purchase of property and equipment	(72,837)	(33
Investment in software development	-	(8
Proceeds from sale of investment in CyPost KK	-	22
Gross proceeds received from insurance company	14,105	30
Payment of insurance related claims	(2,656)	(7
NET CASH USED IN INVESTING ACTIVITIES	(61,388)	(56
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan proceeds	-	1,41
Loan repayment	-	(10
NET CASH PROVIDED BY FINANCING ACTIVITIES	-	1,31
EFFECT OF EXCHANGE RATE CHANGES	(24,234)	1
NET DECREASE IN CASH	(177,507)	(16
CASH, BEGINNING OF YEAR	250,631	41
CASH, END OF YEAR	$ 73,124	$ 25
NON-CASH TRANSACTIONS		
Common Stock issued for services and acquisitions	$ 243,775	$ 33

In lieu of collecting funds on the 16b settlement, the Company had related debt and all accrued interest cancelled totalling $2,389,238. The Company also recorded a note receivable for $109,211.

OTHER CASH INFORMATION		
Interest paid	$ -	$ 2
Taxes paid	$ -	$

The accompanying notes are an integral part of these consolidated statements.

CYPOST CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	COMMON STOCK NUMBER	AMOUNT	ADDITIONAL PAID-IN CAPITAL	DEFICIT	CUMM TRAN ADJ
BALANCE, DECEMBER 31, 1999	20,246,480	20,246	8,814,002	(4,908,127)	
Issued for acquisition of Internet Arena	80,558	81	239,919		
Issued for acquisition of Playa Corporation	785,455	785	2,699,215		
Issued for services/debt	26,500	27	92,723		
Issued for services	369,500	370	212,196		
Issued for services	48,500	48	26,989		
Beneficial conversion feature on loans			1,962,500		
Cummulative translation adjustment					
Net loss				(8,288,879)	
BALANCE, DECEMBER 31, 2000	21,556,993	21,557	14,047,544	(13,197,006)	
Issued for services	1,000,000	1,000	84,000		
Issued for services	400,000	400	99,600		
Issued for services	230,000	230	57,270		
Issued for services	2,500	3	1,272		
Cummulative translation adjustment					
Net loss				(570,352)	
BALANCE, DECEMBER 30, 2001	23,189,493	23,190	14,289,686	(13,767,358)	

The accompanying notes are an integral part of these consolidated statements.

CYPOST CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2001 AND 2000

1. NATURE OF OPERATIONS AND GOING CONCERN

CyPost Corporation ("CyPost") was incorporated on September 5, 1997 under the laws of the State of Delaware and its principal executive offices are located in Vancouver, Canada. CyPost is engaged in the business of providing Internet connection services for business and personal use. Previously the Company was also involved in developing certain software products using encryption components to enhance user security and convenience for communication across digital networks, and in securing local data storage equipment, which activities the Company no longer currently pursues. The Company emerged from the development stage in 1999 and commenced revenue generating activities. The term "Company" refers to CyPost and its consolidated subsidiaries.

The accompanying consolidated financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assume that the Company will continue in operation for at least one year and will be able to realize its assets and discharge its liabilities in the normal course of operations.

Several conditions and events cast doubt about the Company's ability to continue as a "going concern". The Company has incurred net losses of approximately $13.8 million for the period from inception September 5, 1997 to December 31, 2001, has a working capital deficiency at December 31, 2001 of approximately $1.41 million, and requires additional financing for its business operations.

The Company's future capital requirements will depend on numerous factors including, but not limited to, whether the Company wishes to recommence software development activities, and market penetration of and profitable operations from its Internet connection services. The Company does not believe that bank borrowings are available under present circumstances, and there can be no assurance that any financing could be obtained from other sources. Even if funding were available, it might be available only on terms which would not be favorable to the Company or which management would not find acceptable. Meanwhile, the management is working on attaining cost and efficiency synergies by consolidating the operations of the businesses acquired.

These financial statements do not reflect adjustments that would be necessary if the Company was unable to continue as a "going concern". While management believes that the actions already taken or planned, as described above, will mitigate the adverse conditions and events which raise doubt about the validity of the "going concern" assumption used in preparing these financial statements, there can be no assurance that these actions will be successful.

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If the Company were unable to continue as a "going concern", then substantial adjustments would be necessary to the carrying values of assets, the reported amounts of its liabilities, the reported revenues and expenses, and the balance sheet classifications used.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

The consolidated financial statements include the accounts of CyPost Corporation and its subsidiaries. The subsidiaries include, NetroverUSA Online Inc. (formerly known as ePost Innovations Inc.see Canada Post Litigation below), NetRover Inc., NetRover Office Inc., Hermes Net Solutions Inc., and Intouch.Internet Inc. Connect Northwest and Internet Arena are DBA of CyPost Corporation. In 2000, the subsidiaries also included CyPost KK and Playa Corporation. All the principal subsidiaries, except CyPost KK for a certain period of time during 2000, are wholly owned. Later in 2000, the Company sold its investment in CyPost KK and abandoned its investment in Playa Corporation. All significant inter-company transactions and balances have been eliminated in consolidation.

FOREIGN CURRENCY TRANSLATION

The functional currency of the Company is U.S. dollars. Balance sheet accounts of international self-sustaining subsidiaries, principally Canadian, are translated at the current exchange rate as of the balance sheet date. Income statement items are translated at average exchange rates during the period. The resulting translation adjustment is recorded as a separate component of stockholders' equity. Dollar values in this consolidated financial statements are expressed in U.S. Dollars, unless indicated otherwise. On December 31, 2001 one Canadian Dollar (Cdn) was exchangeable for .62870 U.S. Dollars.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company has, where practicable, estimated the fair value of financial instruments based on quoted market prices or valuation techniques such as present value of estimated future cash flows. These fair value amounts may be

significantly affected by the assumptions used, including the discount rate and estimates of cash flow. Accordingly, the estimates are not necessarily indicative of the amounts that could be realized in a current market exchange. Where these estimates approximate carrying value, no separate disclosure of fair value is shown.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed over the estimated useful lives using the straight-line method over a period of three to five years. Maintenance and repairs are charged against operations and betterments are capitalized.

At the end of 2001, the management of the Company assessed the useful life of these assets and determined that some of the assets were impaired. Therefore the Company has written off the net book value of these assets in the amount of $3,052.

EARNINGS (LOSS) PER SHARE

Earnings (loss) per share have been computed in accordance with SFAS 128. Basic earnings (loss) per share is computed by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the respective periods. Diluted earnings (loss) per share is computed similarly, but also gives effect to the impact that convertible securities, such as warrants, if dilutive, would have on net earnings (loss) and average common shares outstanding if converted at the beginning of the year. The effect of potential common shares such as warrants would be antidilutive in each of the periods presented in these financial statements, and accordingly, are not presented.

REVENUE RECOGNITION AND DEFERRED REVENUE

The Company's primary source of operating revenue is earned from Internet connection services. For contracts which exceed one month, revenue is recognized on a straight-line basis over the term of the contract as services are provided. Revenues applicable to future periods are classified as deferred revenue.

DIRECT COSTS

Direct costs consist of telecommunications charges in respect to providing Internet connection services to customers. These costs are expensed as incurred.

ADVERTISING COSTS

Advertising costs are expensed as incurred.

SOFTWARE DEVELOPMENT COSTS

SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed", and Statement of Position 98-1 (SOP 98-1), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", provide guidance over accounting for computer software developed or obtained for internal use including the requirement to capitalize specified costs and amortization of such costs. The capitalization of software development costs begins upon the establishment of technological feasibility of the product, which the Company has defined as the completion of beta testing of a working product. The establishment of technological feasibility and the ongoing assessment of the recoverability of these costs require considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future gross product revenue, estimated economic life and changes in software and hardware technology. Software developments costs are amortized on the straight-line method over the estimated economic life of the product of three years.

During 2000, the Company capitalized $87,431 of software development costs and amortized $98,240 of these costs including those capitalized in prior years. At the end of 2000, the management of the Company assessed the recoverability of the Company's software products assets and determined that this asset was impaired. Therefore, the Company has written off the net book value of this asset in the amount of $128,726.

GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets consist primarily of customer lists and goodwill related to acquisitions accounted for under the purchase method of accounting. Amortization of these purchased intangibles is provided on the straight-line basis over the respective useful lives of the intangible assets which is estimated to be three years.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the aggregate of estimated future cash inflows less estimated future cash outflows, to be generated by an asset are less than the asset's carrying value. Future cash inflows include an estimate of the proceeds from eventual disposition. For purposes of this comparison, estimated future cash flows are determined without reference to their discounted present value. If the sum of undiscounted estimated future cash inflows is equal to or greater than the asset's carrying value, impairment does not exist. If, however, expected future cash inflows are less than carrying value, a loss on impairment should be recorded. Such a loss is measured as the excess of the asset's carrying value over its fair value. Fair value of an asset is the amount at which an asset could be bought or sold in a current transaction between a

willing buyer and seller other than in a forced or liquidation sale. The Company measures an impairment loss by comparing the fair value of the asset to its carrying amount. Fair value of an asset is calculated as the present value of expected future cash flows.

INCOME TAXES

The Company computes income taxes using the asset and liability method, under which deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Deferred tax assets and liabilities are measured using currently enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts expected to be realized.

STOCK-BASED COMPENSATION

SFAS No. 123, "Accounting for Stock-Based Compensation", encourages, but does not require, companies to record compensation cost for stock-based employee compensation under a fair value based method. Alternatively, stock-based employee compensation can be accounted for under APB No. 25, "Accounting for Stock Issued to Employees", under which no compensation is normally recorded if the issue price is equivalent to the fair market value.

The Company has elected to follow the accounting provisions of APB No. 25 to account for its stock based employee compensation, and to furnish the pro forma disclosures required under SFAS No.123. For stock issued to non-employees, the Company records the fair value of the equity granted in compliance with SFAS No.123.

PENSIONS AND OTHER POSTRETIREMENT BENEFITS

SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106", revises employers' disclosures about pension and other postretirement benefit plans. It does not change the measurement or recognition of those plans. It standardizes the disclosure requirements for pension and other postretirement benefits to the extent practicable, requires additional information on changes in benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures that are no longer considered useful.

The Company does not offer any pension or other postretirement benefits.

RECLASSIFICATION

Certain 2000 balances have been reclassified to conform to the current year's presentation.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, Business Combinations (SFAS 141). SFAS 141 addresses financial accounting and reporting for business combinations and supersedes APB Opinion No. 16, Business Combinations, and FASB Statement No. 38, Accounting for Preacquisition Contingencies of Purchased Enterprises. All business combinations in the scope to this Statement are to be accounted for using one method, the purchase method. The provisions of this Statement apply to all business combinations initiated after June 30, 2001. The Company will adopt SFAS 141 beginning January 1, 2002 and does not expect a material impact on the results of operations or financial position.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142). SFAS 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, Intangible Assets. Under the new rules, goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives, but without the constraint of an arbitrary ceiling. The provisions of this Statement are required to be applied starting with fiscal years beginning after December 15, 2001. The Company will adopt SFAS 142 beginning January 1, 2002 and has not determined the impact on its results of operations or financial position.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No.144, Accounting for the Impairment of Disposal of Long-Lived Assets (SFAS 144). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assts. This Statement supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-lived Assets to Be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business (as previously defined in that Opinion). Under SFAS 144, discontinued operations are no longer measured on a net realizable value basis, and future operating losses are no longer recognized before they occur. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company will adopt SFAS 144 beginning January 1, 2002 and does not expect a material impact on its results of operations or financial position.

3. ACQUISITIONS

During 2000, the Company completed certain acquisitions of business and assets. These acquisitions are accounted for using the purchase method, and accordingly, these consolidated financial statements include the results of operations from the date of acquisition of each respective business.

PLAYA CORPORATION

On February 23, 2000, the Company purchased all the shares of Playa Corporation (a Japan company) for $3,000,000. The consideration paid by the Company consisted of cash in the amount of $300,000 and 785,455 shares of the Company's common stock valued at $2,700,000. Due to a clerical error subsequently discovered, the number of shares originally calculated to be issued, and actually issued to the seller, was incorrectly determined to be 771,426. Therefore, in January 2001, the Company issued an additional 14,029 shares of its common stock to the seller to account for the difference. For purposes of financial statement presentation, all 785,455 shares of the Company's common stock were deemed issued as of February 23, 2000.

The acquisition has been accounted for by the purchase method of accounting. The purchase included goodwill and other intangibles of $3,665,778 which will be amortized on a straight-line basis over its estimated useful life of three years. Due to a number of factors, including without limitation, weak performance by Playa, the difficulties of operating one small Japanese company following the sale by the Company of CyPost KK, a former subsidiary of the Company, and the Company's own liquidity needs, in the fourth quarter 2000, the Company's management decided to abandon the business of Playa. In connection therewith, the Company has written off the assets of Playa in the net amount of

$2,201,253 which is reflected as "Loss on abandonment of Playa operations", consisting of approximately $3,067,065 in actual assets, including the goodwill and approximately $865,812 of liabilities owed by Playa to various parties for which the Company does not believe it is liable. The year ending December 31, 2000 consolidated financial statements include the results of operations of Playa for the period from February 24, 2000 to September 30, 2000.

CYPOST KK

On March 17, 2000, the Company purchased 400 shares of CyPost KK, representing 100% of the then issued and outstanding shares, for $188,870 (20,000,000 Yen), and transferred 180 of such shares, or 45% of the then issued and outstanding shares, to certain members of the management of CyPost KK in consideration of their future effort to raise additional capital for CyPost KK.

On May 5, 2000, the Company purchased an additional 400 shares of CyPost KK from CyPost KK for $184,915 (20,000,000 Yen). The Company funded this purchase $106,326 (11,500,000 Yen) from its own funds (with respect to 230 shares) and $78,589 (8,500,000 Yen) in the form of a loan from these certain members of CyPost KK management to the Company (with respect to the remaining 170 shares). Of the 400 shares purchased by the Company on such date, the Company transferred 180 shares to these individuals in consideration of their future effort to raise

additional capital for CyPost KK. The transferred shares have been valued at the Company's cost. As a result of acquiring a net additional 220 shares of CyPost KK, the Company maintained its 55% ownership in CyPost KK.

On May 22, 2000, Access Media International, a company that is not affiliated with the Company, purchased 200 shares of CyPost KK from CyPost KK for 10,000,000 Yen, resulting in a reduction of the Company's interest in CyPost KK to 44%.

All 360 shares of CyPost KK stock which were transferred by the Company to these individuals were specifically intended to compensate them solely with respect to equity financing activities and were contingent upon their ability to raise additional equity financing in Japan for CyPost KK. Because these individuals were not able to raise such additional financing, no portion of the 360 shares were earned.

In part because these individuals were ultimately not able to arrange such financing, the Company decided to sell its entire interest in CyPost KK. On July 12, 2000, the Company sold all 630 shares it then owned in CyPost KK to Access Media International for $220,000, resulting in a gain of $36,202.

In connection with the sale by the Company of its entire interest in CyPost KK to Access Media International, on July 3, 2000 these certain members of CyPost KK management (i) returned to the Company 190 shares of the CyPost KK stock that the Company had previously transferred to them, consisting of the 180 shares transferred to them by the Company in March 2000 and 10 shares transferred to them by the Company in May 2000; (ii) canceled the $78,589 loans made by them to the Company in May 2000 to purchase 170 of the shares; and (iii) retained those 170 shares purchased by the Company, for which the purchase price was $78,589.

Despite the fact that there was a brief period of time during which the Company owned less than a majority of the voting shares of CyPost KK (May 22, 2000 through July 3, 2000), the Company owned a majority interest for most of the period from formation of CyPost KK through June 30, 2000 and therefore had the ability to control its operations. The Company has reflected the amounts of revenue, cost of revenue and expenses on a consolidated basis for the entire

period of ownership. Had the Company reflected the amounts of revenue, cost of revenue and expenses on a consolidated basis for the period from April 1, 2000 through May 22, 2000 and an equity method for the period from May 22, 2000 through June 30, 2000, the impact on the consolidated financial statements would not have been material.

During its period of ownership of CyPost KK, the Company loaned CyPost KK $64,764 and CyPost KK paid certain expenses on behalf of the Company in the amount of $25,542, leaving a balance of $39,222 owed by CyPost KK to the Company at the time of sale. In connection with the sale by the Company of all of its interest in CyPost KK, the Company canceled the net outstanding balance of $39,222 in loans made by the Company to CyPost KK and CyPost KK canceled $39,222 in loans made by CyPost KK to Playa Corporation ("Playa"). At September 30,

2000, there was a balance of $168,062 owed by Playa to CyPost KK. This loan bears interest at 5.5% per annum and is payable in 60 monthly installments beginning January 15, 2001. This loan balance has been written off in connection with the abandonment of Playa's business. See "Acquisition of Playa".

4. PROPERTY AND EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property and equipment consist of the following:

	2001	2000
Office furniture	$ 75,795	$ 194,436
Leasehold improvement	21,080	14,360
Computer hardware and software	1,329,945	1,144,234
	1,426,820	1,353,030
Less accumulated depreciation	(925,254)	(602,010)
	$ 501,566	$ 751,020

The depreciation expense charged to the operations for the years ended December 31, 2001 and 2000 was $319,242 and $179,263, respectively.

5. GOODWILL AND OTHER INTANGIBLES

Goodwill and other intangibles consist of the following:

	2001	2000
Customer lists	$ 3,663,000	$ 3,663,000
Goodwill	1,832,543	1,832,543
	5,495,543	5,495,543
Less accumulated amortization	(4,134,376)	(2,302,528)
	$ 1,361,167	$ 3,193,015

The amortization expense charged to the operations for the years ended December 31, 2001 and 2000 was $1,831,848 and $2,582,016, respectively.

6. LOANS

Loans as of December 31, 2001 and 2000 consist of:

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	2001	2000
Blue Heron Venture Fund, Ltd.	$ 0	$2,085,000
Pacific Gate Capital	0	25,000
	$ 0	$2,110,000

In 2000, loans from Blue Heron Venture Fund, Ltd were pursuant to two promissory note agreements ($2,000,000 and $10,000,000 loan facilities). The loans were unsecured, bore interest at 8% per annum, and the principal and accrued interest were due on demand. The lender had the option to withdraw its offer to lend at any time and to convert the loans into shares of common stock of the Company.

At the commitment date of each of the promissory notes, the conversion price was less than the fair value of the common stock, hence a beneficial conversion feature is attributable to these convertible notes. The amount of this beneficial conversion feature is $1,962,500 and has been recorded as interest expense and additional paid-in-capital for the year ended December 31, 2000.

The loan from Pacific Gate in the aggregate principal amount of $25000 was unsecured, bore interest of 8% per annum, and the principal and accrued interest were due on demand.

On June 18, 2001 at the request of Blue Heron Venture Fund, Ltd. (Blue Heron), Blue Heron Notes in the aggregate principal amount of $2,085,000 were cancelled and on June 19, 2001 new promissory notes (the "Blue Heron Shareholder Notes") in the aggregate principal amount of $2,319,788 were issued to the shareholders of Blue Heron and Blue Heron's fund manager, Monet Management Group Ltd. The principal amount of the Blue Heron Shareholder Notes was comprised of the $2,085,000 principal amount of the Blue Heron Notes and the $234,788 in interest due on the Blue Heron Notes at the time of cancellation. The Blue Heron Shareholder Notes were unsecured and were payable on demand. $2,085,000 in principal amount of the Blue Heron Shareholder Notes bore interest at 8% per annum. The balance of the Blue Heron Shareholder Notes did not provide for the payment of interest.

On September 20, 2001 the Company entered into a Settlement Agreement (the "Settlement Agreement") with Kelly Shane Montalban with regard to a lawsuit it had instituted against him on June 15, 2001 in the United States District Court for the Southern District of New York seeking recovery of short swing profits realized by Mr. Montalban and other persons whose

purchases and sales of Company common stock were attributed to Mr. Montalban in violation of Section 16(b)] of the Securities Exchange Act of 1934, as amended (see Shane Montalban Litigation below). Pursuant to the Settlement Agreement, Mr. Montalban paid the Company an aggregate of approximately $2,498,449 (the "Recovery Amount"), which amount represented

recovery in full of Mr. Montalban's short swing profits. He did so by delivering to the Company for cancellation (1) the Blue Heron Shareholder Notes in the aggregate principal amount of $2,319,788, which notes had been previously purchased by or assigned to Mr. Montalban; (2) the accrued interest of $42,384 due on the principal portion of the Blue Heron Shareholder Notes at the time of cancellation; (3) 8% demand notes of the Company dated August 25, 2000 and September 11, 2000, respectively, in the aggregate principal amount of $25,000 issued to Pacific Gate Capital Corporation, a corporation owned by Mr. Montalban (the "Pacific Gate Capital Notes"); and (4) the accrued interest of $2,066 due on the principal portion of the Pacific Gate Capital Notes at the time of cancellation. The balance of the Recovery Amount was paid by Mr. Montalban's issuance to the Company of a five (5) year, 5% promissory note, dated September 20, 2001, in the principal amount of $109,211. In consideration of the execution of the Settlement Agreement and payment of the Recovery Amount, on October 9, 2001 the Company voluntarily dismissed its action.

On October 1, 2001 the Company entered into a consulting agreement with Pacific Gate Capital Corporation for a one year period in the amount of $27,750 minimum per month for providing certain services to the Company. This agreement was subsequently cancelled. In the year 2001 the consulting payments reduced the principal amount owing by Mr. Montalban in the amount of $109,211 by $53,250.

The Company has accrued interest of $1,237 for the period September 20 to December 31, 2001.

7. SHARE CAPITAL

AUTHORIZED STOCK

The Company is authorized to issue:

(a) 30,000,000 shares of common stock at a par value of $0.001 per share.

(b) 5,000,000 shares of preferred stock at a par value of $.001 per share.

The Board of Directors of the Company has the authority, without further action by the holders of the outstanding shares of common stock, to issue shares of preferred stock from time to time in one or more classes or series, to fix the number of shares constituting any class or series and the stated value, if different from the par value, and to fix the terms of any such series or class, including dividend rights, dividend rates, conversion or exchange rights, voting rights, rights and terms of redemption (including sinking fund provisions), the redemption price and the liquidation preference of such class or series. The designations, rights and preferences of any shares of preferred stock would be

set forth in a Certificate of Designation which would be filed with the Secretary of State of the State of Delaware.

ISSUANCE OF SHARES

On March 2, 2000, the Company issued 26,500 shares of its commons stock in an aggregate amount of $92,750 at the closing price of $3.50 per share on February 29, 2000, to Kaplan, Gottbetter and Levenson, as payment of services accrued at December 31, 1999 and through February 29, 2000.

On March 13, 2000, the Company issued 80,558 shares of its common stock at the closing price of $2.98 on July 12, 1999 (as adjusted for a 3-for-2 stock split), the date of signing the Letter of Intent, to the owners of Internet Arena, Inc., as payment for the balance due in the amount of $240,000 in connection with the Company's acquisition of that entity.

On June 8, 2000, the Company issued 785,455 shares of its common stock to the selling stockholders of Playa as partial payment of the purchase price $3,000,000 in connection with the Company's acquisition of that company. See Note 3 of this document.

On August 1, 2000, the Company issued an aggregate 129,500 shares of its common stock in an aggregate amount of $76,897 to seven employees at the closing price of $0.5938 per share on July 17, 2000 in consideration for their providing certain services to the Company from June 16, 2000 through July 15, 2000. Subsequently 10,000 of these shares were canceled. For purposes of financial statement presentation, those shares were deemed canceled as of October 1, 2000.

On August 1, 2000, the Company issued 75,000 shares of its common stock in an aggregate amount of $133,605 to each of the Company's three directors at the closing price of $0.5938 on July 17, 2000 in consideration for their providing certain services to the Company from June 16 through July 15, 2000.

On August 17, 2000, the Company issued an aggregate 43,500 shares of its common stock in an aggregate amount of $25,787 to six people at the closing price of $0.5938 per share on July 25, 2000 in consideration for their providing consulting work to the Company from April 1, 2000 through June 30, 2000.

On October 1, 2000, the Company accrued the issuance of an aggregate 27,500 shares of its common stock in an aggregate amount of $8,800 to three employees and one consultant at the closing price of $0.32 per share in consideration for their providing certain services to the Company. Subsequently in the first quarter 2001, 25,000 of these shares were issued and 2,500 shares were issued in the second quarter 2001. For purposes of financial statement presentation, all shares were deemed issued as of October 1, 2000.

On December 29, 2000, the Company accrued the issuance of 2,500 shares of its common stock in an aggregate amount of $450 to a consultant at the closing price of $0.18 per share in consideration for his providing certain services to the Company. As of December 31, 2000, these shares were not been issued, however for purposes of financial statement presentation, all shares were deemed issued as of December 29, 2000. These shares were issued in 2001

On March 31, 2001, the Company reflected the issuance of 2,500 shares of its common stock in an aggregate amount of $1,275 to one consultant at the closing price of $0.51 per share in consideration for his providing certain services to the Company. These shares were issued on May 16, 2001.

On November 16, 2001, the Company issued 1,000,000 shares of its common stock in an aggregate amount of $85,000 to Adam Gottbetter at the closing price of $0.085 per share in consideration for his providing legal services to the Company.

On December 11, 2001, the Company issued 400,000 shares of its common stock in an aggregate amount of $100,000 to Martin and Associates at the closing price of $0.25 per share in consideration of them providing legal services to the Company.

On December 11, 2001, the Company issued 230,000 shares of its common stock in an aggregate amount of $57,500 to Andrew Stack, LLP at the closing price of $0.25 per share in consideration of them providing legal services to the Company.

STOCK OPTIONS

On January 10, 2001, the Company issued an option to purchase 1,000,000 shares of the Company's common stock to Robert Adams, who, at such time, was serving as President, Chief Operating Officer, Secretary and Treasurer of the Company. On that date, the Company also issued an option to purchase 125,000 shares of the Company's common stock to Tami Allan, who, at that time was serving as Vice President of North American Operations of the Company. The exercise price of each option is $.10 per share and vests over time. The options were issued pursuant to the exemption from registration contained in Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), for transactions by an issuer not involving a public offering. Mr. Adams and Ms. Allan are no longer employees of the Company. On December 10, 2001, Mr. Adams gave notice to the Company indicating that he wished to exercise 2,500 options pursuant to the non-qualified stock option agreement. On January 2002 2,500 shares were issued to Mr. Adams. Unvested options for Mr. Adams in the amount of 500,000 have been cancelled.

Information relative to stock option activity is as follows (in thousands);

The following table summarized information concerning activity associated with the various option grants:

	Options	Exerisable Price
Options outstanding at December 31, 1999	-	$ -
Options granted	-	-
Options exercised	-	-
Options cancelled	-	-
Options outstanding at December 31, 2000	-	$ -
Options granted	1,125	0.10
Options exercised	3	0.10
Options cancelled	(630)	0.10
Options outstanding at December 31, 2001	498	$ 0.10

All of the outstanding options at December 31, 2001 are exercisable.

The Company applies APB No. 25, "Accounting for Stock Issued to Employees", and related interpretations in accounting for its plan. Accordingly, no compensation expense has been recognized for its stock-based compensation plan

other than for the stock options granted to consultants. Had compensation cost for the Company's other options granted been determined based upon the fair value at the grant date for awards under this plan been consistent with the methodology prescribed under SFAS No. 123 "Accounting for Stock-Based Compensation", the Company's net loss and net loss per share would have been increased to the pro forma amounts indicated below

Net loss as reported	$ (570,352)
Proforma net loss	(605,352)
Basic net loss per share as reported	(0.03)
Proforma net loss	(0.03)

For purposes of pro forma disclosures, the estimated fair value of the options are amortized over the options' vesting period.

The Black-Scholes option valuation modes was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because of the Company's options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its option.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model using a dividend yield of 0% and the following weighted average assumptions:

Expected stock price volatility	239%
Risk free interest rate	4%
Expected lives (in years)	1

8. INCOME TAXES

At December 31, 2001 and 2000, the Company has net operating loss carry forwards for income tax purposes of approximately $10,965,000 and $10,680,000, respectively which are available to offset future taxable income. The amount and ultimate realization is dependant, in part, upon the tax laws in effect, the future earnings of the Company, and other future events, the effects of which cannot be determined. Because of the uncertainty surrounding the realization of the loss carry forwards the Company has established a valuation allowance equal to the amount of the tax effect of the loss carry forward and, therefore no deferred tax asset has been recognized for the loss.

The components of the deferred tax asset as of December 31, 2001 and 2000 are as follows:

	2001	2000
Deferred Tax Assets	$ 3,278,100	$ 3,631,200
Deferred Tax Asset Valuation Allowance	(3,728,100)	(3,631,200)
	$ -	$ -

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The current year income tax benefit consists of:

	2001	2000
Current	$	$
Deferred	(96,900)	(2,371,200)
	(96,900) -	(2,371,200) -
Change in Valuation Allowance	96,900	2,371,200
	$ -	$ -

9. NET PROCEEDS FROM FIRE LOSS

On January 31, 2000, the Company suffered a fire loss at its Etobicoke (suburban Toronto), Ontario facility. The loss was completely covered by insurance. During the fiscal year ended December 31, 2001 and 2000, the Company received net proceeds from fire insurance in the amount of $11,449 and $228,966,respectively.

10. RELATED PARTY TRANSACTIONS

The Company has obtained most of its financing through Blue Heron Venture Fund Ltd. ("Blue Heron"), a corporation in which Kelly Shane Montalban may be deemed to have an "indirect pecuniary" interest as a result of his status as fund manager for Blue Heron. Blue Heron and Mr. Montalban are principal stockholders of the Company. Blue Heron may be deemed to be an affiliate of Pacific Gate, another of the Company's lenders, in which Mr. Montalban is the sole stockholder, sole director and sole officer. Blue Heron loans were unsecured and were convertible into Common Stock at the lender's option, in which case Blue Heron would waive its right to be paid interest. The balance of these loans as of December 31, 2001 and 2000 are $0 and $2,085,000, respectively.

During the fiscal year ended December 31, 2000, the Company borrowed an aggregate $125,000 from Pacific Gate Capital Ltd. ("Pacific Gate"), of which amount $25,000 was outstanding on December 31, 2000. These loans bear interest at 8% per annum and are payable on demand. The balance of these loans as of December 31, 2001 is $0.

On June 18, 2001 at the request of Blue Heron Venture Fund, Ltd. (Blue Heron), Blue Heron Notes in the aggregate principal amount of $2,085,000 were cancelled and on June 19, 2001 new promissory notes (the "Blue Heron Shareholder Notes") in the aggregate principal amount of $2,319,788 were issued to the shareholders of Blue Heron and Blue Heron's fund manager, Monet Management Group Ltd. The principal amount of the Blue Heron Shareholder Notes was comprised of the $2,085,000 principal amount of the Blue Heron Notes and the $234,788 in interest due on the Blue Heron Notes at the time of cancellation. The Blue Heron Shareholder Notes were unsecured and were payable on demand. $2,085,000 in principal amount of the Blue Heron Shareholder Notes bore interest at 8% per annum. The balance of the Blue Heron Shareholder Notes did not provide for the payment of interest.

On September 20, 2001 the Company entered into a Settlement Agreement (the "Settlement Agreement") with Kelly Shane Montalban with regard to a lawsuit it had instituted against him on June 15, 2001 in the United States District Court for the Southern District of New York seeking recovery of short swing profits

realized by Mr. Montalban and other persons whose purchases and sales of Company common stock were attributed to Mr. Montalban in violation of Section 16(b)] of the Securities Exchange Act of 1934, as amended (see Shane Montalban Litigation below). Pursuant to the Settlement Agreement, Mr. Montalban paid the Company an aggregate of approximately $2,498,449 (the "Recovery Amount"), which amount represented recovery in full of Mr. Montalban's short swing profits. He did so by delivering to the Company for cancellation (1) the Blue Heron Shareholder Notes in the aggregate principal amount of $2,319,788, which notes had been previously purchased by or assigned to Mr. Montalban; (2) the accrued interest of $42,384 due on the principal portion of the Blue Heron Shareholder Notes at the time of cancellation; (3) 8% demand notes of the Company dated August 25, 2000 and September 11, 2000, respectively, in the aggregate principal amount of $25,000 issued to Pacific Gate Capital Corporation, a corporation owned by Mr. Montalban (the "Pacific Gate C apital Notes"); and (4) the accrued interest of $2,066 due on the principal portion of the Pacific Gate Capital Notes at the time of cancellation. The balance of the Recovery Amount was paid by Mr. Montalban's issuance to the Company of a five (5) year, 5% promissory note, dated September 20, 2001, in the principal amount of $109,211. In consideration of the execution of the Settlement Agreement and payment of the Recovery Amount, on October 9, 2001 the Company voluntarily dismissed its action.

On October 1, 2001 the Company entered into a consulting agreement with Pacific Gate Capital Corporation for a one year period in the amount of $27,750 minimum per month for providing certain services to the Company. This agreement was subsequently cancelled. In the year 2001 the consulting payments reduced the principal amount owing by Mr. Montalban in the amount of $109,211 by $53,250.

The Company from time to time lends money to Company executives. As of December 31, 2001 and 2000, the Company has a non-interest bearing balance outstanding of $8,484 and $5,371, respectively from one executive. This executive officer left the company in 2001.

11. COMMITMENTS AND CONTIGENCIES

LEGAL PROCEEDINGS

Canada Post Litigation

On June 11, 1999, Canada Post Corporation filed a Statement of Claim in the Federal Court of Canada (Court File No. T-1022-99) in which it sought injunctive and unspecified monetary relief for the allegedly "improper" use by the Company's subsidiary, ePost Innovations, of certain marks and names which

contain the component "post". On October 18, 1999, ePost Innovations filed its Defense and Counterclaim. In a motion heard November 24, 1999, Canada Post Corporation challenged certain parts of the Counterclaim and the Federal Court reserved judgment.

On May 25, 1999, ePost Innovations filed a statement of Claim in the

British Columbia Court (Court File No. C992649) seeking a declaration that the public notice of Canada Post Corporation's adoption and use of CYBERPOSTE and CYBERPOST on November 18, 1998 and December 9, 1998 respectively, did not affect the Company's use of CYPOST and ePost Innovations as trademarks and trade-names prior to said dates. ePost Innovations sought summary judgment for such a declaration and on September 14, 1999, the BC Court rejected summary judgment on the basis that no right of the Company was being infringed and that a trial of the issues was more appropriate. The rejection is pending appeal. There was no pre-trial discovery (except to the extent that some was done as part of the summary judgment application).Canada Post seeks relief in the form of preventing ePost Innovations from using trademarks, trade names or brand names and does not seek monetary damages.

On June 20, 2001 ePost Innovations, Canada Post and the Company entered into a Settlement and Release Agreement effective as of May 30, 2001 (the "Settlement Agreement"). Pursuant to the Settlement Agreement, the parties executed mutual releases and discontinued their respective claims. The release by Canada Post to ePost Innovations was made subject to the Company and ePost Innovations ceasing all use of the trade name EPOST within Canada within 90 days of the effective date of the Settlement Agreement and transferring all right, title and interest they had with respect to the trade name and trademark EPOST and any goodwill associated therewith to Canada Post upon execution of the Settlement Agreement. On August 30, 2001 the Company changed the name of its subsidiary to NetRoverUSA Online Inc.

The Company has complied with all terms of the Settlement Agreement .

Berry Litigation

On March 31, 2000, the Company commenced suit in the Supreme Court of British Columbia, Action #S001822, Vancouver Registry against Tia Berry (the "Tia Action"), the wife of Steven Berry ("Berry"), the former President and Chief Executive Officer of the Company. In the Tia Action, the Company claims $42,516 (CDN) from Tia Berry on account of monies paid to her by the Company which she was not entitled to receive. Tia Berry has filed a Statement of Defense in the Tia Action in which she alleges that the payments which she received from the Company were to reimburse her for business expenses which she had charged to her credit cards on behalf of Berry. An Examination for Discovery of Sandra Lynn Warren took place on February 19,2002 in conjunction with this action. The Tia Action has not yet been set for trial.

On April 4, 2000, Berry commenced an action in the Supreme Court of the State of New York, County of New York (Index No. 601448/2000), against the

Company and Continental Stock Transfer Company ("Continental"), (the "New York Action"). In the New York Action, Berry claimed damages for alleged conversion, fraud, breach of contract and breach of fiduciary duty all arising from the alleged wrongful Stop Transfer Order which the Company placed relating to 75,000 shares of the Company's Common Stock registered in Berry's name and the Company's cancellation of a further 600,000 shares (the "Contingent Shares"). The complaint in the New York Action claims damages in excess of $3,000,000 with the precise amount to be determined at trial.

Berry received the 600,000 Contingent Shares upon condition that he would remain in the Company's employ as Chief Executive Officer for at least two years. Berry commenced his employment with the Company on January 4, 1999, and resigned his employment with the Company on January 17, 2000. Following Berry's resignation, the Company attempted to have a Stop Transfer Order issued with

respect to the 75,000 shares registered in Berry's name and cancel the 600,000 Contingent Shares. The Stop Transfer Order was not effective and Berry subsequently sold the 75,000 shares.

On May 19, 2000 CyPost and ePost Innovations commenced suit in the Supreme Court of British Columbia, Action #S002798, Vancouver Registry, against Berry and his wife, Tia Berry (the "BC Action"). In the BC Action, the Company seeks an order directing Berry to return the 600,000 Contingent Shares to the Company for cancellation for an order entitling the Company to cancel the same on the basis that Berry did not fulfill the employment conditions which were the condition precedent to his becoming the beneficial owner of the Contingent Shares.

In the BC Action, the Company also claims at least Cdn$800,000 from Berry on account of breach of fiduciary duty, negligence, breach of statutory duties and breach of contract arising from Berry's failure to properly carry out his employment responsibilities. In the BC Action, the Company also claims Cdn$34,013 from Berry and Tia Berry on account of conspiracy to defraud and injure the Company and ePost Innovations by causing certain personal expenses to be paid by the Company rather than by Berry and Tia Berry personally. The Company also claims punitive and exemplary damages from Berry and Tia Berry in the BC Action. The trial date has been set for Monday, January 20, 2003.

On May 25, 2000, the Company moved in the New York Action for an order dismissing the action against the Company for lack of jurisdiction or, in the alternative, on the basis of forum non conveniens. On September 5, 2000, the court dismissed the New York Action on forum non conveniens grounds, subject to the Company making certain stipulations in the New York Action. Those stipulations have been made and the appeal period in the New York Action has expired without Berry or any other party appealing the September 5, 2000 order.

The issues raised by Berry and the Company in the New York Action will be litigated in the BC Action together with the further issues raised by the Company in the BC Action. The Company feels that Berry's claims in the New York Action were without merit and that the Company will be successful in obtaining

an order declaring that Berry's 600,000 Contingent Shares be cancelled and further entitling the Company to substantial damages, although no assurance can be given that this will be the case. The Company will vigorously pursue its position in all respects.

On December 21, 2000, Berry and Tia Berry commenced suit in the Supreme Court of British Columbia, Action #S006790, Vancouver Registry, against CyPost, ePost Innovations, Kelly Shane Montalban, J. Thomas W. Johnston, Carl Whitehead and Robert Sendoh (the "Berry Action"). Statements of Defense have been filed on behalf of the Company and the other defendants.

The Plaintiffs in the Berry Action allege that the Tia Action, the BC Action, and the action by Kelly Shane Montalban (Supreme Court of British Columbia, Action #S002147, Vancouver Registry), against Berry for specific performance of an option agreement (the "Montalban Action"), collectively, amount to an abuse of process, malicious prosecution, unlawful interference with the Plaintiffs' economic rights, or were commenced pursuant to a civil conspiracy to injure the Plaintiffs.

In the Berry Action, the Plaintiffs seek a declaration that Berry is entitled to the 600,000 Contingent Shares and claim unspecified damages which are estimated at Cdn$2,000,000 based on the Statement of Claim. They also claim punitive or aggravated damages and costs. The Company believes that the

allegations in the Berry Action are without merit and they will be vigorously defended. An Examination for Discovery of Kelly Shane Montalban took place over two days on January 31, 2002 and February 1, 2002 in conjunction with this action.

The Tia Action, the BC Action and the Berry Action may be consolidated for the purposes of trial due to the fact that there are numerous issues of fact and law which are common to all of these actions.

A loss by the Company of the claim for monetary damages would have a material adverse effect on the Company's future results of operations, financial condition and liquidity; however, the Company does not expect to lose this action and believes additionally that it would be able to negotiate reasonable payment terms should it lose this suit.

The Company has entered into negotiations to settle outstanding litigation. On February 5, 2002, counsel for Steven and Tia Berry presented to counsel for the Company an offer to settle the Tia Action, the BC Action, the Berry Action and the Montalban Action ("All Actions"). On March 4, 2002, counsel for the Company sent to counsel for Steven and Tia Berry a counter-offer to settle All Actions. On March 12, 2002, counsel for the Company received a letter for Steven and Tia Berry rejecting the counter-offer to settle of March 2, 2002. The Company has entered into settlement negotiations motivated by the best interests of the Company but without any admission of liability.

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SHANE MONTALBAN LITIGATION

On June 15, 2001 the Company filed a Summons and Complaint against Kelly Shane Montalban in the United States District Court for the Southern District of New York (CyPost Corp. v. Kelly Shane Montalban, Civ. 5447). The Complaint alleged that, between September 1999 and June 15, 2001 (the "Recovery Period"), numerous purchases and sales of the Company's common stock were made in violation of the short swing profit recovery provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended. ("Section 16(b)").

Section 16(b) imposes strict liability on corporate insiders, including principal stockholders, for engaging in short swing trading activities (a sale and purchase or purchase and sale occurring within any six (6) month period) without regard as to whether true profits were realized by the insider from such trading activities. During the Recovery Period, numerous purchases and sales of the Company's common stock were made in violation of Section 16(b). Although the Company did not believe that any of such purchases and sales were based on non-public information, the Company nonetheless required by the strict liability provisions of Section 16(b) to seek recovery. The Company ultimately determined that the amount of short swing profits realized within the Recovery Period was $2,498,449 (the "Recovery Amount"). Mr. Montalban cooperated fully with the Company's investigation and agreed to make payment in full of the Recovery Amount. Pursuant thereto, on September 20, 2001 the Company entered into a Settlement Agreement. Part of the Recovery Amount was paid by Mr. Montalban by way of his delivery to the Company for cancellation, on September 20, 2001, various promissory notes of the Company on which the Company owed an aggregate of $2,344,788 in principal and $44,450 in interest or a total of $2,389,238.

The notes delivered for cancellation included a note which had been assigned to Mr. Montalban by the holder to satisfy an obligation of the holder to Mr. Montalban, notes which had been purchased by Mr. Montalban from various individuals, and a note held by Pacific Gate Capital Corporation, a corporation owned by Mr. Montalban. The balance of the Recovery Amount was paid by the issuance to the Company of his five (5) year, 5% promissory note, dated

September 20, 2001, in the principal amount of $109,211. In consideration of the execution of the Settlement Agreement and payment of the Recovery Amount, on October 9, 2001 the Company voluntarily dismissed its action.

WORLDCOM DISPUTE

On June 30, 1999 NetRover Inc ("NetRover") entered into a Virtual Internet

Provider Agreement with WorldCom Canada Ltd ("WorldCom"). A dispute arose between the parties regarding certain credits claimed by NetRover and amounts claimed as owed by NetRover to WorldCom in the amount of Cdn$633,368.

On November 8, 2001 NetRover entered into a Settlement Agreement ("Settlement") with WorldCom. The parties have agreed to a settlement of Cdn$91,000 which have been paid in three installments.

The Company has complied with all terms of the Settlement Agreement.

DOMINION ACTION

On September 13, 2001, Dominion Information et al ("Dominion") commenced suit in the Supreme Court of British Columbia, Action # S015127, Vancouver Registry (the "Dominion Action") against Hermes Net Solutions, CyPost Corporation and Stephen Choi, a former shareholder, director and secretary of Hermes Net Solutions until June 30, 1999. As of June 30, 1999, Hermes was a wholly owned subsidiary of CyPost Corporation. In the Dominion Action, Dominion claims $19,339 (CDN) from the defendant Hermes Net Solutions pursuant to an agreement whereby Dominion published advertisements on behalf Hermes Net Solutions. In the alternative, Dominion claims that CyPost Corporation was unjustly enriched by the amount claimed. The defendants Hermes Net Solutions and CyPost Corporation filed a Statement of Defense in the Dominion Action in which they state that the defendant Stephen Choi did not have authority to enter any agreement on their behalf. Furthermore, the Statement of Defense denies the existence of an agreement, any benefit from an agreement or any unjust enrichment from an agreement.

On February 16, 2002, settlement terms were proposed by Dominion. Hermes Net Solutions and CyPost Corporation decided it would be in their best interest to settle this litigation by making a lump sum payment and twelve monthly payments commencing April 1, 2002 and to March 1, 2003. When Hermes Net Solutions has completed the payment schedule in March, 2003, Dominion will file the Consent Dismissal Order, dismissing the Dominion Action.

CNW ACTION

On January 14, 2002, Connect Northwest Internet Services, LLC, a Washington limited liability company, d/b/a Skagit County Networking LLC ("CNW") commenced suit in the Superior Court of Washington for King County, Case No. 02-2-01906-4SEA, against CyPost Corporation (the "CNW Action"). In the CNW Action, CNW claims $30,529 (U.S.) plus interest, costs and attorney's fees from the Company on account of monies owing pursuant to an asset purchase agreement of October 27, 1999.

On February 13, 2002, the Company was able to settle this litigation. The Company agreed to make a lump sun payment of $6,000 U.S. to CNW by February 28,

2002 followed by payments of $4,000 U.S. on the 15th of each month thereafter until August 15, 2002 for a total payment of $30,000 U.S. Once the Company has made its final payment on August, 15, 2002, CNW will dismiss the action.

TAMI HELEN ALLAN

On November 2, 2001, Tami Helen Allan ("Allan") commenced suit in the Ontario Superior Court of Justice of Chatham-Kent, against NetRover Inc., CyPost Corporation, Robert Sendoh, Kelly Shane Montalban, Angela Belcourt and J. Thomas W. Johnston (the "Allan Action"). In the Allan Action, Allan claims that as a result of the wrongful termination of Allan's employment, Allan has sustained damages including loss of salary in the amount of $600,000 (CDN).

On November 9, 2001 the Company filed a Notice of Defense.

A loss by the Company of the claim for monetary damages would have a material adverse effect on the Company's future results of operations, financial condition and liquidity; however, the Company does not expect to lose this action and believes additionally that it would be able to negotiate reasonable payment terms should it lose this suit.

The Company is also subject to routine litigation from time to time in the operations of its business. None of such routine litigation is material to the Company, its assets or results of operations.

Due to the inherent uncertainties of litigation, the Company cannot predict the outcome of any litigation to which it is a party.

LEASE COMMITMENTS

The Company leases office space and equipment under non-cancelable operating leases expiring thru 2006, that have initial or remaining lease terms in excess of one year as of December 31, 2001. The total lease expense under the operating leases is $321,601 for year ended December 31, 2001. The following is a schedule by years of future minimum lease payments required under the non-cancelable operating leases:

2002	$327,755
2003	203,011
2004	123,411
2005	47,161
2006	453
	$701,791

The Company entered into agreements with several companies that provides network infrastructure for some of the Company's Internet Services Provider services. The minimum payments in the next three years are as follows:

2002	1,377,674
2003	284,007
	$1,661,681

BUSINESS CONCENTRATIONS

The Company's success depends upon the capacity, scalability, reliability

and security of its network infrastructure, including the telecommunications capacity leased from WorldCom and other telecommunications network suppliers. We depend on such companies to maintain the operational integrity of their own telecommunications networks. Therefore, our operating results depend, in part, upon the pricing and availability of telecommunications network capacity from a limited number of providers in a consolidated market. A material increase in pricing or decrease in telecommunications capacity available to us could have a material adverse effect on our business, financial condition and results of operations.

SUBSEQUENT EVENTS

On January 29, 2002, at the Annual Meeting of Company Stockholders, an amendment to the Company's Certificate of Incorporation was voted on and subsequently approved whereby the number of authorized shares of the Company's common stock was increased from 30,000,000 to 200,000,000 shares.

EXHIBIT INDEX

Exhibit No.	Description
10.1	Directors resolution dated June 22, 2001 acknowledging the transfer of loan amount of Two Million Eighty Five Thousand US Dollars plus the accrued interest of eight percent as from Blue Heron Venture Fund, Ltd to individual shareholders of Blue Heron Venture Fund, Ltd.
10.2	Promissory Notes executed by CyPost Corporation dated June 19, 2001; in favor of James A. Mylock, JR.
10.3	Promissory Notes executed by CyPost Corporation dated June 19, 2001; in favor of Amanda E. Johnson.
10.4	Promissory Notes executed by CyPost Corporation dated June 19, 2001; in favor of John M. Peragine.

10.5	Promissory Notes executed by CyPost Corporation dated June 19, 2001; in favor of Joseph A. Fiore.
10.6	Promissory Notes executed by CyPost Corporation dated June 19, 2001; in favor of Berkshire Capital Management Co., Inc.
10.7	Promissory Notes executed by CyPost Corporation dated June 19, 2001; in favor of Bayshore Trading LTD.
10.8	Promissory Notes executed by CyPost Corporation dated June 19, 2001; in favor of Kelly Shane Montalban.
10.9	Settlement Agreement dated as of September 20, 2001 between CyPost Corporation and Kelly Shane Montalban. regarding violations of Section 16(b) of the Securities Exchange Act of 1934.
10.10	Promissory Note executed by CyPost Corporation dated September 2001; in favor of CyPost Corporation.