



British Columbia Securities Commission

QUARTERLY AND YEAR END REPORT

BC FORM 51-901F

(previously Form 61)

Freedom of Information and Protection of Privacy Act: The personal information requested on this form is collected under the authority of and used for the purpose of administering the *Securities Act*. Questions about the collection or use of this information can be directed to the Supervisor, Financial Reporting (604-899-6729), PO Box 10142, Pacific Centre, 701 West Georgia Street, Vancouver BC V7Y 1L2. Toll Free in British Columbia 1-800-373-6393

ISSUER DETAILS		FOR YEAR ENDED			DATE OF REPORT		
NAME OF ISSUER					Y M D		
ON-TRACK LEARNING SYSTEMS LTD. (formerly Marquette Capital Corp.)		03 05 31			03 10 23		
ISSUER ADDRESS							
Suite #1600 – 650 West Georgia Street							
CITY/	PROVINCE	POSTAL CODE	ISSUER FAX NO.	ISSUER TELEPHONE NO.			
Vancouver	BC	V6B 4N7	604-683-0646	604-683-0020			
CONTACT PERSON		CONTACT'S POSITION			CONTACT TELEPHONE NO.		
Grace Tam		Accountant			604-683-0020		
CONTACT EMAIL ADDRESS		WEB SITE ADDRESS					
gtam@on-track.com		www.on-track.com					

CERTIFICATE

The three schedules required to complete this Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Report will be provided to any shareholder who requests it.

DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED		
		Y	M	D
"Russ Rossi"	Russ Rossi	03	10	23
DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED		
		Y	M	D
"Jim Rosevear"	Jim Rosevear	03	10	23

ON-TRACK LEARNING SYSTEMS LTD.
(formerly Marquette Capital Corp.)
FORM 51-901F – QUARTERLY AND YEAR END REPORT
MAY 31, 2003

SCHEDULE A: FINANCIAL INFORMATION

See attached audited consolidated financial statements for the year ended May, 31 2003

SCHEDULE B: SUPPLEMENTARY INFORMATION

1. Analysis of expenses and deferred costs

See attached audited consolidated financial statements for the year ended May 31, 2003

2. Related party transactions

See attached audited consolidated financial statements for the year ended May 31, 2003

3. Summary of securities issued and options granted during the year

a) Summary of securities issued during the year:

Common shares of the Company at January 9, 2003	2,872,500	-
Common shares of On-Track at January 9, 2003	(1,030)	-
Pursuant to business combination	7,210,000	125,960
Settlement of shareholder loan	479,378	359,534
Private placement	770,000	385,000
Settlement of amounts in dispute	553,000	275,000
Settlement of loan payable	660,000	330,000
Finder's fee pursuant to business combination	350,000	-
Exercise of stock options	205,000	41,000

b) Summary of stock options granted during the year:

During the year ended May 31, 2003, the Company adopted a stock option plan (the "Plan") to grant options to employees, officers, directors and consultants of the Company. The Plan reserves for issuance up to 1,313,750 shares of the Company. The board of directors of the Company shall determine the exercise price, term and vesting provision of options granted. Under the Plan, the exercise price of each option may not be less than the market price of the Company's shares at the date of grant. Options granted under the Plan will have a term not to exceed five years and may be subject to vesting provisions as determined by the board, provided that vesting shall occur no faster than 1/12th quarterly.

During the current year, the Company granted 655,000 stock options with an exercise price of \$0.40 per share to a significant shareholder who is a director and the president of the Company. These options have a three year term and vested upon issuance.

ON-TRACK LEARNING SYSTEMS LTD.
(formerly Marquette Capital Corp.)
FORM 51-901F – QUARTERLY AND YEAR END REPORT
MAY 31, 2003

SCHEDULE B: SUPPLEMENTARY INFORMATION (cont'd...)

4. Summary of securities as at the end of the reporting period

a) Description of authorized share capital including number of shares of each class, dividend rates on preferred shares and whether or not cumulative, redemption and conversion provisions:

See attached audited consolidated financial statements for the year ended May 31, 2003

b) Number and recorded value for shares issued and outstanding:

See attached audited consolidated financial statements for the year ended May 31, 2003

c) Description of options, warrants and convertible securities outstanding, including number or amount, exercise or conversion price and expiry date, and any recorded value:

As at May 31, 2003, stock options were outstanding enabling holders to acquire the following number of shares:

Number of Shares	Exercise Price	Expiry Date
655,000	\$ 0.40	January 10, 2005

At May 31, 2003, warrants were outstanding enabling holders to acquire the following number of shares:

Number of Shares	Exercise Price	Expiry Date
50,000	\$ 0.50	July 18, 2003
385,000	1.00	January 9, 2004

d) Number of shares in each class of shares subject to escrow or pooling arrangements:

As at May 31, 2003, 8,589,378 common shares of the Company are subject to an escrow agreement and may not be transferred, assigned or otherwise dealt with without the consent of the regulatory body having jurisdiction thereon. The common shares held in escrow will be released over three and six year periods.

	Number of Shares	Exercise Price	Expiry Date
Stock Options	655,000	\$ 0.40	Jan 8, 2003
Stock options	205,000	\$ 0.20	May 23, 2006

ON-TRACK LEARNING SYSTEMS LTD.

(formerly Marquette Capital Corp.)

FORM 51-901F – QUARTERLY AND YEAR END REPORT

MAY 31, 2003

SCHEDULE B: SUPPLEMENTARY INFORMATION (cont'd...)

5. Names of the directors and officers as at the date this report is signed and filed

Russ Rossi – Director and President
Jim Rosevear - Director and Secretary
Scott Friskey - Director
Deborah Diego – Director

SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS

Description of business

The Company was incorporated on September 15, 2000 under the provisions of the Company Act of British Columbia and is listed on the TSX Venture Exchange (“TSX-V”). The Company was classified as a Capital Pool Company as defined under the policies of the TSX-V until it completed its Qualifying Transaction.

On January 9, 2003, the Company acquired all the issued and outstanding shares of On-Track Computer Training Ltd. (“On-Track”) which served as the Company's Qualifying Transaction pursuant to the policies of the TSX-V. Following this transaction, the Company changed its name from Marquette Capital Corp. to On-Track Learning Systems Ltd.

The Company's principal business activity consists of providing computer training and consulting services.

On April 28, 2003, the Company entered into a letter of understanding with Blended Learning. (“BL”) whereby the Company intends to purchase all of the outstanding common shares of BL in exchange for the issuance of 8,000,000 shares of the Company. This transaction must be completed by July 2, 2003; otherwise, either party may cancel this agreement with seven days written notice to the other party. As at the date of this filing, written notification had not been sent by the Company or received from BL.

Discussion of operations and financial condition

During the year ended May 31, 2003, the Company incurred a loss of \$1,017,550 on revenues of \$1,699,305. Compared to last year, revenue is up by 28%. Among the more significant items making up this loss are: write offs totaling \$303,399, loss on settlement disputes totaling \$137,000, oracle expenses totaling 566,033 and accounting and legal totaling \$113,079.

The single largest expense item for the year was the \$566,033 charge to Oracle. Management feels that the relationship with Oracle is not profitable and therefore not beneficial. The partnership agreement with Oracle was not renewed in June 2003. The Company is now doing Oracle consulting without the Oracle partnership therefore without having to pay large fees to Oracle. This strategy should greatly reduce total expenses on future operations.

The write off of \$285,899 was for a receivable from On-Track UK. The company in UK is no longer in business and that amount was deemed to be uncollectable.

Over the last year management has been working to streamline the operations and improve the balance sheet position. Going public has been a costly and distracting, nevertheless some progress was made. Management recognizes that there is much more work to do and is focusing on profitability and growth in the “Learning Solutions” market.

ON-TRACK LEARNING SYSTEMS LTD.

(formerly Marquette Capital Corp.)

FORM 51-901F – QUARTERLY AND YEAR END REPORT

MAY 31, 2003

SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS (cont'd...)**Subsequent events**

The following events occurred subsequent to May 31, 2003:

- a) On July 15, 2003, the Company agreed to settle the amount due to Secureview Systems Ltd. by way of the issuance of 1,676,410 common shares at a value of \$0.10 per share. On October 6, 2003, the 1,676,410 common shares were issued as follows: i) 400,000 common shares to Secureview Systems Ltd.; and, ii) 1,276,410 common shares to Quest Ventures Corp. Concurrently, Quest Ventures Corp. released the Company from the guarantee of the amount due to Secureview Systems Ltd.
- b) On September 9, 2003, the Company settled its obligation to issue shares with the third party by issuing 250,000 common shares at a value of \$0.10 per share.
- c) On September 10, 2003, the Company entered into an agreement with a significant shareholder who is a director and the president of the Company to amend certain provisions of the demand loan. Specifically, the interest rate was amended to one percent per month calculated and compounded monthly for all new advances on or after June 1, 2003.
- d) On September 11, 2003, the Company repriced 655,000 stock options from an exercise price of \$0.40 per share to \$0.10 per share. Immediately thereafter, the 655,000 stock options were exercised.
- e) On October 1, 2003, the Company entered into an agreement with a shareholder who is a director and the president of the Company to combine all amounts due from and due to related parties into one loan agreement.
- f) On October 15, 2003, the Company entered into a letter of intent with VP Group Media Ltd. (“VP Group”) whereby the Company intends to purchase all of the outstanding common shares of VP Group in exchange for cash and shares of the Company. This transaction must be completed by December 23, 2003; otherwise, either party may cancel this agreement with seven days written notice to the other party.

Financings, Principal Purposes and Milestones

The Company completed a non-brokered private placement consisting of 770,000 units issued at a price of \$0.50 per unit for gross proceeds of \$385,000. Each unit consisted of one common share and one-half share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one additional common share at a price of \$1.00 per share for a period of one year from the date of the completion of the acquisition of On-Track.

ON-TRACK LEARNING SYSTEMS LTD.

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FORM 51-901F – QUARTERLY AND YEAR END REPORT

MAY 31, 2003

SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS (cont'd...)

Liquidity and solvency

As at May 31, 2003, the Company has a working capital deficiency of \$552,991. This is a \$634,754 improvement over last year. We have been able to improve our working capital position through shares for debt conversions and improving the efficiency of operations. As discussed in subsequent events, we have done further debt for share conversions and are continuing to improve the working capital position on our balance sheet. Having said this, there is still more work to do and management is focusing on this objective.

The Company's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company's ability to continue as a going concern is dependent on completing equity financings, obtaining support from related parties or generating consistent profitable operations in the future. The Company's consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.



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ISSUER DETAILS		FOR QUARTER ENDED			DATE OF REPORT		
NAME OF ISSUER					Y	M	D
ON-TRACK LEARNING SYSTEMS LTD. (formerly Marquette Capital Corp.)		03	05	31	03	10	23
ISSUER ADDRESS							
1600 – 650 WEST GEORGIA STREET							
CITY/	PROVINCE	POSTAL CODE	ISSUER FAX NO.		ISSUER TELEPHONE NO.		
VANCOUVER	BC	V6B 4N7	604-683-0646		604-683-0020		
CONTACT PERSON		CONTACT'S POSITION			CONTACT TELEPHONE NO.		
RUSSELL ROSSI		DIRECTOR			604-683-0020		
CONTACT EMAIL ADDRESS				WEB SITE ADDRESS			

CERTIFICATE

The three schedules required to complete this Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Report will be provided to any shareholder who requests it.

DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED
		Y M D
DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED
		Y M D

ON-TRACK LEARNING SYSTEMS LTD.
(formerly Marquette Capital Corp.)

CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2003

AUDITORS' REPORT

To the Shareholders of
On-Track Learning Systems Ltd.
(formerly Marquette Capital Corp.)

We have audited the consolidated balance sheets of On-Track Learning Systems Ltd. (formerly Marquette Capital Corp.) as at May 31, 2003 and 2002 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. 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.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act of British Columbia, we report that, in our opinion, these principles have been applied on a consistent basis.

Vancouver, Canada

Chartered Accountants

October 10, 2003 (except as to Note 22
which is as of October 15, 2003)

Davidson and Company

ON-TRACK LEARNING SYSTEMS LTD.(formerly Marquette Capital Corp.)
CONSOLIDATED BALANCE SHEETS
AS AT MAY 31, 2003

	2003	2002
ASSETS		
Current		
Accounts receivable	\$ 193,101	\$ 178,952
Prepaid expenses and deposits	<u>96,025</u>	<u>19,339</u>
	<u>289,126</u>	<u>198,291</u>
Due from related parties (Note 4)	126,801	293,361
Capital assets (Note 5)	<u>102,769</u>	<u>92,480</u>
	<u>\$ 518,696</u>	<u>\$ 584,132</u>
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Bank indebtedness (Note 6)	\$ 17,626	\$ 76,458
Accounts payable and accrued liabilities	328,118	282,738
Management fees payable	74,900	-
Deferred revenue (Note 7)	-	30,000
Debenture (Note 8)	-	163,055
Advances payable (Note 9)	150,151	320,000
Amounts in dispute (Note 10)	-	150,000
Due to related party (Note 11)	257,687	359,534
Current portion of obligations under capital leases (Note 12)	<u>13,635</u>	<u>4,251</u>
	842,117	1,386,036
Due to related party (Note 11)	-	100,000
Obligations under capital leases (Note 12)	<u>54,539</u>	<u>-</u>
	<u>896,656</u>	<u>1,486,036</u>
Shareholders' deficiency		
Capital stock (Note 13)	1,516,594	100
Obligation to issue capital stock (Note 14)	25,000	-
Deficit	<u>(1,919,554)</u>	<u>(902,004)</u>
	<u>(377,960)</u>	<u>(901,904)</u>
	<u>\$ 518,696</u>	<u>\$ 584,132</u>

Nature and continuance of operations (Note 1)

Commitments (Note 17)

Subsequent events (Note 22)

On behalf of the Board:

_____ Director _____ Director

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

ON-TRACK LEARNING SYSTEMS LTD.
(formerly Marquette Capital Corp.)
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
YEAR ENDED MAY 31

	2003	2002
REVENUES		
Training	\$ 1,699,305	\$ 1,311,542
Support fees	<u>30,000</u>	<u>30,000</u>
	<u>1,729,305</u>	<u>1,341,542</u>
EXPENSES		
Accounting and legal	113,079	87,172
Advertising and promotion	141,807	17,511
Amortization	61,966	62,683
Automobile	31,482	43,433
Bank charges and interest	95,237	41,801
Business development	44,666	-
Corporate marketing	50,000	-
E-Learning	31,430	43,071
Management fees	76,970	600
Office and miscellaneous	172,061	196,234
Oracle expenses	566,033	245,464
Rent	130,806	202,601
Sub-contractors	150,526	183,461
Telephone	24,307	26,990
Travel and entertainment	118,037	100,582
Wages and benefits	<u>473,124</u>	<u>527,437</u>
	<u>2,281,531</u>	<u>1,779,040</u>
Loss before other items	<u>(552,226)</u>	<u>(437,498)</u>
OTHER ITEMS		
Interest income	3,075	1,887
Loss on settlement of advances payable (Note 9)	(17,500)	-
Loss on settlement of amounts in dispute (Note 10)	(137,000)	-
Loss on disposal of marketable securities (Note 10)	(28,000)	-
Write-off of due from related parties (Note 4)	<u>(285,899)</u>	<u>-</u>
	<u>(465,324)</u>	<u>1,887</u>
Loss for the year	(1,017,550)	(435,611)
Deficit, beginning of year	<u>(902,004)</u>	<u>(466,393)</u>
Deficit, end of year	<u>\$ (1,919,554)</u>	<u>\$ (902,004)</u>
Basic and diluted loss per share	<u>\$ (0.11)</u>	<u>\$ (0.06)</u>
Weighted average number of shares outstanding	<u>9,501,405</u>	<u>7,210,000</u>

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

ON-TRACK LEARNING SYSTEMS LTD.
(formerly Marquette Capital Corp.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED MAY 31

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (1,017,550)	\$ (435,611)
Items not affecting cash:		
Amortization	61,966	62,683
Accrued interest on advances payable	17,651	-
Accrued interest on debenture	7,195	13,055
Accrued interest on due to related party	5,354	-
Bad debt expense	-	122
Loss on settlement of advances payable	17,500	-
Loss on settlement of amounts in dispute	137,000	-
Loss on disposal of marketable securities	28,000	-
Write-off of due from related parties	285,899	-
Changes in non-cash working capital items:		
(Increase) decrease in accounts receivable	(6,132)	11,803
Increase in prepaid expenses and deposits	(36,686)	(485)
Increase in accounts payable and accrued liabilities	48,502	81,932
Increase in management fees payable	74,900	-
Decrease in deferred revenue	<u>(30,000)</u>	<u>(30,000)</u>
Net cash used in operating activities	<u>(406,401)</u>	<u>(296,501)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash acquired on purchase of subsidiary (Note 3)	3,943	-
Purchase of capital assets	<u>(8,203)</u>	<u>(22,485)</u>
Net cash used in investing activities	<u>(4,260)</u>	<u>(22,485)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in due from related parties	(119,339)	(119,320)
Decrease in bank indebtedness	(58,832)	(19,353)
Proceeds from debenture	-	150,000
Repayment of debenture	(170,250)	-
Proceeds from advances payable	200,000	470,000
Increase (decrease) in due to related parties	112,333	(123,409)
Repayment of capital lease obligations	(4,251)	(38,932)
Proceeds received on issuance of capital stock	426,000	-
Proceeds from obligation to issue capital stock	<u>25,000</u>	<u>-</u>
Net cash provided by financing activities	<u>410,661</u>	<u>318,986</u>
Change in cash during the year	-	-
Cash, beginning of year	<u>-</u>	<u>-</u>
Cash, end of year	<u>\$ -</u>	<u>\$ -</u>

Supplemental disclosure with respect to cash flows (Note 19)

ON-TRACK LEARNING SYSTEMS LTD.
(formerly Marquette Capital Corp.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2003

1. NATURE AND CONTINUANCE OF OPERATIONS

On-Track Learning Systems Ltd. (formerly Marquette Capital Corp.) (the "Company") was incorporated on September 15, 2000 under the provisions of the Company Act of British Columbia and is listed on the TSX Venture Exchange ("TSX-V"). The Company was classified as a Capital Pool Company as defined under the policies of the TSX-V until it completed its Qualifying Transaction.

On January 9, 2003, the Company acquired all the issued and outstanding shares of On-Track Computer Training Ltd. ("On-Track") which served as the Company's Qualifying Transaction pursuant to the policies of the TSX-V (Note 3). Following this transaction, the Company changed its name from Marquette Capital Corp. to On-Track Learning Systems Ltd.

The Company's principal business activity consists of providing computer training and consulting services.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company's ability to continue as a going concern is dependent on completing equity financings, obtaining support from related parties or generating consistent profitable operations in the future. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

	2003	2002
Working capital (deficiency)	\$ (552,991)	\$ (1,187,745)
Deficit	(1,919,554)	(902,004)

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, On-Track. All significant inter-company transactions and balances have been eliminated upon consolidation.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from the estimates.

Foreign currency translation

The monetary assets and liabilities of the Company denominated in foreign currencies are translated at the rate of exchange at the balance sheet date and non-monetary items are translated at historical rates. Revenues and expenses are translated at exchange rates which approximate those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the results of operations.

ON-TRACK LEARNING SYSTEMS LTD.
(formerly Marquette Capital Corp.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2003

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided using the straight-line method over the following years:

Automobile	5 years
Computer hardware	3 years
Furniture and fixtures	5 years

Revenue recognition

Training revenues are recorded when earned, which is the date students attend a course, and collectibility is reasonably assured. Support revenues are recorded when the related services have been provided and collection is reasonably assured.

Stock-based compensation

Effective June 1, 2002, the Company adopted the new CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments", which recommends the fair value-based methodology for measuring compensation costs. The new section also permits, and the Company has adopted, the use of the intrinsic value-based method, which recognizes compensation cost for awards to employees only when the market price exceeds the exercise price at date of grant, but requires pro-forma disclosure of loss and loss per share as if the fair value method had been adopted. Any consideration paid by the option holders to purchase shares is credited to capital stock.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. This calculation proved to be anti-dilutive for the years presented.

Basic loss per share is calculated using the weighted average number of shares outstanding during the year.

Income taxes

The Company records income taxes using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company

does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

ON-TRACK LEARNING SYSTEMS LTD.
(formerly Marquette Capital Corp.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2003

3. BUSINESS COMBINATION

Effective January 9, 2003, the Company acquired all the issued and outstanding capital stock of On-Track. As consideration, the Company issued 7,210,000 common shares to the shareholders of On-Track. As part of the transaction, the Company also issued 479,378 common shares to a significant shareholder who is a director and the president of On-Track to settle his shareholder loan of \$359,534 (Note 11). The common shares issued will be held in escrow and released over a six year period. The Company also acquired all the outstanding On-Track share purchase warrants in exchange for issuing 50,000 share purchase warrants which entitle the holders to acquire 50,000 common shares of the Company at an exercise price of \$0.50 per share until July 18, 2003 (expired unexercised).

Legally, the Company is the parent of On-Track. However, as a result of this share exchange, control of the combined companies passed to the former shareholders of On-Track. This type of share exchange, referred to as a "reverse takeover", deems On-Track to be the acquirer for accounting purposes. Accordingly, the deemed acquisition of the Company is accounted for by the purchase method with the net assets of the Company recorded at fair value at the date of acquisition.

The cost of an acquisition should be based on the fair value of the consideration given, except where the fair value of the consideration given is not clearly evident. In such a case, the fair value of the net assets acquired is used.

The fair value of the net assets acquired was \$125,960.

The total purchase price of \$125,960 has been allocated as follows:

Cash	\$	3,943
Receivables		7,017
Prepaid expenses and deposits		40,000
Deferred acquisition costs		<u>164,152</u>
		215,112
Less: acquisition costs		<u>(89,152)</u>
	\$	<u>125,960</u>

The accompanying consolidated statements of operations and deficit and cash flows include the results of On-Track from June 1, 2001 and the results of operations and cash flows of the Company from January 9, 2003 (date of acquisition). Comparative figures for the year ended May 31, 2002 are On-Track's.

The Company also completed the following in conjunction with the acquisition:

- a) The Company completed a non-brokered private placement consisting of 770,000 units issued at a price of \$0.50 per unit for gross proceeds of \$385,000. Each unit consisted of one common share and one-half share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one additional common share at a price of \$1.00 per share for a period of one year from the date of the completion of the acquisition of On-Track.
- b) The Company issued 553,000 common shares at a value of \$275,000 to Arcas Corporate Management Ltd. ("Arcas") to settle amounts in dispute of \$275,000 (Note 10).
- c) The Company issued 660,000 common shares at a value of \$330,000 to Consensus Investments Limited ("Consensus") to settle a loan payable of \$300,000 plus accrued interest (Note 9).

ON-TRACK LEARNING SYSTEMS LTD.

(formerly Marquette Capital Corp.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2003

3. BUSINESS COMBINATION (cont'd...)

- d) The Company issued 350,000 common shares as a finders' fee.
- e) The Company paid a non-refundable deposit of \$25,000 to On-Track and advanced On-Track \$75,000 reimbursement of expenses relating to the acquisition. In addition, the Company paid a \$25,000 sponsorship fee and \$39,152 in professional fees. All of the above amounts were recorded as deferred acquisition costs.

4. DUE FROM RELATED PARTIES

	2003	2002
Amount due from a related party	\$ -	\$ 285,899
Amount due from a shareholder	<u>126,801</u>	<u>7,462</u>
	<u>\$ 126,801</u>	<u>\$ 293,361</u>

The amount due from a related party, consisting of advances to and expenses paid on behalf of a company controlled by a significant shareholder who is a director and the president of the Company, is unsecured, non-interest bearing and has no fixed terms of repayment. During the year ended May 31, 2003, this amount was written off to operations as management determined the amount to be uncollectible.

The amount due from a shareholder, consisting of personal expenses paid by the Company on behalf of a significant shareholder who is a director and the president of the Company, is unsecured, non-interest bearing and has no fixed terms of repayment.

The fair value of amounts due from related parties is not determinable as they have no fixed terms of repayment.

5. CAPITAL ASSETS

	2003			2002		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Automobile	\$ 64,052	\$ -	\$ 64,052	\$ -	\$ -	\$ -
Computer hardware	244,974	225,983	18,991	240,505	175,640	64,865
Furniture and fixtures	<u>83,542</u>	<u>63,816</u>	<u>19,726</u>	<u>79,808</u>	<u>52,193</u>	<u>27,615</u>
	<u>\$ 392,568</u>	<u>\$ 289,799</u>	<u>\$ 102,769</u>	<u>\$ 320,313</u>	<u>\$ 227,833</u>	<u>\$ 92,480</u>

ON-TRACK LEARNING SYSTEMS LTD.
(formerly Marquette Capital Corp.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2003

5. CAPITAL ASSETS (cont'd...)

Assets under capital leases, included above, are as follows:

	2003			2002		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Automobile	\$ 64,052	\$ -	\$ 64,052	\$ -	\$ -	\$ -
Computer hardware	<u>-</u>	<u>-</u>	<u>-</u>	<u>102,884</u>	<u>64,014</u>	<u>38,870</u>
	\$ 64,052	\$ -	\$ 64,052	\$ 102,884	\$ 64,014	\$ 38,870

On May 31, 2003, the Company entered into a capital lease to acquire an automobile primarily for the benefit of a significant shareholder who is a director and the president of the Company.

6. BANK INDEBTEDNESS

As at May 31, 2003 and 2002, the Company has a line of credit of \$5,000 bearing interest at prime plus five percent. The line of credit is guaranteed by the assets of the Company.

As at May 31, 2002, the Company had a second line of credit of \$40,000 that was terminated during the current year.

7. DEFERRED REVENUE

During the year ended May 31, 2001, the Company entered into a technical support agreement with Lute Linux.com Corp. ("Lute"), a company controlled by a significant shareholder who is a director and the president of the Company, to provide support services for Lute's Web-Cam system. The Company received \$207,416 from Lute, with \$147,416 relating to services provided during the year ended May 31, 2001. The remaining balance of \$60,000 was considered a prepaid fee for future services to be provided over a twenty-four month period beginning June 1, 2001 at approximately \$2,500 per month.

As at May 31, 2003, the Company had completed the terms of the agreement.

ON-TRACK LEARNING SYSTEMS LTD.
(formerly Marquette Capital Corp.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2003

8. DEBENTURE

During the year ended May 31, 2002, On-Track issued a debenture to 873659 Alberta Inc. in the amount of \$150,000 due the earlier of nine months from the date of issuance or on closing of the business acquisition (Note 3). The debenture bore interest at the greater of 18% per annum or \$20,250 over its term. Interest expense of \$13,055 was recorded as of May 31, 2002 and a further \$7,195 was recorded during the year ended May 31, 2003. In conjunction with the issuance of the debenture, On-Track also issued five share purchase warrants entitling the holder to acquire five common shares of On-Track at an exercise price of \$5,000 per share. The debenture plus accrued interest totaling \$170,250 was repaid during the year ended May 31, 2003.

9. ADVANCES PAYABLE

	2003	2002
Advance from On-Track Learning Systems Ltd. (formerly Marquette Capital Corp.)	\$ -	\$ 75,000
Loan from Consensus	-	100,000
Advance from Secureview Systems Ltd. ("Secureview")	<u>150,151</u>	<u>145,000</u>
	<u>\$ 150,151</u>	<u>\$ 320,000</u>

Advance from On-Track Learning Systems Ltd. (formerly Marquette Capital Corp.)

This advance, made prior to the business combination (Note 3), was unsecured and non-interest bearing and has been eliminated with the completion of the business combination.

Loan from Consensus

On July 17, 2002, On-Track entered into a loan agreement with Consensus whereby Consensus loaned \$300,000, being \$100,000 prior to May 31, 2002 and \$200,000 during the year ended May 31, 2003, to On-Track at an interest rate of 10% per annum, payable monthly. In conjunction with the business combination (Note 3), the Company issued 660,000 shares at a value of \$0.50 per share to Consensus to settle the loan of \$300,000 plus accrued interest of \$12,500 resulting in a loss on settlement of \$17,500.

Advance from Secureview

During the year ended May 31, 2002, On-Track received an advance payable of \$145,000 from Secureview that was unsecured, non-interest bearing with no fixed terms of repayment. In exchange for the advance, On-Track provided a guarantee to Quest Ventures Corp. ("Quest") on a \$100,000 interest bearing promissory note payable by Secureview to Quest.

ON-TRACK LEARNING SYSTEMS LTD.

(formerly Marquette Capital Corp.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2003

9. ADVANCES PAYABLE (cont'd...)

Advance from Secureview (cont'd...)

During the year ended May 31, 2003, On-Track and Secureview entered into discussions to convert the advance to a promissory note bearing interest from November 1, 2002 at a rate of 0.5% per month and due January 3, 2004. The guarantee to Quest would remain unchanged.

The proposed promissory note was never executed by On-Track and Secureview. However, On-Track accrued interest of \$5,151 on the advance payable of \$145,000 to May 31, 2003. Subsequent to May 31, 2003, the advance payable and guarantee were settled for shares of the Company (Note 22).

10. AMOUNTS IN DISPUTE

As at May 31, 2002, amounts in dispute consisted of advances payable of \$150,000 advanced by Arcas in accordance with terms and conditions defined in a loan agreement. During the year ended May 31, 2002, On-Track was named as a defendant in a legal claim regarding this advance. The amount claimed by Arcas was \$271,475 plus interest at the rate of 12.68% per annum or in the alternative 50,000 shares of On-Track with warrants attached. The enforceability of the amount advanced under the loan agreement was disputed by management and therefore, the claim was being defended vigorously by On-Track. Management believed \$94,950 of the amounts in dispute of \$150,000 did not have to be repaid as the \$94,950 represented monies advanced to cover certain expenses of On-Track. Consequently, On-Track filed a counter-claim for specific damages of \$94,950 and non-specific damages not currently quantifiable at that time.

On October 18, 2002, On-Track settled the legal claim regarding the amounts in dispute. The settlement required On-Track to issue 55 common shares which would be exchanged for a total of 550,000 shares in the Company in conjunction with the business combination (Note 3). On October 28, 2002, On-Track agreed to amend the number of common shares to be issued and exchanged for shares in the Company to 79 and 553,000, respectively. The counter-claim was also dismissed.

In conjunction with the business combination (Note 3), the Company issued 553,000 common shares at a value of \$275,000 to Arcas to settle the amounts in dispute resulting in a loss on settlement of \$125,000. Further to the date of the settlement, the Company transferred 400,000 shares of Secureview, previously received by the Company from a related party (Note 15), with a value of \$12,000 to Arcas resulting in a loss on marketable securities of \$28,000.

ON-TRACK LEARNING SYSTEMS LTD.

(formerly Marquette Capital Corp.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2003

11. DUE TO RELATED PARTY

Due to related party consists of amounts owing to a significant shareholder who is also a director and the president of the Company as follows:

	2003	2002
Loan, unsecured, non-interest bearing	\$ -	\$ 359,534
Loan, unsecured, non-interest bearing, due on May 31, 2004	100,000	100,000
Promissory note, unsecured, bearing interest at 10% per annum, due on November 30, 2003	112,430	-
\$600,000 maximum demand loan, secured by all of the assets of the Company, bearing interest at prime plus 5% per annum, due on demand	<u>45,257</u>	<u>-</u>
	257,687	459,534
Less: current portion	<u>(257,687)</u>	<u>(359,534)</u>
	\$ -	\$ 100,000

In conjunction with the business combination, the Company issued 479,378 common shares to settle the related party loan of \$359,534 (Note 3).

12. OBLIGATIONS UNDER CAPITAL LEASES

	2003	2002
Payments of approximately \$1,136 per month including interest, due over lease term expiring through May, 2008	\$ 68,174	\$ 4,251
Less: current portion	<u>(13,635)</u>	<u>(4,251)</u>
	\$ (54,539)	\$ -

During the year ended May 31, 2003, interest expense of \$Nil (2002 - \$10,240) was incurred relating to capital lease obligations.

ON-TRACK LEARNING SYSTEMS LTD.
(formerly Marquette Capital Corp.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2003

13. CAPITAL STOCK

	Number of Shares	Amount
Authorized		
100,000,000 common shares without par value		
Issued		
Balance at May 31, 2001	100	\$ 100
Subdivision of shares (6.5:1)	550	-
Subdivision of shares (1.585:1)	380	-
Balance at May 31, 2002	1,030	100
Common shares of the Company at January 9, 2003	2,872,500	-
Common shares of On-Track at January 9, 2003	(1,030)	-
Pursuant to business combination (Note 3)	7,210,000	125,960
Settlement of shareholder loan (Notes 3 and 11)	479,378	359,534
Private placement (Note 3)	770,000	385,000
Settlement of amounts in dispute (Notes 3 and 10)	553,000	275,000
Settlement of loan payable (Notes 3 and 9)	660,000	330,000
Finder's fee pursuant to business combination (Note 3)	350,000	-
Exercise of stock options	205,000	41,000
Balance at May 31, 2003	13,099,878	\$ 1,516,594

As at May 31, 2003, 8,589,378 common shares of the Company are subject to an escrow agreement and may not be transferred, assigned or otherwise dealt with without the consent of the regulatory body having jurisdiction thereon. The common shares held in escrow will be released over three and six year periods.

Stock options

During the year ended May 31, 2003, the Company adopted a stock option plan (the "Plan") to grant options to employees, officers, directors and consultants of the Company. The Plan reserves for issuance up to 1,313,750 shares of the Company. The board of directors of the Company shall determine the exercise price, term and vesting provision of options granted. Under the Plan, the exercise price of each option may not be less than the market price of the Company's shares at the date of grant. Options granted under the Plan will have a term not to exceed five years and may be subject to vesting provisions as determined by the board, provided that vesting shall occur no faster than 1/12th quarterly.

ON-TRACK LEARNING SYSTEMS LTD.
(formerly Marquette Capital Corp.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2003

13. CAPITAL STOCK (cont'd...)

Stock options (cont'd...)

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, May 31, 2002 and 2001	-	\$ -
Options previously granted by On-Track Learning Systems Ltd. (formerly Marquette Capital Corp.)	205,000	0.20
Granted	655,000	0.40
Exercised	<u>(205,000)</u>	0.20
Balance, May 31, 2003	655,000	\$ 0.40
Number of options currently exercisable	655,000	\$ 0.40
Weighted average fair value of options granted during the year		\$ 0.15

As at May 31, 2003, stock options were outstanding enabling holders to acquire the following number of shares:

Number of Shares	Exercise Price	Expiry Date
655,000	\$ 0.40	January 10, 2005

Subsequent to year end, the 655,000 stock options were exercised (Note 22).

Stock-based compensation

During the current year, the Company granted 655,000 options to a significant shareholder who is a director and the president of the Company. Had the compensation expense relating to the options granted been accounted for under the intrinsic value-based method been recognized on the basis of fair value, loss and loss per share would have been adjusted as follows:

	2003
Loss for the year	
As reported	\$ (1,017,550)
Pro-forma	<u>\$ (1,115,800)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2003

13. CAPITAL STOCK (cont'd...)

Stock-based compensation (cont'd...)

	2003
Basic and diluted loss per share	
As reported	\$ (0.11)
Pro-forma	\$ (0.12)

The fair value of each option granted is estimated on the grant date using the Black-Scholes option pricing model. The assumptions used in calculating fair values are as follows:

	2003
Risk-free interest rate	4.00%
Expected life of options	3 years
Expected volatility	50%
Expected dividend yield	0.0%

Warrants

At May 31, 2003, warrants were outstanding enabling holders to acquire the following number of shares:

Number of Shares	Exercise Price	Expiry Date
50,000	\$ 0.50	July 18, 2003 (expired unexercised)
385,000	1.00	January 9, 2004

14. OBLIGATION TO ISSUE CAPITAL STOCK

During the year ended May 31, 2003, the Company received \$25,000 from a third party towards the issuance of common shares. Subsequent to year-end, the Company issued common shares to settle the obligation (Note 22).

ON-TRACK LEARNING SYSTEMS LTD.
(formerly Marquette Capital Corp.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2003

15. RELATED PARTY TRANSACTIONS

Unless disclosed elsewhere in these consolidated financial statements, the Company entered into the following transactions with related parties:

- a) During the year ended May 31, 2003, the Company incurred management fees of \$70,000 plus interest of \$4,900 on management fees owed to a significant shareholder who is a director and the president of the Company. These management fees are recorded as management fees payable on the consolidated balance sheets.
- b) During the year ended May 31, 2003, a significant shareholder who is a director and the president of the Company transferred 400,000 shares of Secureview to the Company with a value of \$40,000, being the carrying value of the shares prior to the transfer.

These transactions were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the related parties.

16. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2003	2002
Loss for the year	\$ (1,017,550)	\$ (435,611)
Expected income tax recovery	\$ 382,599	\$ 172,502
Non-deductible expenses and items for tax purposes	(58,198)	(6,794)
Unrecognized benefit of non-capital losses	(324,401)	(165,708)
Total income taxes	\$ -	\$ -

ON-TRACK LEARNING SYSTEMS LTD.
(formerly Marquette Capital Corp.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2003

16. INCOME TAXES (cont'd...)

The significant components of the Company's future income taxes assets are as follows:

	2003	2002
Future income tax assets:		
Capital assets	\$ 35,563	\$ 27,222
Non-capital loss carryforwards	<u>677,928</u>	<u>317,988</u>
	713,491	345,210
Valuation allowance	<u>(713,491)</u>	<u>(345,210)</u>
Net future income tax assets	\$ -	\$ -

The Company has non-capital losses of approximately \$1,634,000 available for deduction against future taxable income. These losses, if not utilized, will expire commencing in 2004. Future tax benefits which may arise as a result of these non-capital losses have not been recognized in these consolidated financial statements and have been offset by a valuation allowance.

17. COMMITMENTS

The Company is committed to future annual operating lease payments for its office premises as follows:

2004	\$ 91,535
2005	98,310
2006	105,877
2007	112,336
2008	<u>47,790</u>

18. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of accounts receivable, due from related parties, bank indebtedness, accounts payable and accrued liabilities, advances payable, due to related party and obligations under capital leases. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

Credit risk

The Company is exposed to credit risk only with respect to uncertainties as to the timing and amount of collectibility of accounts receivable. The Company mitigated credit risk through standard credit and reference checks.

ON-TRACK LEARNING SYSTEMS LTD.
(formerly Marquette Capital Corp.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2003

19. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	2003		2002
Cash paid during the year for:			
Interest	\$ 26,008	\$	6,771
Income taxes	-		-

The significant non-cash transactions during the year ended May 31, 2003 consisted of the following:

- a) The Company issued 7,210,000 common shares pursuant to a business acquisition (Note 3).
- b) The Company acquired an automobile totaling \$64,052 through a capital lease obligation (Note 5).
- c) The Company issued 660,000 common shares to settle advances payable of \$330,000 (Note 9).
- d) The Company issued 553,000 common shares to settle amounts in dispute of \$275,000 (Note 10).
- e) The Company issued 479,378 common shares to settle a shareholder loan of \$359,534 (Note 11).
- f) The Company received 400,000 shares of Secureview from a related party with a cost of \$40,000 (Note 11).

There were no significant non-cash transactions for the year ended May 31, 2002.

20. SEGMENT INFORMATION

The Company operates in one reportable segment, providing computer training and consulting services, in Canada.

21. PROPOSED BUSINESS ACQUISITION

On April 28, 2003, the Company entered into a letter of understanding with Blended Learning. ("BL") whereby the Company intends to purchase all of the outstanding common shares of BL in exchange for the issuance of 8,000,000 shares of the Company. This transaction must be completed by July 2, 2003; otherwise, either party may cancel this agreement with seven days written notice to the other party. To date, this written notification had not been sent by the Company or received from BL.

ON-TRACK LEARNING SYSTEMS LTD.

(formerly Marquette Capital Corp.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2003

22. SUBSEQUENT EVENTS

The following events occurred subsequent to May 31, 2003:

- a) On July 15, 2003, the Company agreed to settle the amount due to Secureview (Note 9) by way of the issuance of 1,676,410 common shares at a value of \$0.10 per share. On October 6, 2003, the 1,676,410 common shares were issued as follows: i) 400,000 common shares to Secureview; and, ii) 1,276,410 common shares to Quest. Concurrently, Quest released the Company from the guarantee of the amount due to Secureview.
- b) On September 9, 2003, the Company settled its obligation to issue shares with the third party by issuing 250,000 common shares at a value of \$0.10 per share.
- c) On September 10, 2003, the Company entered into an agreement with a significant shareholder who is a director and the president of the Company to amend certain provisions of the demand loan (Note 11). Specifically, the interest rate was amended to one percent per month calculated and compounded monthly for all new advances on or after June 1, 2003.
- d) On September 11, 2003, the Company repriced 655,000 stock options from an exercise price of \$0.40 per share to \$0.10 per share. Immediately thereafter, the 655,000 stock options were exercised.
- e) On October 1, 2003, the Company entered into an agreement with a shareholder who is a director and the president of the Company to combine all amounts due from and due to related parties into one loan agreement.
- f) On October 15, 2003, the Company entered into a letter of intent with VP Group Media Ltd. ("VP Group") whereby the Company intends to purchase all of the outstanding common shares of VP Group in exchange for cash and shares of the Company. This transaction must be completed by December 23, 2003; otherwise, either party may cancel this agreement with seven days written notice to the other party.

23. SUPPLEMENTAL INFORMATION FOR MARQUETTE CAPITAL CORP.

The Company was deemed to be acquired by On-Track pursuant to the business combination described in Note 3. As a result, the consolidated statements of operations and deficit and cash flows include the results of the Company from January 9, 2003 (date of acquisition) to May 31, 2003.

Presented below are the results of operations and cash flows of the Company for the period of September 1, 2002 to January 9, 2003 which are properly excluded from the accompanying consolidated financial statements.

ON-TRACK LEARNING SYSTEMS LTD.(formerly Marquette Capital Corp.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MAY 31, 2003

23. SUPPLEMENTAL INFORMATION FOR MARQUETTE CAPITAL CORP. (cont'd...)
Results of operations

	September 1, 2002 to January 9, 2003
EXPENSES	
Accounting and legal	\$ 50,464
Bank charges and interest	11
Management fees	12,500
Office and miscellaneous	8,573
Rent	1,800
Travel and entertainment	191
Telephone	<u>916</u>
	74,455
INTEREST INCOME	<u>(675)</u>
Loss for the period	<u>\$ 73,780</u>

Cash flows

	September 1, 2002 to January 9, 2003
CASH FLOWS FROM OPERATING ACTIVITIES	
Loss for the period	\$ (73,780)
Changes in non-cash working capital items:	
Increase in receivables	(3,670)
Increase in prepaid expenses	(40,000)
Decrease in accounts payable and accrued liabilities	<u>(15,168)</u>
Net cash used in operating activities	<u>(132,618)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Deferred acquisition costs	<u>(13,352)</u>
Net cash used in investing activities	<u>(13,352)</u>
Decrease in cash and cash equivalents for the period	(145,970)
Cash and cash equivalents, beginning of period	<u>149,913</u>
Cash and cash equivalents, end of period	<u>\$ 3,943</u>