INNOFONE COM INC
Form 10KSB
October 14, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-KSB

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended June 30, 2003.

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

For the transition period from __________________ to _____________

Commission file number: 0-31949

Innofone.com Incorporated
(Name of Small Business Issuer)

Nevada	98-0202313
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3470 Onley- Laytonsville Rd #118 Olney MD	20832
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number: (301) 774-8294

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

Securities registered under Section 12(g) of the Exchange Act:

Common Shares, $ .001 par value
(Title of class)

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. [X] Yes [ ] No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B 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. [X]

The issuer had no revenues for the year ended June 30, 2003.

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2003, based on the closing trading price of the day of $0.50 for the issuer's Common Shares, $0.001 par value (the "Common Shares") was $150,742.00.

The number of shares outstanding of the issuer's common equity, as of June 30, 2003, was 301,484.

Transitional Small Business Disclosure Format (Check one): Yes _____ No X

(begin boldface)
Certain statements in this Annual Report on Form 10-KSB, or the Report, are "forward-looking statements." These forward-looking statements include, but are not limited to, statements about the plans, objectives, expectations and intentions of CompuBec Micro Distribution Inc, a subsidiary corporation (referred to in this Report as "we," "us" or "our,") and other statements contained in this Report that are not historical facts. Forward-looking statements in this Report or hereafter included in other publicly available documents filed with the Securities and Exchange Commission, or the SEC, reports to our shareholders and other publicly available statements issued or released by us involve known and unknown risks, uncertainties and other factors which could cause our actual results, performance (financial or operating) or achievements to differ from the future results, performance (financial or operating) or achievements expressed or implied by such forward-looking statements. Such future results are based upon management's best estimates based upon current conditions and the most recent results of operations. When used in this Report, the words "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate" and similar expressions are generally intended to identify forward-looking statements. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including our plans, objectives, expectations and intentions and other factors discussed under "Risk Factors."
(end boldface)

PART I

Item 1. Description of Business.

Innofone.com, Incorporated ("The Company") used to operates as a holding company for companies that are involved in the procurement, refurbishing and remarketing of used electronic equipment with a focus on used computer equipment. Innofone is actively seeking new investment opportunities in creating and or acquiring assets involved in the broad technology market.Innofone currently has 1 employee on staff.

The company has no operating subsidiary, because of lack of capital it divested it self of CompuBec Micro Distribution Inc.("Compubec")in early November 2002., As previously reported, our ex-sole operating subsidiary, Digital Micro Distribution Canada Inc., has been sold to Qvest Management Group effective June 11th, 2002. Compubec, Innofone.com Inc's sole subsidiary, plans to specialize in the disassembly and international distribution of used/refurbished, end of line new personal computers, servers, peripherals and components. Compubec's core business will act as a clearing house and distribution center for the hundreds of thousands of used off-lease computers, monitors and printers that are surplus to major Corporations on an annual basis. The ability of Compubec to execute its business plan was dependent upon raising capital to fund its startup and operational needs which never materialized.

Please see Item 6, "Management's Discussion and Analysis or Plan of Operation," for more information.

Item 2. Description of Property.

The Company does not own any real estate. The company is currently negotiating a lease for new office space.

Item 3. Legal Proceedings.

The Company does not currently have any pending legal proceedings.

2

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

Not Applicable.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters.

The Company's common stock is currently traded on the National Association of Securities Dealers Over the Counter Bulletin Board ("OTC Bulletin Board"). The common stock had previously traded on the OTC Bulletin Board and was delisted on September 1, 1999. From September 1, 1999 until the Company's re-listing on the OTC Bulletin Board on March 27, 2001, its common stock traded in the over-the-counter market in the United States.

The closing price of The Company's common stock on the OTC Bulletin Board on

September 30, 2003 was $0.52 per share.

The price ranges of trading in The Company's common stock during the last two fiscal years and the subsequent interim period are as follows:

2000	High	Low
7/1/00 - 9/30/00 (delisted)	.703	.250
10/1/00 - 12/31/00 (delisted)	.516	.156
2001		
1/1/01 - 3/31/01 (delisted)	.344	.047
4/1/01 - 6/30/01	.1	.012
7/1/01 - 9/30/01	.14	.012
10/1/01 - 12/31/01	.12	.015
2002		
1/1/02 - 3/31/02	.08	.015
4/1/02 - 6/30/02	.06	.011
7/1/02 - 9/30/02	.05	.006
10/1/02 - 12/31/02	.14	.001
2003		
1/1/03 - 3/31/03	.51	.05
4/1/03 - 6/30/03	.50	.10

Please note that quotations on the OTC Bulletin Board represent inter-dealer prices, without mark-ups, commissions, etc., and they may not necessarily be indicative of actual sales prices.

(b) As of June 30, 2002, we had 155 shareholders of record.

(c) We have not paid any cash dividends to date.

Item 6. Management's Discussion and Analysis or Plan of Operation.

FORWARD-LOOKING STATEMENTS

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the Consolidated Financial Statements and Notes thereto for the year ended June 30, 2003 included elsewhere in this Report. This Annual Report on Form 10-KSB includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Words such as "may," "plans," "expects," "anticipates," "approximates," "believes," "estimates," "intends," "hopes," "potential," or "continue", and variations of such words and similar expressions are intended to identify such forward-looking statements. The Company intends such forward-looking statements, all of which are qualified by this statement, to be covered by the safe harbor provisions for forward-looking statements contained in the Private Litigation Securities Reform Act of 1995 and is including this statement for purposes of complying with these safe harbor provisions. The Company has based these statements on its current expectations and projections about future events. These forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from those projected in these statements. Forward-looking statements include but are not limited to:

- The Company's ability to raise financing and find suitable acquisitions.

Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's views only as of the date hereof. The Company is not obligated to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of the risks, uncertainties and assumptions to which the Company and such forward-looking statements are subject, the forward-looking events discussed in this Annual Report on Form 10-KSB might not occur.

The Company currently does not have sufficient funds with which to sustain its operations. It is has convert noteholders to equity common stock shareholders and the company is still waiting to see whether or not it will receive a dividend from the bankruptcy of its previously owned subsidiary, Innofone Canada. Which is highly unlikely.

The company changed its authorized share capital from 100,000,000 shares to 950,000,000 common shares. This was done in accordance to the companies by-laws as disclosed in it's latest 8-K dated August 12, 2002.

The company issued shares to the President for salary and expense reimbursement due to the company's poor cash flow position.

The Company is currently reviewing and implementing new disclosure controls and procedures to ensure that they fully comply with the new Securities Exchange Act Rules 13a-15 and 15d-15.

(a) Plan of Operations

The company is in discussions with an several investors and acquistion candidates.

As reflected in Note 1 of the financial statements the Company currently has a going concern issue as there are insufficient assets or prospective cash flows to fund its liabilities. While the Company is hopeful that the capital and loan requirements can be achieved, there can be no assurance that they will be and consequently, it cannot be determined if the company will be able to meet its current or future obligations.

The Company's CEO and President Frederic Richardson is currently reviewing several acquisition candidates and funding sources and hopes to make several positive announcements in the next shareholder meeting to be held sometime before yearend.

(b) Results of Operations

The company had no operations in 2003. Management is currently looking for outside directors and new management to help in securing additional financing for operations and viable acquisitions. To that end management has retained Frederic Richardson as its new President, CEO and CFO. The company hopes to make additional appointments to the Board of Directors and management over the next three months.

(c) Liquidity and Capital Resources

As previously mentioned, the company has a going concern issue as there are insufficient assets or prospective cash flows to fund its liabilities. The effect of this on the company being able to meet its current or future obligations cannot be determined at this time.

Item 7. Financial Statements.

The financial statements required by this Item 7 are included elsewhere in this Report and incorporated herein by this reference.

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

There have been no changes in or disagreements with our accountants since the formation of the Company required to be disclosed pursuant to Item 304 of Regulation S-B.

The company was not in a financial position to pay the prior years auditor's fees, and consequently, they refused to provide any further audit services. The company retained the services of Danziger and Hochman chartered accountants to perform the current years audit. There were no changes in or disagreements with either the current or the prior years auditors relating to financial disclosure issues. The change of auditors was reported in the 8-K dated August 12, 2002.

PART III

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

COMPLIANCE WITH SECTION 16(a)OF THE EXCHANGE ACT.

(a) Beneficial Ownership

Name	Number of Shares	Percentage of Ownership
Frederic Richardson Director, Officer		
	Failure to File	Late Filings
	No	1
Dick Swartzman	Number of Shares	Percentage of Ownership
Director, Officer	0	0
	Failure to File	Late Filings
	No	0
Max Apple	Number of Shares	Percentage of Ownership
Director, Officer	0	0
	Failure to File	Late Filings
	No	0
Ed Hutya	Number of Shares	Percentage of Ownership
Director, Officer	0	0
	Failure to File	Late Filings
	No	0

None of the above officers and directors sold any common stock and therefore were not required to file forms relating to the sale of their stock.

The following table sets forth the current names and ages of the directors of the Company:

Name	Age	Position	Term	Period Served
Frederic Richardson	43	Chairman	Annual	Nov 01 to current
Max Apple	61	Director	Annual	Nov 01 to current
Ed Hutya	53	Director	Annual	Nov 01 to current
Dick Swartzman	54	Director	Annual	Nov 01 to current

The following table sets forth the names and ages of the Company's current executive officers:

Name	Age	Position	Term	Period Served
Frederic Richardson	43	Chairman	Annual	Nov 01 to current
Max Apple	61	COO	Annual	Nov 01 to current
Ed Hutya	53	Treasurer	Annual	Nov 01 to current

Dick Swartzman	54	Secretary	Annual	Nov 01 to current

Frederic Richardson, the President and director of Innofone since Nov 01 2002, has extensive experience in the computer distribution industry. He is a board experience in capital formation and running public companies. Richardson is the current chairman of another public company. He was the former chairman of life insurance company that was liquidated by the Pennsyvania Insurance Departmant In 1994. Without the prior approval of the Pa insurnace Department Mr Richardson can not hold a controlling position with any insurer for the next 5 years.

Mr. Maxwell W. Apple has been one of our directors since 2002, and has also served as our Secretary since 2002. Mr Apple is a former judge and currently a member of the Indiana Bar. He has been involved in various business ventures which include owning Nunur Corporation, a company which owned commercial and residential properties, being a partner in French Lick Springs Golf and Tennis Resort, L.P., and being the sole shareholder of The Paoli Corporation, a company specializing in the manufacturing of wood products and operating lumber dry kilns. He received his Juris Doctor Degree from the Indiana University School of Law and also attended the National College of the State Judiciary and Indiana Judicial College during.

Mr. Edward A. Hutya has been one of our directors since 2002. He also served as our vice president until September 2002. He is currently the president of the Center of Independent Living and a consultant to Riverside Healthcare foundation, two not-for-profit organizations. Mr. Hutya has many years of experience in the operations and acquisitions of health care properties. During his tenure as president of several not-for-profit corporations, Mr. Hutya directed corporate development for the acquisition of housing and nursing facilities for the elderly and special populations. Mr. Hutya also selected and hired management companies which operated nursing homes. Prior to his involvement with not-for-profit organizations, Mr. Hutya specialized in financing, including equipment, vehicles, real estate and governmental leasing and financing. Mr. Hutya received a degree in Economics from the University of Connecticut in 1965, and participated in graduate work in Urban Economics at American University.

Dick Swartzman has been a director seen 2002 He has been a Washington Dc Attorney specailizing in litigation for over 20 years.

Item 10. Executive Compensation.

COMPENSATION OF OFFICERS.

The Officers have not received any compensation during the last fiscal year and will not receive compensation until the Company is in a position to award compensation. The company has not made any arrangements to negotiate any fees at this time. The company will pay all operating personnel in stock until cash flow can sustain salaries.

COMPENSATION OF DIRECTORS.

There has not been any compensation paid to the directors of the company. Although the company plans to in the coming months.

Item 11. Security Ownership of Certain Beneficial Owners and Management.

(a) Security ownership of certain beneficial owners.

(1) Title of Class	(2) Name and Address of Beneficial Owner	(3) Amount and Nature of Beneficial Owner	(4) Percent of C
Common shares	Frederic Richardson 3470 Olney Rd. Olney, MD 20832	50,000 Direct	16.6%
Common shares	Sarah Suul Simon Trust 3470 Olney Rd. Olney, MD 20832	100,000 Direct	33.2%
Common shares	Ephone Telecom, Inc. c/o 1801 Goldmine Rd. Brookeville, MD 20833	100,000 Direct	33.2%

(b) Security ownership of management.

(1) Title of Class	(2) Name and Address of Beneficial Owner	(3) Amount and Nature of Beneficial Owner	(4) Percent of Clas
Common shares	Frederic Richardson 3470 Olney Rd. Olney, MD 20832	50,000 Direct	16.6%

Item 12. Certain Relationships and Related Transactions.

None.

PART IV

Item 13. Exhibits and Reports on Form 8-K.

a) Exhibit Index

Exhibit No.	Description
3.1#	Certificate of Incorporation of the Registrant and all amendments thereto (originally filed as Exhibit 2.1)
3.2*	Bylaws of the Registrant, as currently in effect (originally filed as Exhibit 3.01(i))
3.3#	Specimen Common Stock Certificate (originally filed as Exhibit 3.1)

10.1+	Agreement and Plan of Reorganization by and among the Company, Digital Micro Distribution Canada, Inc. and Sumit Majumdar dated August 31, 2001
10.2*	1997 Compensatory Stock Option Plan (originally filed as Exhibit 10.04)
10.3*	1997 Employee Stock Option Plan (originally filed as Exhibit 10.05)

Filed as an exhibit to the Company's Registration Statement on Form 10-SB, as amended, file no. 0-31949, originally filed on November 14, 2000.

* Incorporated by reference from the Company's registration statement on Form SB-2, as amended, file no. 333-94497, originally filed January 12, 2001.

+ Incorporated by Reference from the Company's Current Report on Form 8-K, file no. 0-31949, filed on September 25, 2001.

b) There were no Forms 8-K's filed during the last quarter of the Fiscal Year April 1, 2002 to June 30th 2002.

DOCUMENTS INCORPORATED BY REFERENCE

The Company is currently subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and in accordance therewith files reports, proxy statements and other information with the SEC. Such reports, proxy statements and other information may be inspected and copied at the public reference facilities of the SEC at Judiciary Plaza, 450 Fifth Street, N.W., Washington D.C. 20549; at its New York Regional Office, 233 Broadway, New York, NY 10279; and at its Chicago Regional Office, 175 W. Jackson Boulevard, Suite 900, Chicago, IL 60604, and copies of such materials can be obtained from the Public Reference Section of the SEC at its principal office in Washington, D.C., at prescribed rates. In addition, such materials may be accessed electronically at the Commission's site on the World Wide Web, located at http://www.sec.gov. We intend to furnish our shareholders with annual reports containing audited financial statements and such other periodic reports as we may determine to be appropriate or as may be required by law.

SIGNATURES

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

INNOFONE.COM INCORPORATED

Dated: September 30, 2003

By: /s/ Frederic Richardson

Frederic Richardson
President and Director

INNOFONE.COM, INCORPORATED

Financial Statements
(Stated in United States Dollars)

June 30, 2003

INNOFONE.COM, INCORPORATED

INDEX

June 30, 2003

AUDITORS' REPORT

To the Board of Directors and Shareholders of:
INNOFONE.COM, INCORPORATED

We have audited the accompanying balance sheet of INNOFONE.COM, INCORPORATED as at June 30, 2003, and 2002, and the statements of operations, shareholders' deficiency, and comprehensive loss and cash flows for each of the years in the two-year period ended June 30, 2003. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance 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, these financial statements present fairly, in all material respects, the financial position of the company as at June 30, 2003 and 2002, and the results of its operations and their cash flows each of the years in the two-year period ended June 30, 2003, in conformity with Accounting principles generally accepted in the United States of America.

The company has a going concern problem as discussed in Note 1 and may not be able to fund its liabilities.

Toronto, Ontario
October 7, 2003

Chartered Accountants

INNOFONE.COM, INCORPORATED — Statement I

Balance Sheet
(Stated in United States Dollars)
As at June 30, 2003

		2003		2002
ASSETS				
Investment in 908651 Alberta Ltd.	$	210,000	$	210,000
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	316,572	$	212,572
Due to officers and directors		-		104,000
Convertible debt (note 3)		-		500,000
Note payable (note 4)		-		150,000
		316,572		966,572
SHAREHOLDERS' DEFICIENCY				
CAPITAL STOCK (note 5)				
Common shares		4,870,700		4,841,522
Preferred shares		1,250		1,250
Additional paid-in capital		8,550,112		7,719,593
		13,422,062		12,562,365
(DEFICIT) - Statement II		(13,528,634)		(13,318,937)
		(106,572)		(756,572)
	$	210,000	$	210,000

ON BEHALF OF THE BOARD:

/s/ Frederic Richardson — Director

{See accompanying notes.}

F-2

INNOFONE.COM, INCORPORATED
Statement of Shareholders' Deficiency and Comprehensive Loss
(Stated in United States Dollars)
For The Year Ended June 30, 2003

	Common shares	Preferred shares	Additional paid-in capital	Deficit
BALANCE, June 30, 2000	$ 4,702,250	$ 2,500	$ 4,818,938	($ 11,773,2
Net loss				(1,819,0
Other comprehensive income, net of tax:				
Write-off of foreign current translation adjustment on bankruptcy of Canadian subsidiary				
Issuance of stock for marketing services	30		5,970	
Convertible notes converted to stock	3,852		1,536,748	
Stock options exercised	430		65,570	
Compensatory value of stock options (note 6)			24,240	
Issuance of stock for legal services	1,403		197,584	
Issuance of stock by subscription agreement net of share issue cost of $50,000	1,000		449,002	
Conversion of preferred stock, including deemed distribution of $62,500	63,750	(1,250)		(62,5
BALANCE, June 30, 2001	4,772,715	1,250	7,098,052	(13,654,8
Stock options exercised	475		(427)	
Convertible notes converted to stock	520		415,480	
Issuance of stock for Digital Micro Distribution Canada Inc.	67,000			
Issuance of stock for equipment	146		7,154	
Convertible notes converted to stock	666		199,334	
Net earnings				335,9
BALANCE, June 30, 2002	4,841,522	1,250	7,719,593	(13,318,9
Convertible note converted to stock	2,300		647,700	
Issuance of shares for legal services	500		1,887	
Issuance of shares for consulting services	26,378		180,932	
Net loss				(209,6
Balance, June 30, 2003	$ 4,870,700	$ 1,250	$ 8,550,112	($ 13,528,6

{See accompanying notes.}
F-3

INNOFONE.COM, INCORPORATED Statement III
Statement of Operations
(Stated in United States Dollars)
For the Year Ended June 30, 2003

		2003		2002
SALES	$	-	$	-
EXPENSES				
Forgiveness of debt		-		(294,908)
Net gain on sale of Digital Micro Distribution Canada Incorporated		-		(143,000)
Selling, general and administrative		209,697		101,968
		209,697		(335,940)
NET INCOME (LOSS) FOR THE YEAR	($	209,697)	$	335,940
BASIC NET INCOME (LOSS) PER SHARE (note 8)	($	1.37)	$	NIL
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		152,682		79,738,604

{See accompanying notes.}

INNOFONE.COM, INCORPORATED Statement IV
Statement of Cash Flows
(Stated in United States Dollars)
For The Year Ended June 30, 2003

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings (loss) for year	($ 209,697)	$ 335,940
Changes in non-cash working capital components		
- Prepaid expenses and deposits	-	225
- Accounts payable and accrued liabilities	(104,000)	(19,938)
	(313,697)	316,227
FINANCING ACTIVITIES		
Bank indebtedness	-	(546)
Due to officers and directors	104,000	(180,470)
Issuance of capital stock	859,697	690,348
Convertible debt	(650,000)	(616,000)
	313,697	(106,668)
INVESTING ACTIVITIES		
Investment in 908651 Alberta Ltd.	-	(210,000)
Capital assets	-	441
	-	(209,559)

INCREASE IN CASH		NIL		NIL
CASH, BEGINNING OF YEAR		NIL		NIL
CASH, END OF YEAR	$	NIL	$	NIL

{See accompanying notes.}

INNOFONE.COM, INCORPORATED
Notes to the Financial Statements
June 30, 2003

1. BASIS OF PRESENTATION

Going Concern Issue

These financial statements have been prepared on a going concern basis and do not include any adjustments to the measurement and classification of the recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The company has experienced several continuous years of operating losses. The Company's ability to realize its assets and discharge its liabilities in the normal course of business is dependent upon continued support. The Company is also dependent on an infusion of equity from potential shareholders. The Company is currently attempting to obtain additional financing from its existing shareholders and other strategic investors to continue its operations. However, there can be no assurance that the Company will obtain sufficient additional funds from these sources.

The conditions cause substantial doubt about the Company's ability to continue as a going concern. A failure to continue, as a going concern would require that stated amounts of assets and liabilities be reflected on a liquidation basis that could differ from the going concern basis.

Bulletin Board Listing

In January 2001, the Company completed a Registration Statement that has been filed with the United States Securities and Exchange Commission in order for the Company's shares to be eligible for trading in the United States on the National Association of Securities Dealings over-the-counter Bulletin Board.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States, the more significant of which are outlined below.

Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles 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 year. Actual results could differ from those estimates.

Foreign Currency Translation

The Company's reporting currency is the United States dollar because the Company is a United States corporation and it is trading publicly in the United States. The statements of operations are translated into United States dollars using the average exchange rate for the year. The balance sheets are translated into United States dollars using the year-end exchange rate.

Stock Option Plans

The Company applies the fair value based method of accounting prescribed by SFAS No. 123, Accounting for Stock-Based Compensation in accounting for its stock options granted to both employees and non-employees. As such, compensation expense is recorded on the date of grant based on the fair value of the award and is recognized over the service period.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 121, Accounting for the Impairment of Long-Lived

Assets and Long-Lived Assets to be Disposed of. This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

3. CONVERTIBLE DEBT

As part of an agreement dated January 12, 2001 with ePhone Telecom Inc. ("ePhone"), the Company received a set-up fee of $500,000, which was due for repayment on April 19, 2001, and subsequently extended to January 19, 2002. For accounting purposes, the set-up fee was recognized in the financial statements as a loan. ePhone also had the right to convert into an equivalent amount of shares of the Company based on a price of $0.25 per share in the event the set-up fee was not repaid. The market value of the Company's shares of common stock at the date of signing the marketing agreement was less than the conversion price. Therefore, there was no embedded beneficial conversion option. Each share would also have a non-detachable warrant to convert into common stock at a price of $0.75.

3. CONVERTIBLE DEBT (continued)

The Company was not in a position to repay the set-up fee on January 19, 2003, and all debt was converted for 2,000,000 common shares on April 4, 2003.

4. NOTE PAYABLE

On October 4, 2000, the Company raised $150,000 through a subscription of 10% unsecured promissory notes, which were due October 4, 2001. The capital amount of the notes shall be payable on demand in whole or in part in the event that the Company makes a distribution of its securities worth at least $500,000 by private placement or otherwise. The notes are convertible into shares of common stock. The notes also include a non-detachable warrant to purchase one share of common stock of the Company with a par value of $0.001 at a price of $1.00 per share. The fair value of the warrants at the issuance date was nominal. The market value of the Company's shares of common stock at the subscription date was less than the conversion price. Therefore, there was no embedded beneficial conversion option.

(Stated in United States Dollars)

The Company was not in a position to repay the promissory notes on October 4, 2002 and the promissory note was converted into 300,000 common shares on April 4, 2003.

5. CAPITAL STOCK

The number of outstanding shares of the Company as at June 30, 2003 is computed as follows:

	Common	Preferred
Outstanding Shares as at June 30, 2000	20,750,000	2,500,000
Shares issued in exchange for legal fees	1,403,333	-
Options exercised in exchange for marketing costs	30,000	

(Stated in United States Dollars)

Options exercised	430,000	-
Promissory notes converted to common stock	3,851,500	-
Common stock subscribed	1,000,004	-
Preferred stock to be converted to common stock	3,750,000	(1,250,000)
Outstanding Shares as at June 30, 2001	31,214,837	1,250,000
Shares issued in exchange for equipment	146,000	
Options exercised	475,000	
Shares issued to DMD CANADA shareholders	67,000,000	
Shares issued on conversion of debt	1,186,668	
Outstanding Shares as at June 30, 2002	100,022,505	1,250,000
Shares issued in exchange for consulting fees	23,357,826	
Shares issued in exchange for legal fees	500,000	
Reverse stock split: 175 shares for one share	(123,172,444)	
Share issuance on conversion of debt	2,300,000	
Share issuance on exchange for consulting fees	3,021,800	
Reverse stock split: 20 shares for one share	(5,728,203)	
Outstanding shares as at June 30, 2003	301,484	1,250,000

5. CAPITAL STOCK (continued)

The Company's authorized capital stock consists of 950,000,000 shares of common stock and 25,000,000 shares of preferred stock each with a par value of $0.001 per share. The Company is in the process of increasing the authorized capital for its common shares. The 1,250,000 shares of issued preferred stock are voting, convertible as described further below to shares of common stock on a 3 for 1 basis at the option of the holder based on certain revenue targets being met and participate equally as to dividends with each share of common stock. If after five years the performance criteria have not been met, the remaining shares of preferred stock are convertible into one half of a share of common stock. Any dividends declared and paid by the Company would be declared and paid in United States dollars.

The remaining 1,250,000 shares of preferred stock can be converted into 3,750,000 shares of common stock when the Company reaches $7,000,000 Canadian in cumulative revenue. For accounting purposes, the conversion of the shares of preferred stock includes both a non-performance element (equal to one half of the share of preferred stock converted) and a performance element (equal to the balance). If and when additional shares of common stock are issued based upon meeting the performance criteria, the fair value of any such additional shares of common stock will be recognized as a deemed distribution against equity in the period when the performance criteria is met. Until these targets are met, the shares of preferred stock remain outstanding with all rights and restrictions continuing.

6. STOCK OPTIONS

At June 30, 2003, the Company has two stock-based compensation plans, which are described below. The Company accounts for the fair value of its grants under these plans in accordance with FASB Statement 123. The compensation cost that has been charged against income for those plans was $Nil for 2003 (2002 - $Nil).

6. STOCK OPTIONS (continued)

In 1997, the Company adopted a Compensatory Stock Option Plan (the "CSO Plan") and an Employee Stock Compensation Plan (the "ESC Plan") pursuant to which the Company's Board of Directors may grant stock options to employees, consultants, advisors or directors of the Company. The CSO Plan authorizes grants of options to purchase up to 1,500,000 shares of authorized but unissued common stock and the ECS Plan authorizes grants of options to purchase up to 1,000,000 shares of authorized but unissued common stock. Stock options are granted under the CSO Plan with an exercise price equal to or greater than 100% of the stock's fair market value at the date of grant and the vesting period is limited to no more than 10 years.

(Stated in United States Dollars)

Pursuant to the Company's ESC Plan and CSO plan, the Company has no outstanding options.

No stock options were issued during the fiscal year.

The following table summarizes the activity for stock options granted, exercised and expired during the year:

	Number of Options	Weighted-Average Exercise Price
Outstanding (held by 13 optionees) as at June 30, 2000 (2,097,000 exercisable at an average price of $0.47)	8,642,000	$ 0.45
Granted - employees	160,000	0.41
Exercised	(460,000)	0.15
Expired or forfeited	(4,675,000)	0.50
Outstanding (held by 9 optionees) as at June 30, 2001	3,667,000	0.42
Granted - employees	-	-
Exercised	(475,000)	0.0001
Expired or forfeited	(3,032,000)	0.47
Outstanding (held by 3 optionees) as at June 30, 2002	160,000	0.40
Expired or forfeited	160,000	0.40
Outstanding as at June 30, 2003	-	$ -

(Stated in United States Dollars)

7. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at June 30, 2003 and 2002. The estimated fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. These estimates, although based on the relevant market information about the financial instrument, are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision.

Changes in assumptions could significantly affect the estimates.

	Carrying Amount 2003	Fair Value 2003
Financial Assets		
Investment in 908651 Alberta Ltd.	$ 210,000	$ 210,000
Financial Liabilities		
Accounts payable and accrued liabilities	316,572	316,572

7. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

	Carrying Amount 2002	Fair Value 2002
Financial Assets		
Investment in 908651 Alberta Ltd.	$ 210,000	$ 210,000
Financial Liabilities		
Accounts payable and accrued liabilities	212,572	212,572
Due to officers and directors	104,000	104,000
Note payable	150,000	150,000
Convertible debt	500,000	500,000

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

(i) Accounts payable and accrued liabilities, and note payable

The carrying amounts approximate fair value because of the short term to maturity of these instruments.

(ii) Convertible debt

The fair value is estimated by discounting the future cash flows at rates currently offered to the Company for similar debt instruments of comparable maturity by the Company's bankers.

(iii) Due to officers and directors and advances from ultimate shareholders

Imputed interest computed at comparable market rates on the interest free advances from ultimate shareholders is not considered to be material to the financial statements. Consequently, the financial statements do not include a charge for imputed interest on the interest free advances and the fair value is considered to be comparable to the carrying value.

(Stated in United States Dollars)
June 30, 2003

8. BASIC NET LOSS PER SHARE

Basic net loss per share figures are calculated using the weighted average number of common shares outstanding computed on a daily basis. The effect of the conversion of the preferred shares on an if-converted basis and stock options has an anti-dilutive effect.

9. INCOME TAXES

As at June 30, 2003 the company had not filed income tax returns for the years ending 1999 through 2003. No income tax provision has been recorded for fiscal 2003.

10. NON-CASH FINANCING AND INVESTING ACTIVITIES

During the year, the Company issued 2,300,000 common shares in exchange of $650,000 convertible debt and note payable.