Management's Discussion and Analysis of Financial Condition and Results of Operations for the three-month period ended June 30, 2001

Management's discussion and analysis ("MD&A") provides a review of the performance of SureFire Commerce Inc. and its subsidiaries (the "Company") and should be read in conjunction with the unaudited, consolidated financial statements for the first quarter of fiscal 2002 and 2001, and the Company's annual report. The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles. All dollar figures are in Canadian dollars unless otherwise indicated.

Revenues

Revenues increased by 89% or $12.2 million in the first quarter of fiscal 2002 to $25.8 million from $13.6 million in the quarter ended June 30, 2000. This increase is due to significant growth experienced in the Company's core business, transaction processing for licensed online gaming sites. Transaction processing volume has increased by 76.5% or $130 million in the quarter ended June 30, 2001 to $300 million from $170 million in the same period last year.

Cost of Revenues

Cost of revenues consist primarily of the costs associated with transaction processing. For the quarter ended June 30, 2001, cost of revenues increased by 45.6% or $3.5 million from $7.6 million in the quarter ended June 30, 2000. As a percentage of e-commerce revenue, cost of revenues decreased to 45% in the quarter ended June 30, 2001 from 59% in the quarter ended June 30, 2000. The dollar increase in cost of revenues can be attributed to the increase in volume experienced over the last year. The decrease in cost of revenues as a percentage of revenues is due to the following:

- reflects the Company's ability to obtain new and lower-cost bank, processing partners; and
- the development of the Company's proprietary transaction processing engine, FirePay, which resulted in the elimination of certain costs as the process was brought in-house.

Expenses

Research and Development

Research and development expenses increased by $1.5 million or 158% over the same period last year primarily due to new initiatives undertaken and enhancements made since the prior year, including FirePay (transaction processing engine) and FirePay Personal Accounts (stored-value accounts). Research and development costs are comprised primarily of personnel-related costs.

Sales and Marketing

Sales and marketing expenses increased by $1.8 million or 159% from $1.1 million in the quarter ended June 30, 2000 to $2.9 million in the first quarter of fiscal 2002. Sales and marketing expenses consist of costs incurred to maintain and grow the Company's merchant base, as well as to market new products and services introduced by the Company.

Operations

Operations expense increased by $1.5 million in the first quarter of fiscal 2002 as compared to the same period last year. This increase can be primarily attributed to the establishment of the Company's state-of-the-art data center and customer care center. These centers were created to house and operate the Company's proprietary solutions both for current and forecasted growth expectations.

General and Administrative

General and administrative expenses increased by $3.3 million or 213% in the quarter ended June 30, 2001 compared to the quarter ended June 30, 2000. The increase can be attributed to the following:

- foreign exchange loss of $1.0 million in the quarter ended June 30, 2001 compared to a gain of $0.1 million in the quarter ended June 30, 2000;
- increased professional fees related to the signing of strategic agreements and the evaluation of several corporate development opportunities in the quarter; and
- increased overhead required to support the increase in volume.

Amortization of Capital Assets

The increase in amortization of capital assets of $0.8 million is due to the increase in investments in capital assets, such as the Company's data center.

Income Taxes

The Company's income taxes arise due to the reduction of the future income tax asset which relates to the utilization of the Company's income tax losses.

Amortization of Goodwill and Intangibles

For the quarter ended June 30, 2001, the Company adopted a new method of accounting for goodwill and intangibles (refer to the notes to the consolidated financial statements for more detail). This resulted in no amortization for the quarter.

Net Earnings

Net earnings for the quarter ended June 30, 2001 was $1.0 million compared to a loss of $1.7 million for the same period in the prior year. Factors affecting this variance include:

- an increase in earnings before undernoted items of $0.7 million;
- an increase in amortization of capital assets of $0.8 million;
- a $1.0 million increase in income taxes; and
- a decrease in amortization of goodwill and intangibles of $3.7 million.

Financial Position

As at June 30, 2001, the Company had $101.3 million of cash and short-term investments, including $17.5 million of investments with maturities greater than 3 months, compared to $101.7 million of cash and short-term investments as at March 31, 2001, including $22.7 million in investments with maturities greater than 3 months. The change in cash and short-term investments can be explained as follows:

- The Company generated $4.6 million from operations during fiscal 2001. This can be primarily attributable to an increase in cash from customer deposits of $3.1 million.

- During the first quarter of fiscal 2002, the Company invested $1.6 million in capital assets and $3.0 million in an unrelated company in the form of a loan. As well, the Company had an inflow of $5.2 million from the maturity of certain short-term investments.

- From a financing perspective, the Company utilized $0.3 million, primarily due to the repayment of obligations under capital leases.