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CYPOST CORP
Form 10QSB
November 14, 2002

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

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the quarterly period ended: September 30, 2002

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

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

98-0178674

(State or other jurisdiction of
incorporation or organization)

(IRS Employer
Identification Number)

900-1281 West Georgia St., Vancouver, British Columbia, Canada V6E 3J7

(Address of Principal Executive Offices) (Zip Code)

(604) 904-4422

(Issuer's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 30,392,025 as of September 30, 2002.

Transitional Small Business Disclosure Format (check one): Yes No

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and pursuant to the rules and regulations of the Securities and Exchange Commission ("Commission"). While these statements reflect all normal recurring adjustments which are, in the opinion of management, necessary for fair presentation of the results of the interim period, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the financial statements and footnotes thereto, which are included in the Company's Annual Report on Form 10-KSB, as amended, for the fiscal year ended December 31, 2001, previously filed with the Commission.

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

CYPOST CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2002

| | 2002 |
|--|--------------|
| | ----- |
| | (Unaudited) |
| ASSETS | |
| CURRENT ASSETS | |
| CASH | \$ 11,482 |
| ACCOUNTS RECEIVABLE, NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS of \$40,274 | 103,804 |
| PREPAID EXPENSES | 60,632 |
| NOTE RECEIVABLE & ACCRUED INTEREST - RELATED PARTY | 40,931 |
| | ----- |
| TOTAL CURRENT ASSETS | 216,849 |
| PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION | 361,073 |
| INTANGIBLES | |
| CUSTOMER LISTS | 3,710,470 |
| GOODWILL | 1,832,543 |
| LESS ACCUMULATED AMORTIZATION | (5,045,321) |
| | ----- |
| INTANGIBLES, NET | 497,692 |
| DEPOSITS | 98,247 |
| OTHER ASSETS | 8,552 |
| | ----- |
| | \$ 1,182,413 |
| | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | |
| CURRENT LIABILITIES | |

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| | |
|--|--------------|
| ACCOUNTS PAYABLE & ACCRUED LIABILITIES | 1,678,162 |
| DUE TO BANK | 26,501 |
| DEFERRED REVENUE | 410,124 |
| | ----- |
| TOTAL CURRENT LIABILITIES | 2,114,787 |
| | ----- |
| COMMITMENTS AND CONTINGENCIES (NOTE 6) | |
| STOCKHOLDERS' EQUITY (DEFICIT) | |
| SHARE CAPITAL | |
| AUTHORIZED | |
| 5,000,000 PREFERRED STOCK WITH A PAR VALUE OF \$.001 | |
| 200,000,000 COMMON STOCK WITH A PAR VAUE OF \$.001 | |
| ISSUED AND OUTSTANDING | |
| PREFERRED STOCK - NONE | - |
| COMMON STOCK 30,391,993 | 30,393 |
| PAID-IN CAPITAL | 14,778,733 |
| ACCUMULATED DEFICIT | (15,745,881) |
| CURRENCY TRANSLATION ADJUSTMENT | 4,381 |
| | ----- |
| TOTAL STOCKHOLDERS' EQUITY (DEFICIT) | (932,374) |
| | ----- |
| | \$ 1,182,413 |
| | ===== |

See accompanying notes to the consolidated condensed financial statements.

CYPOST CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001 (UNAUDITED)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------------------|-------------------------------------|------------|------------------------------------|--------------|
| | 2002 | 2001 | 2002 | 2001 |
| | ----- | ----- | ----- | ----- |
| REVENUE | \$ 716,798 | \$ 856,644 | \$ 2,265,998 | \$ 2,875,000 |
| DIRECT COSTS | 264,250 | 545,458 | 1,124,358 | 1,458,000 |
| | ----- | ----- | ----- | ----- |
| | 452,548 | 311,186 | 1,141,640 | 1,417,000 |
| | ----- | ----- | ----- | ----- |
| EXPENSES | | | | |
| SELLING, GENERAL AND ADMINISTRATIVE | 584,637 | 492,164 | 2,064,691 | 1,838,000 |
| AMORTIZATION AND DEPRECIATION | 320,381 | 517,122 | 1,053,577 | 1,584,000 |
| | ----- | ----- | ----- | ----- |
| | 905,018 | 1,009,286 | 3,118,268 | 3,422,000 |

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| | | | | |
|---|--------------|--------------|----------------|-------------|
| LOSS FROM OPERATIONS | (452,470) | (698,100) | (1,976,628) | (2,005,000) |
| OTHER INCOME (EXPENSE) | | | | |
| SETTLEMENT INCOME | - | 2,498,599 | - | 2,498,599 |
| IMPAIRMENT LOSS OF LONG LIVED ASSETS | 326 | - | (3,378) | |
| INTEREST EXPENSE, NET | 481 | (37,348) | 1,482 | (120,000) |
| TOTAL OTHER (EXPENSE) | 807 | 2,461,251 | (1,896) | 2,378,599 |
| NET INCOME (LOSS) | \$ (451,663) | \$ 1,763,151 | \$ (1,978,524) | \$ 372,914 |
| BASIC AND DILUTED INCOME (LOSS) PER SHARE | \$ (0.02) | \$ 0.08 | \$ (0.08) | \$ 0.01 |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | 25,609,384 | 21,559,493 | 24,417,222 | 21,558,000 |

See accompanying notes to the consolidated condensed financial statements.

CYPOST CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001
(UNAUDITED)

| | 2002 | 2001 |
|---|----------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| NET INCOME (LOSS) | \$ (1,978,524) | \$ 372,914 |
| Adjustments to reconcile net loss to cash used by operating activities: | | |
| Settlement Income | - | (2,498,599) |
| Amortization and depreciation | 1,053,577 | 1,584,583 |
| Bad debt expense | (36,131) | (2,361) |
| Interest (income) expense | (1,482) | 120,295 |
| Consulting fees offsetting note receivable | 17,750 | - |
| Impairment loss of long-live assets | 3,378 | - |
| Fair value of stock issued for services | 496,000 | 1,275 |
| Changes in assets and liabilities | | |
| Accounts receivable | 70,638 | (29,010) |
| Insurance receivable | - | 58,488 |
| Prepaid expenses | (14,650) | 76,169 |
| Deposits | (5,638) | 24,559 |
| Other assets | (69) | (3,186) |
| Accounts payable and accrued liabilities | 402,576 | 445,466 |
| Increase in Due to Bank | 26,501 | - |
| Deferred revenue | (38,424) | (145,744) |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | (4,498) | 4,849 |

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| | | |
|---|-----------|------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (52,987) | (72,871) |
| NET CASH USED IN INVESTING ACTIVITIES | (52,987) | (72,871) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Issuance of Common Stock | 250 | - |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 250 | - |
| EFFECT OF EXCHANGE RATE CHANGES | (4,407) | (27,606) |
| NET DECREASE IN CASH | (61,642) | (95,628) |
| CASH, BEGINNING OF YEAR | 73,124 | 250,631 |
| CASH, END OF PERIOD | \$ 11,482 | \$ 155,003 |
| OTHER CASH INFORMATION | | |
| Interest paid | \$ - | \$ - |
| Taxes paid | \$ - | \$ - |

See accompanying notes to the consolidated condensed financial statements.

CYPOST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2002
(UNAUDITED)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

GOING CONCERN

These financial statements have been prepared on the basis of accounting principles applicable to a "going concern" which assume that CyPost Corporation (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 \$15.7 million for the period from inception September 5, 1997 to September 30, 2002, has a working capital deficit of approximately \$1.9 million at September 30, 2002, 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

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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 consolidated financial statements do not reflect adjustments that would be necessary if the Company were 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 doubts 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.

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.

BASIS OF PRESENTATION

The interim consolidated financial statements presented have been prepared by the Company without audit and, in the opinion of the management, reflect all adjustments of a normal recurring nature necessary for a fair statement of (a) the consolidated results of operations for the three and nine months ended September 30, 2002 and 2001, (b) the consolidated financial position at September 30, 2002 and (c) the consolidated cash flows for the nine months ended September 30, 2002 and 2001. Interim results are not necessarily indicative of results for the entire year ending December 31, 2002.

The consolidated financial statements and notes are condensed as permitted by Form 10-QSB and do not contain certain information included in the annual financial statements and notes of the Company. The consolidated financial statements and notes included herein should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-KSB.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements, actual results may differ from those estimates.

Dollar values in the accompanying consolidated financial statements are expressed in U.S. Dollars, unless indicated otherwise. On September 30, 2002 one Canadian Dollar ("CDN") was exchangeable for .63360 U.S. Dollars.

RECLASSIFICATIONS

Certain reclassifications of 2001 amounts have been made to conform to the presentation as of September 30, 2002.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Accounting for Goodwill and Other Intangibles." Under SFAS 142 goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable

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intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. Companies are required to immediately adopt the amortization provisions of SFAS 142 as it relates to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, companies are required to adopt SFAS 142 in their fiscal year beginning after December 15, 2001. The Company adopted SFAS 142 in accordance with the provisions of the statement. SFAS 142 may not be applied retroactively.

The Company's goodwill balance prior to the adoption of SFAS 142 was being amortized over three years. The impact of the adoption as it relates to existing goodwill reduced amortization expense by \$436,884 for the nine month ended September 30, 2002.

The Company amortizes its' customer list over three years.

As of September 30, 2002, Goodwill and other intangibles consisted of the following:

| | | |
|------------------------------------|----|---------|
| Goodwill, net of amortization | \$ | 453,895 |
| Customer list, net of amortization | | 43,797 |
| | | ----- |
| | \$ | 497,692 |
| | | ----- |

3. COMPREHENSIVE INCOME

The following table reflects the calculation of the Company's comprehensive income for the three and nine months ended September 30, 2002 and 2001:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-------------|------------------------------------|------------|
| | 2002 | 2001 | 2002 | 2001 |
| Net Gain (Loss) | \$ (451,663) | \$1,763,151 | \$(1,978,524) | \$ 372,914 |
| Other Comprehensive Gain (Loss) | | | | |
| Foreign currency translation gain (loss) | 42,472 | 9,220 | (4,407) | (27,606) |
| Comprehensive Gain (Loss) | \$ (409,191) | \$1,772,371 | \$(1,982,931) | \$ 345,308 |
| | ===== | ===== | ===== | ===== |

4. NET LOSS PER SHARE

SFAS 128 requires dual presentation of basis and diluted "Earnings per Share" ("EPS"). Basic EPS represents the weighted average number of shares outstanding divided into net income during the reported period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. However, the Company has not included potential common stock in the calculation, as such inclusion would have an anti-dilutive effect.

5. SHARE CAPITAL

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AUTHORIZED STOCK

Due to an amendment to the Company's article of incorporation on January 29, 2002, the Company is now authorized to issue:

(a) 200,000,000 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

ISSUANCE OF SHARES

On April 26, 2002, the Company issued 1,700,000 shares of its common stock in an aggregate amount of \$170,000 to two consultants and one lawyer at the closing price of \$0.10 per share in consideration for their providing consulting and legal services to the Company.

On July 23, 2002 the Board of Directors of the Company granted 2,300,000 shares of its common stock in an aggregate amount of \$230,000 to two consultants and two lawyers at the price of \$0.10 per share in consideration for their providing consulting and legal services to the Company. These shares were issued on September 19, 2002.

On August 5, 2002 the Board of Directors of the Company adopted the 2002 Stock Reward Plan, whereby the Board may grant up to 5million shares of common stock to employees, officers, directors, key consultants and advisors. The Board granted 3,200,000 shares of its common stock in an aggregate amount of \$96,000 to six employees and one Director at the price of \$0.03 per share in consideration for their providing their services to the Company. These shares were issued on September 19, 2002.

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. These shares were issued on August 5, 2002, however for purposes of financial statement presentation, all shares were deemed issued as of March 31, 2002. As of September 30, 2002 all vested and unvested options for Mr. Adams and Ms. Allan have expired or have been cancelled.

6. COMMITMENTS AND CONTIGENCIES

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

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\$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

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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.

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

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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 sum 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 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.

DEPENDENCE ON KEY SUPPLIERS

In July 2002 WorldCom, Inc., the parent company of WorldCom Canada Ltd., filed for protection under Chapter 11, of the United States tax code. Chapter 11 reorganization is not a liquidation, rather a medium for financially troubled United States companies to restructure their debt and resume operations.

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WorldCom Canada Ltd. was not a part of this filing, nor have they filed for bankruptcy protection in the interim. The Company currently depends on the WorldCom Canada Ltd.'s infrastructure for a significant portion of its revenue.

The Company has not experienced any disruption of service and does not anticipate any service disruptions in the future as a result of any reorganization of WorldCom Canada Ltd's parent company. Notwithstanding the aforementioned, the Company has had preliminary discussions with other providers as a contingency.

7. RELATED PARTY TRANSACTIONS

On November 1, 2001 the Company entered into a consulting agreement with Roundtable Strategies Ltd., a corporation owned by J. Thomas W. Johnston who is serving as a Director and Chairman of the Company, for a one year period in the amount of \$9,000 minimum per month for providing certain services to the Company.

As of September 30, 2002, pursuant to this agreement, the Company owes approximately \$102,800 to Roundtable Strategies Ltd., which is included in accounts payable and accrued liabilities.

The agreement also provided Roundtable Strategies Ltd. an option to purchase 1,000,000 shares of the Company's common stock. The exercise price of each option is \$.10 per share and exercisable for a term of one year after the termination of the agreement.

The agreement contains an automatic renewal term of the same length except where either party has expressed in writing the desire to terminate the agreement. In August 2002 the Company notified Roundtable Strategies Ltd. that it would not renew the agreement.

On August 12, 2002 the option portion of the agreement was rescinded and deemed null and void. Also, Mr. Johnston has agreed to defer payment on the balance owing to Roundtable Strategies Ltd. until such time as the Company's cash flow permits.

ITEM 2. 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

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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.

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 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 expanding its Web hosting services.

The Company continues 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 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 expected to be consolidated into the Chatham facility by the end of Q4 2002.

- o Billing and Collections. In 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 by the end of Q4 2002. To facilitate this project, the Company purchased Rodopi billing software and is currently deploying the system across all its' ISP's.

- 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.

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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 the end of Q4 2002. Other ISP Services such as e-mail and user authentication (i.e., customer security) will continue to be handled from regional data centers. Currently, all new Web hosting customers, wherever located geographically, are hosted from Toronto.

The Company is also considering implementing other consolidated services to achieve greater efficiency and cost savings.

Results of Operations for the Three Months Ended September 30, 2002 Compared to the Three Months Ended September 30, 2001

All of the Company's revenue was earned from its ISP operations during the three months ended September 30, 2002. These revenues are attributable entirely to the operations of the Company's ISP businesses (Hermes Net Solutions, Inc. and NetRover Inc., and the Connect Northwest Internet Services and Internet Arena DBAs) which the Company acquired beginning late in the second quarter of 1999. The Company generated net sales of \$716,798 for the three months ended September 30, 2002 compared to \$856,644 for the three months ended September 30, 2001. This decrease is due to a decrease in marketing related activities, and the prolonged softening of technology related sector spending.

Direct costs, which consist primarily of telecommunications charges in respect of providing Internet connection services to customers, of \$264,250, were incurred for the three months ended September 30, 2002, compared to \$545,458 for the three months ended September 30, 2001. This decrease results primarily from having renegotiated or terminated certain telecommunication agreements, a decrease in overall usage, and the accrual of certain credits to be received from certain telecommunication providers.

Selling, general and administrative expenses were \$584,637 for the three months ended September 30, 2002 compared to \$492,164 for the three months ended September 30, 2001. This increase results primarily from an increase in professional fees and salaries and benefits including securities issued under our 2002 Stock Award Plan; offset by a reduction in marketing related activities, office and general expenses.

Amortization and depreciation expenses were \$320,381 for the three months ended September 30, 2002, compared to \$517,122 for the three months ended September 30, 2001. This decrease is primarily due to the Company conforming to the new Statement of Financial Accounting Standards No. 142, Goodwill and Other

Intangible Assets (SFAS 142) provisions issued by the Financial Accounting Standards Board. The provisions of this Statement are required to be applied starting with fiscal years beginning after December 15, 2001. The Company has determined that the net goodwill associated with these assets in the amount of \$453,895 were not impaired. As a result, the Company did not amortize these assets for the period ending September 30, 2002. Under the old rules, the Company would have amortized \$131,571 for the three months ended September 30, 2002.

The Company incurred net interest expense of \$(481) for the three months ended September 30, 2002, compared to \$37,348 for the three months ended September 30, 2001. This decrease is primarily the result of the Company not borrowing any additional funds during the three months ended September 30, 2002; and pursuant to the September 20, 2001 Montalban Settlement Agreement, the Blue Heron loan balance was canceled and deemed to have been paid in full.

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The Company had a net loss of \$451,663, or \$.02 per share, for the three months ended September 30, 2002, compared to a net income of \$1,763,151, or \$.08 per share, for the three months ended September 30, 2001. The increase in net loss was primarily a result of a decrease in other revenue due to a recovery of short swing profits from a principal shareholder as well as decrease in revenues and an increase in selling, general and administrative expense, offset by the decrease in direct costs, amortization and depreciation of the assets and interest expense.

Results of Operations for the Nine Months Ended September 30, 2002 Compared to the Nine Months Ended September 30, 2001

All of the Company's revenue was earned from its ISP operations during the nine months ended September 30, 2002. These revenues are attributable entirely to the operations of the Company's ISP businesses (Hermes Net Solutions, Inc. and NetRover Inc., and the Connect Northwest Internet Services and Internet Arena DBAs) which the Company acquired beginning late in the second quarter of 1999. The Company generated net sales of \$2,265,998 for the nine months ended September 30, 2002 compared to \$2,875,843 for the nine months ended September 30, 2001. This decrease is due to a decrease in marketing related activities, and the prolonged softening of technology related sector spending.

Direct costs, which consist primarily of telecommunications charges in respect of providing Internet connection services to customers, of \$1,124,358, were incurred for the nine months ended September 30, 2002, compared to \$1,458,487 for the nine months ended September 30, 2001. This decrease results primarily from having renegotiated or terminated certain telecommunication agreements, a decrease in overall usage, and the accrual of certain credits to be received from certain telecommunication providers.

Selling, general and administrative expenses were \$2,064,691 for the nine months ended September 30, 2002 compared to \$1,838,163 for the nine months ended September 30, 2001. This increase results primarily from an increase in

professional fees and salaries and benefits including securities issued under our 2002 Stock Award Plan; offset by a reduction in marketing related activities, office and general expenses.

Amortization and depreciation expenses were \$1,053,577 for the nine months ended September 30, 2002, compared to \$1,584,583 for the nine months ended September 30, 2001. This decrease is primarily due to the Company conforming to the new Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142) provisions issued by the Financial Accounting Standards Board. The provisions of this Statement are required to be applied starting with fiscal years beginning after December 15, 2001. The Company has determined that the net goodwill associated with these assets in the amount of \$453,895 were not impaired. As a result, the Company did not amortize these assets for the period ending September 30, 2002. Under the old rules, the Company would have amortized \$436,884 for the nine months ended September 30, 2002.

The Company incurred net interest expense of \$(1,482) for the nine months ended September 30, 2002, compared to \$120,295 for the nine months ended September 30, 2001. This decrease is primarily the result of the Company not borrowing any additional funds during the nine months ended September 30, 2002; and pursuant to the September 20, 2001 Montalban Settlement Agreement, the Blue Heron loan balance was canceled and deemed to have been paid in full.

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The Company had a net loss of \$1,978,524, or \$.08 per share, for the nine months ended September 30, 2002, compared to a net income of \$372,914, or \$.02 per share, for the nine months ended September 30, 2001. The increase in net loss was primarily a result of a decrease in other revenue due to a recovery of short swing profits from a principal shareholder as well as decrease in revenues and an increase in selling, general and administrative expense, offset by the decrease in direct costs, amortization and depreciation of the assets and interest expense.

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 nine months ended September 30, 2002 of \$1,978,524, compared to a net income for the nine months ended September 30, 2001 of \$372,914. For the nine months ended September 30, 2002, the Company had a working capital deficit of \$1,897,938, 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 accrued interest of \$2,720 on its' note receivable as of September 30, 2002.

The Company's cash position during the nine months ended September 30, 2002 was \$11,482, compared to \$73,124 on December 31, 2001. This decrease is primarily due to a decrease in revenues during the nine months ended September 30, 2002.

The Company's net cash provided by (used in) operating activities totaled \$(4,498) during the nine months ended September 30, 2002, compared to \$4,849 during the nine months ended September 30, 2001. This decrease is primarily due to a decrease in revenues during the nine months ended September 30, 2000.

The Company's net cash used in investing activities totaled \$52,987 during the nine months ended September 30, 2002, compared to \$72,871 during the nine months ended September 30, 2001. This decrease is primarily due to the Company making fewer purchases of property, plant and equipment in order to conserve its available cash during the nine months ended September 30, 2002.

The Company received \$250 from the issuance of Common Stock during the nine months ended September 30, 2002. The Company did not have any proceeds from financing activities during the nine months ended September 30, 2001.

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 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 support current operations and 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

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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.

Dependence on Key Suppliers

Our success depends upon the capacity, scalability, reliability and security of our network infrastructure, including the telecommunications capacity leased from WorldCom Canada Ltd. 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. We cannot be certain that telecommunication capacity will be available to us on favorable terms when required, or at all. If we are unable to obtain sufficient capacity when needed, we could be forced to alter our business strategy, delay or abandon some of our business aspects or sell assets. Any of these events could have a material adverse effect on our business, financial condition and results of operations.

In July 2002 WorldCom, Inc., the parent company of WorldCom Canada Ltd., filed for protection under Chapter 11, of the United States tax code. Chapter 11 reorganization is not a liquidation, rather a medium for financially troubled United States companies to restructure their debt and resume operations.

WorldCom Canada Ltd. was not a part of this filing, nor have they filed for bankruptcy protection in the interim. The Company currently depends on the WorldCom Canada Ltd.'s infrastructure for a significant portion of its revenue.

The Company has not experienced any disruption of service and does not anticipate any service disruptions in the future as a result of any reorganization of Worldcom Canada Ltd's parent company. Notwithstanding the aforementioned, the Company has had preliminary discussions with other providers as a contingency.

Critical Accounting Policies

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We believe the following critical accounting policies affect our more significant estimates and assumptions used in the preparation of our financial statements. Our significant estimates and assumptions are reviewed and any required adjustments are recorded on a quarterly basis.

Carrying value of the intangible asset, customer list. As of September 30, 2002, the net book value of the customer list was \$43,797. Management has estimated the useful life of this intangible asset to be three years, however we have no means of identifying specific customers acquired as a result of the

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purchased customer list. Should revenues associated with the customer lists decrease, this asset could become partially or fully impaired.

Carrying value of the intangible asset, goodwill. As of September 30, 2002, the net book value of goodwill was \$453,895. Management reviews the un-amortized goodwill associated with its various acquisitions, comparing the un-amortized

goodwill to the estimated current acquisition costs. Should the estimated current acquisition costs decrease, this asset could become partially or fully impaired.

ITEM 3. CONTROLS AND PROCEDURES

Within 90 days prior to the date of filing of this report, we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer (who also effectively serves as the Principal Financial Officer), of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer concluded that our disclosure controls and procedures are effective for gathering, analyzing and disclosing the information we are required to disclose in the reports we file under the Securities Exchange Act of 1934, within the time periods specified in the SEC's rules and forms. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of this evaluation.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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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

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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.

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

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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 sum 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 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.

ITEM 2. CHANGES IN SECURITIES

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 March 31, 2002, the Company reflected the issuance of 2,500 shares of its common stock in an aggregate amount of \$250 to Mr. Robert Adams at \$0.10 per share pursuant to a stock option agreement. These shares were issued on August 5, 2002, however for purposes of financial statement presentation, all shares were deemed issued as of March 31, 2002. As of September 30, 2002 all vested and unvested options for Mr. Adams and Ms. Allan have expired or have been cancelled.

On July 23, 2002 the Board of Directors of the Company granted 2,300,000 shares of its common stock in an aggregate amount of \$230,000 to two consultants and two lawyers at the price of \$0.10 per share in consideration for their providing consulting and legal services to the Company. These shares were issued on

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September 19, 2002.

On August 5, 2002 the Board of Directors of the Company adopted the 2002 Stock Reward Plan, whereby the Board may grant up to 5 million shares of common stock to employees, officers, directors, key consultants and advisors. The Board granted 3,200,000 shares of its common stock in an aggregate amount of \$96,000 to six employees and one Director at the price of \$0.03 per share in consideration for their providing their services to the Company. These shares were issued on September 19, 2002.

ITEM 5. OTHER INFORMATION

RELATED PARTY TRANSACTIONS

On November 1, 2001 the Company entered into a consulting agreement with Roundtable Strategies Ltd., a corporation owned by J. Thomas W. Johnston who is serving as a Director and Chairman of the Company, for a one year period in the amount of \$9,000 minimum per month for providing certain services to the Company.

As of September 30, 2002, pursuant to this agreement, the Company owes approximately \$102,800 to Roundtable Strategies Ltd., which is included in accounts payable and accrued liabilities.

The agreement also provided Roundtable Strategies Ltd. an option to purchase 1,000,000 shares of the Company's common stock. The exercise price of each option is \$.10 per share and exercisable for a term of one year after the termination of the agreement.

The agreement contains an automatic renewal term of the same length except where either party has expressed in writing the desire to terminate the agreement. In August 2002 the Company notified Roundtable Strategies Ltd. that it would not renew the agreement.

On August 12, 2002 the option portion of the agreement was rescinded and deemed null and void. Also, Mr. Johnston has agreed to defer payment on the balance owing to Roundtable Strategies Ltd. until such time as the Company's cash flow permits.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits Index

99.1 Sarbanes-Oxley Act Exhibit

(b) Reports on Form 8-K

On October 31, 2002 the Company filed an 8-K notifying the SEC that there was a Change in Auditors.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the

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undersigned, thereunto duly authorized.

CYPOST CORPORATION

By: /s/ Javan Khazali

Javan Khazali
Chief Executive Officer
(Principal Financial Officer)

DATE: November 14, 2002

CERTIFICATIONS

I, Javan Khazali, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of CyPost Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact, or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial position, results of operations, and cash flows of the issuer as of, and for, the periods presented in this quarterly report.
4. I am responsible for establishing and maintaining disclosure controls and procedures for the issuer and have:
 - (i) Designed such disclosure controls and procedures to ensure that material information relating to the issuer is made known to me, particularly during the period in which the periodic reports are being prepared;
 - (ii) Evaluated the effectiveness of the issuer's disclosure controls and procedures as of September 30, 2002; and
 - (iii) Presented in the report our conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;
5. I have disclosed, based on my most recent evaluation, to the issuer's auditors and the audit committee of the board of directors (or persons fulfilling the equivalent function):
 - (i) All significant deficiencies in the design or operation of internal controls which could adversely affect the issuer's ability to record, process, summarize and report financial data and have identified for the issuer's auditors any material weaknesses in internal controls (none were so noted); and
 - (ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal controls (none were so noted); and

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6. I have indicated in the report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Javan Khazali

President, CEO, and Principal Financial Officer