This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. The securities offered herein have not been, and will not be, registered under the United States Securities Act of 1933, as amended and, subject to certain limited exemptions, may not be offered, sold or delivered directly or indirectly in the United States or to U.S. Persons.

Prospectus

New Issue **July 30, 2001**

MEGAWHEELS INC.

$7,425,160

7,632,075 Common Shares Issuable Upon Exercise of Previously Issued Convertible Demand Promissory Notes

$1,115,000 Principal Amount of Convertible Demand Promissory Notes and 6,558,824 Common Share Purchase Warrants Issuable Upon Exercise of Previously Issued Special Warrants

13,444,547 Convertible Preferred Shares, Series B and 13,444,547 Common Share Purchase Warrants Issuable on Exercise of Previously Issued Convertible Preferred Shares, Series A

$1,250,000 Principal Amount of Convertible Demand Promissory Notes and 3,750,000 Common Share Purchase Warrants Issuable Upon Exercise of Previously Issued Special Convertible Demand Promissory Notes

125,000 Common Shares

Megawheels Inc. ("Megawheels" or the "Corporation") is hereby qualifying for distribution, subject to adjustment in certain circumstances: (i) 7,632,075 common shares of the Corporation ("Note Shares") issuable upon conversion or deemed conversion of $2,350,000 principal amount of previously issued convertible demand promissory notes (the "2000 Convertible Notes"); (ii) 1,115,000 units (the "Special Warrant Units") each consisting of $1.00 principal amount of convertible demand promissory notes (the "February 2001 Notes") and 5.88 common share purchase warrants ("Warrants") issuable upon exercise or deemed exercise of 1,115,000 previously issued special warrants (the "Special Warrants") issued by the Corporation on February 14, 2001 at a price of $1.00 per Special Warrant; (iii) 13,444,547 units (the "Series A Units") each consisting of one convertible preferred share, Series B (the "Series B Shares") and one Warrant issuable upon conversion or deemed conversion of 13,444,547 previously issued convertible preferred shares, Series A (the "Series A Shares") issued by the Corporation on May 9, 2001 and July 25, 2001 at a price of $0.20 per Series A Share; (iv) units (the "Special Note Units") consisting of $1,250,000 principal amount of convertible demand promissory notes (the "May 2001 Notes") and 3,750,000 Warrants issuable upon conversion or deemed conversion of $1,250,000 principal amount of previously issued special convertible demand promissory notes (the "Special Notes") issued by the Corporation on April 30, 2001 and May 17, 2001; and (v) 125,000 Common Shares (the "125,000 Common Shares"). The 2000 Convertible Notes, the Special Warrants, the Series A Shares, and the Special Notes are collectively referred to as the "Purchased Securities". The Note Shares, the Special Warrant Units, the Series A Units and the Special Note Units are collectively referred to as the "Underlying Securities".

	Price to Public/ Principal Amount	Agent's Commission	Net Proceeds to the Corporation
2000 Convertible Notes[1]	$2,350,000	Nil	$2,350,000
Per Special Warrant	$1.00	Nil	$1.00
Per Series A Share	$0.20	Nil	$0.20
Special Notes	$1,250,000	Nil	$1,250,000
Common Shares	$0.17	Nil	$0.17
Total Offering	$7,425,160	Nil	$7,425,160[2]

Notes:

(1) The 2000 Convertible Notes consist of the following: (i) $600,000 principal amount of convertible demand promissory note issued on October 11, 2000 convertible into Note Shares at a price of $0.53 per Note Share; (ii) $500,000 principal amount of convertible demand promissory note issued on November 9, 2000 convertible into Note Shares at a price of $0.30 per Note Share; (iii) $1,000,000 principal amount of convertible demand promissory note issued on December 12, 2000 convertible into Note Shares at a price of $0.25 per Note Share; and (iv) $250,000 principal amount of convertible demand promissory note issued on December 22, 2000 convertible into Note Shares at a price of $0.30 per Note Share.

(2) Before deducting estimated expenses of $500,000. The gross proceeds were realized by the Corporation on each of the Closing Dates (as defined herein) of the Purchased Securities. The 125,000 Common Shares will be issued in partial settlement of an outstanding debt owed by the Corporation to a trade creditor. See "Plan of Distribution".

The 2000 Convertible Notes were sold to purchasers resident in the Province of Ontario in reliance upon exemptions from the prospectus and registration requirements contained in the securities legislation of the Province of Ontario. The 2000 Convertible Notes consist of the following: (i) a $600,000 principal amount of convertible promissory note issued on October 11, 2000 which bears interest at 15% per annum, is secured by a charge on the assets of the Corporation and may be converted by the holder into 1,132,075 Note Shares; (ii) a $500,000 convertible promissory note issued on November 9, 2000 which bears interest at 10% per annum, is secured by a charge on the assets of the Corporation and may be converted by the holder into 1,666,667 Note Shares; (iii) a $1,000,000 convertible promissory note issued on December 12, 2000 which bears interest at 10% per annum, is secured by a charge on the assets of the Corporation and may be converted by the holder into 4,000,000 Note Shares; and (iv) a $250,000 convertible promissory note issued on December 22, 2000 which bears interest at 10% per annum, is secured by a charge on the assets of the Corporation and may be converted by the holder into 833,333 Note Shares. Pursuant to conversion agreements dated April 30, 2001 (the "Conversion Agreements") between the Corporation and holders of 2000 Convertible Promissory Notes and/or Special Warrants, the holders of the 2000 Convertible Promissory Notes agreed, among other things, to convert the principal amount of the 2000 Convertible Promissory Notes into Note Shares immediately following the issuance of a receipt by the securities regulatory authorities in the provinces of British Columbia, Alberta and Ontario (the "Qualifying Jurisdictions") for a (final) prospectus qualifying the Note Shares. In addition, such holders agreed to accept Series A Shares in satisfaction of accrued interest under the 2000 Convertible Notes. See "Plan of Distribution".

The Special Warrants were sold to purchasers resident outside of Canada and to purchasers resident in the provinces of British Columbia, Alberta and Ontario in reliance upon exemptions from the prospectus and registration requirements contained in the securities legislation of such jurisdictions. The Special Warrants were issued in accordance with a terms letter wherein certain investors, including directors and senior officers of the Corporation, agreed to provide a loan (the "February 2001 Loan") in an aggregate amount of $1,115,000 to the Corporation. Pursuant to the Conversion Agreements, the holders of Special Warrants agreed to exercise the Special Warrants into the February 2001 Notes and to convert the principal amount of the February 2001 Notes into Common Shares, in accordance with the terms thereof, immediately following the issuance of a receipt by the securities regulatory authorities in the Qualifying Jurisdictions for a (final) prospectus qualifying the Special Warrant Units. The February 2001 Notes are convertible into Common Shares on the basis of one Common Share for each $0.17 principal amount of February 2001 Note held. Each whole Warrant entitles the holder thereof to acquire one Common Share at a price of $0.17 per Common Share until August 13, 2001. In addition, such holders agreed to accept Series A Shares in satisfaction of accrued interest under the February 2001 Loan. See "Plan of Distribution".

The Series A Shares were sold to purchasers resident outside of Canada and to purchasers resident in the provinces of British Columbia, Alberta and Ontario in reliance upon exemptions from the prospectus and registration requirements contained in the securities legislation of those jurisdictions. The Series A Shares were issued to investors and to holders of 2000 Convertible Notes and/or Special Warrants who agreed, pursuant to the Conversion Agreements, to accept Series A Shares in lieu of accrued interest under the 2000 Convertible Notes and/or February 2001 Loan, as applicable. The Series A Shares may be converted by the holders thereof at any time until 5:00 p.m. (Toronto time) (the "Series A Expiry Time") on the date which is the earlier of (i) May 9, 2002; and (ii) the third business day following the issuance of a receipt by the securities regulatory authorities in the Qualifying Jurisdictions for a (final) prospectus qualifying the Series A Units. Any Series A Shares not exercised prior to the Series A Expiry Time shall be deemed to have been converted immediately prior to the Series A Expiry Time without further action by the holder. Each Series B Share is convertible at the option of the holder at any time or times into one Common Share without payment of any additional consideration. Each whole Warrant entitles the holder thereof to acquire one Common Share at an exercise price of $0.20 per Common Share until May 9, 2002. On May 9, 2001, the principal holders of Series A Shares and the Corporation entered in to a shareholder agreement (the "Shareholder Agreement") conferring certain rights and privileges on the parties relating to the operations of Megawheels and their ownership of Series A Shares and/or Series B Shares. See "Description of Share Capital - Preferred Shares" and "Plan of Distribution".

The Special Notes were sold to a purchaser resident outside of Canada and to a purchaser resident in the Province of Ontario in reliance upon exemptions from the prospectus and registration requirements contained in the securities legislation of those jurisdictions. Each $100 principal amount of Special Note entitles the holder thereof to receive, upon exercise or deemed exercise thereof, one unit consisting of $100 principal amount of May 2001 Notes and 300 Warrants. The Special Notes may be converted at any time until 5:00 p.m. (Toronto time) (the "Special Note Expiry Time") on the earlier of (i) the Globemedia Payment Date or the ANL Payment Date (as defined below), as applicable, and (ii) the fifth business day following the issuance of a receipt by the Securities Regulatory Authorities in the Qualifying Jurisdictions for a (final) prospectus qualifying the Special Note Units. Any Special Notes not converted prior to the Special Note Expiry Time shall be deemed to have been converted immediately prior to the Special Note Expiry Time without further action by the holder. Each May 2001 Note is convertible into Common Shares on the basis of $0.25 per Common Share. Each whole Warrant entitles the holder to purchase one Common Share at a price of $0.25 per share until May 17, 2002. See "Plan of Distribution".

The 125,000 Common Shares will be issued to a trade creditor in partial satisfaction of a debt owing by the Corporation to the trade creditor in respect of services provided by them. The 125,000 Common Shares will be issued by the Corporation within the three day period following the issuance of a receipt by the securities regulatory authorities in the Qualifying Jurisdictions for a (final) prospectus qualifying the 125,000 Common Shares. See "Plan of Distribution".

The subscription price for the Purchased Securities was determined by negotiation between Megawheels and the purchasers thereof.

An investment in the securities qualified for distribution hereunder should be considered highly speculative due to the stage and nature of the Corporation's business. The business of Megawheels is in a growth market stage. There is no assurance that a commercially viable market for the type of service which Megawheels provides will develop and the Corporation is subject to competition from others who offer similar services on the Internet and in other forms of media. The future operations of the Corporation are dependent upon its ability to obtain the necessary financing, to attract additional listing dealers, to enter into additional agreements with newspaper publishers for the publication of automotive advertising newspaper inserts and the provision of the Corporation's online database to newspapers' established websites and upon increased consumer access and use of the Internet. See "Risk Factors".

The Common Shares are listed on the CDNX under the trading symbol "MGW". The closing price of the Common Shares on the CDNX on February 7, 2001, the day immediately prior to the Corporation's public announcement of its intention to issue the Special Warrants was $0.17 per Common Share, the closing price of the Common Shares on the CDNX on March 29, the day immediately prior to the Corporation's public announcement of its intention to issue the Series A Shares was $0.22 per Common Share and the closing price of the Common Shares on the CDNX on March 30, 2001, the first trading day prior to the Corporation's public announcement of its intention to issue the Special Notes was $0.20 per Common Share. See "Trading History". The CDNX has approved the listing of the Common Shares issuable on conversion of the Underlying Securities and the issuance of the 125,000 Common Shares.

Certain legal matters relating to the distribution of the securities offered hereby will be passed upon by McCarthy Tétrault LLP, Barristers and Solicitors, on behalf of the Corporation. See "Legal Matters".

No underwriter or agent has been involved in the preparation of the prospectus or performed any review of the contents of the prospectus.

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PROSPECTUS SUMMARY

The following is a summary of the principal features of this distribution and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. Reference is made to the "Glossary" for the meanings of certain defined terms.

OFFERING: This prospectus qualifies for distribution, subject to adjustment in certain circumstances: (i) 7,632,075 Note Shares issuable upon exercise or deemed exercise of previously issued 2000 Convertible Notes; (ii) 1,115,000 Special Warrant Units each consisting of one February 2001 Note and 5.88 Warrants issuable upon exercise or deemed exercise of 1,115,000 previously issued Special Warrants; (iii) 13,444,547 Series A Units each consisting of one Series B Share and one Warrant issuable upon exercise or deemed exercise of 13,444,547 previously issued Series A Shares;(iv) Special Note Units consisting of the May 2001 Notes and 3,750,000 Warrants issuable upon exercise or deemed exercise of Special Notes; and (v) 125,000 Common Shares. See "Plan of Distribution".

2000 CONVERTIBLE NOTES: The 2000 Convertible Notes were sold to purchasers resident in the Province of Ontario in reliance upon exemptions from the prospectus and registration requirements contained in the securities legislation of the Province of Ontario. The 2000 Convertible Notes consist of the following: (i) a $600,000 principal amount of convertible promissory note issued on October 11, 2000 which bears interest at 15% per annum, is secured by a charge on the assets of the Corporation and may be converted by the holder into 1,132,075 Note Shares; (ii) a $500,000 convertible promissory note issued on November 9, 2000 which bears interest at 10% per annum, is secured by a charge on the assets of the Corporation and may be converted by the holder into 1,666,667 Note Shares; (iii) a $1,000,000 convertible promissory note issued on December 12, 2000 which bears interest at 10% per annum, is secured by a charge on the assets of the Corporation and may be converted by the holder into 4,000,000 Note Shares; and (iv) a $250,000 convertible promissory note issued on December 22, 2000 which bears interest at 10% per annum, is secured by a charge on the assets of the Corporation and may be converted by the holder into 833,333 Note Shares.

Pursuant to the Conversion Agreements, the holders of the 2000 Convertible Promissory Notes agreed, among other things, to convert the principal amount of the 2000 Convertible Promissory Notes into Note Shares immediately following the issuance of a receipt by the securities regulatory authorities in the Qualifying Jurisdictions for a (final) prospectus qualifying the Note Shares. In addition, such holders agreed to accept Series A Shares in satisfaction of accrued interest under the 2000 Convertible Notes. See "Plan of Distribution".

SPECIAL WARRANTS: The Special Warrants were sold to purchasers resident outside of Canada and to purchasers resident in the provinces of British Columbia, Alberta and Ontario in reliance upon exemptions from the prospectus and registration requirements contained in the securities legislation of such jurisdictions. The Special Warrants were issued in accordance with a terms letter wherein certain investors, including directors and senior officers of the Corporation, agreed to provide the February 2001 Loan to the Corporation.

Pursuant to the Conversion Agreements, the holders of Special Warrants have agreed to exercise the Special Warrants into the February 2001 Notes and to convert the principal amount of the February 2001 Notes into Common Shares, in accordance with the terms thereof, immediately following the issuance of a receipt by the securities regulatory authorities in the Qualifying Jurisdictions for a (final) prospectus qualifying the Special Warrant Units. The February 2001 Notes are convertible into Common Shares on the basis of one Common Share for each $0.17 principal amount of February 2001 Note held. Each whole Warrant entitles the holder thereof to acquire one Common Share at a price of $0.17 per Common Share until August 13, 2001. In addition, such holders agreed to accept Series A Shares in satisfaction of accrued interest under the February 2001 Loan. See "Plan of Distribution".

SERIES A SHARES: The Series A Shares were sold to purchasers resident outside of Canada and to purchasers resident in the provinces of British Columbia, Alberta and Ontario in reliance upon exemptions from the prospectus and registration requirements contained in the securities legislation of those jurisdictions. The Series A Shares were issued to investors and to holders of 2000 Convertible Notes and/or Special Warrants who agreed, pursuant to the Conversion Agreements, to accept Series A Shares in lieu of accrued interest under the 2000 Convertible Notes and/or February 2001 Loan, as applicable. The Series A Shares may be converted by the holders thereof at any time until the Series A Expiry Time. Any Series A Shares not exercised prior to the Series A Expiry Time shall be deemed to have been converted immediately prior to the Series A Expiry Time without further action by the holder.

Each Series B Share is convertible at the option of the holder at any time or times into one Common Share without payment of any additional consideration. Each whole Warrant entitles the holder thereof to acquire one Common Share at an exercise price of $0.20 per Common Share until May 9, 2002. On May 9, 2001, the principal holders of Series A Shares and the Corporation entered into the Shareholder Agreement conferring certain rights and privileges on the parties relating to the operations of Megawheels and their ownership of Series A Shares and/or Series B Shares. See "Description of Share Capital - Preferred Shares" and "Plan of Distribution".

SPECIAL NOTES: The Special Notes were sold to a purchaser resident outside of Canada and to a purchaser resident in the Province of Ontario in reliance upon exemptions from the prospectus and registration requirements contained in the securities legislation of those jurisdictions. Each $100 principal amount of Special Note entitles the holder thereof to receive, upon exercise or deemed exercise thereof, one unit consisting of $100 principal amount of May 2001 Note and 300 Warrants. The Special Notes may be converted at any time until the Special Note Expiry Time. Any Special Notes not converted prior to the Special Note Expiry Time shall be deemed to have been converted immediately prior to the Special Note Expiry Time without further action by the holder. Each May 2001 Note is convertible into Common Shares on the basis of $0.25 per Common Share. Each whole Warrant entitles the holder to purchase one Common Share at a price of $0.25 per share until May 17, 2002. See "Plan of Distribution".

125,000 COMMON SHARES: The 125,000 Common Shares will be issued to a trade creditor in partial satisfaction of a debt owing by the Corporation to the trade creditor in respect of services provided by them. The 125,000 Common Shares will be issued by the Corporation within the three day period following the issuance of a receipt by the securities regulatory authorities in the Qualifying Jurisdictions for a (final) prospectus qualifying the 125,000 Common Shares.

BUSINESS OF THE CORPORATION:

The business of Megawheels is based on providing technology products and out-sourced business services for two primary customer groups: newspaper publishers and automotive manufacturers. The Corporation's two main products, Net2Print and inVision, are designed to increase revenues for these two customer groups as well as reduce their costs and increase operational efficiency. Net2Print is Reverse Publishing software that provides newspapers with a custom branded online searchable automotive database that can be incorporated into their existing website. This data can be efficiently extracted in digital format for inclusion in printed automotive newspaper supplements and other media. inVision is dealer-based software that allows automotive dealers to digitize, list and manage their inventory on the Corporation's Websites and transmit advertising content to media companies. Megawheels facilitates certain business operations of newspaper publishers and automotive manufacturers by hosting online links to their end-users, automotive dealers and consumers.

Megawheels produces the content for advertising in a weekly automotive section of the Toronto edition of *The Globe and Mail* as well as hosting the website located at www.globemegawheels.com which is linked to the main *Globe and Mail* web centre located at www.globeandmail.com. This portal provides the principal means for a Canadian audience to access the English language version of the Megawheels Website, located at www.megawheels.com. Through the Megawheels Website and the GlobeMegawheels Website, the Corporation provides information on new and pre-owned vehicles listed for sale in its database. The database is comprised of information acquired from automotive dealers and individual sellers of pre-owned vehicles primarily from markets where *The Globe and Mail* has significant circulation. The dealer network benefits from this combined print and online advertising capability and manages its inventory and accesses the Websites with inVision software.

In August 2000, Megawheels expanded its operations into the United Kingdom. Megawheels Limited, a wholly-owned subsidiary of Megawheels, entered into an agreement with Associated Newspapers Limited ("ANL"), publisher of the *Evening Standard* in London, England, for the establishment of a website listing vehicles for sale in the United Kingdom located at www.thisislondon.co.uk/esw. The UK Website forms part of the Evening Standard's main website located at www.thisislondon.co.uk. The agreement also provides for the publication of a weekly automotive insert in the Evening Standard (the "ESWheels Insert"). The UK Website was launched in October 2000 and the ESWheels Insert commenced publication on February 2, 2001.

On March 13, 2001, the Corporation signed a binding terms letter with Herald Interactive Advertising Systems, Inc. ("HIASYS"), the new media division of Herald Media, Inc. ("Herald Media") of Boston Massachusetts for the establishment of an automotive website aimed at a Boston area audience. Under the terms letter, Megawheels has agreed to license its website database technology and search engine to HIASYS for a term of three years. Megawheels has also agreed to establish a separate website for HIASYS which will be branded "Carfind" and be available for all newspapers owned by Herald Media for incorporation into their existing websites. Herald Media is among the 40 largest newspaper publishers in the U.S. and is comprised of 5 daily newspapers, including the *Boston Herald* with the largest circulation, 86 weekly newspapers, 14 retail inserts, specialty publications and numerous related websites.

USE OF PROCEEDS:

The net proceeds raised through the sale of the Purchased Securities, after deducting estimated expenses of $500,000, are $6,925,160, which funds were released to the Corporation on each of the Closing Dates. The 125,000 Common Shares will be issued in partial settlement of an outstanding debt owed by the Corporation to a trade creditor representing $21,250. The net proceeds are being used by the Corporation as follows:

Advertising and marketing	$	844,395
Costs associated with newspaper inserts	$	1,503,435
Sales and customer support costs	$	1,249,430
General and administrative	$	2,353,070
System development and support	$	974,830
TOTAL	$	6,925,160

No additional proceeds will be realized by the Corporation upon the exercise or deemed exercise of the Purchased Securities or the issuance of the 125,000 Common Shares. See "Use of Proceeds".

RISK FACTORS:

An investment in the securities offered hereunder should be considered highly speculative due to the stage and nature of the Corporation's business. The business of Megawheels is in a growth market stage. There is no assurance that a commercially viable market for the type of service which Megawheels provides will develop and the Corporation is subject to competition from others who offer similar services on the Internet and in other forms of media. The future operations of the Corporation are dependent upon its ability to obtain the necessary financing, to attract additional listing dealers, to enter into additional agreements with newspaper publishers for the publication of automotive advertising newspaper inserts and the provision of the Corporation's online database to newspapers' established websites and upon increased consumer access and use of the Internet. See "Risk Factors".

SUMMARY FINANCIAL INFORMATION
(Derived from the audited consolidated financial statements of Megawheels except for the six months ended February 28, 2001)

	For the six months ended February 28, 2001	For the year ended August 31,		
	(unaudited)	2000	1999	1998
Revenues	$1,697,824	$2,674,028	$728,363	$259,365
Loss before income taxes	$(5,024,826)	$(7,557,499)	$(3,380,456)	$(1,046,201)
Loss for the period	$(4,863,816)	$(7,465,740)	$(3,380,456)	$(1,046,201)
Basic loss per share	$(0.24)	$(0.48)	$(0.47)	$(0.41)
Cash dividends	nil	nil	nil	nil

	As at February 28, 2001	As at August 31,		
	(unaudited)	2000	1999	1998
Working capital (deficiency)	$(4,488,591)	$183,946	$330,116	$(15,038)
Total assets	$6,678,897	$8,522,001	$1,298,856	$384,152
Total long-term liabilities	$857,808	$1,184,647	-	$68,970
Shareholders' equity (deficiency)	$(312,271)	$4,298,946	$685,255	$174,557

Note:

The summary financial information includes the effect of the acquisition of Conxsys in May 2000.

GLOSSARY

In this prospectus, unless the context otherwise requires, the following words and phrases shall have the meaning set forth below:

"125,000 Common Shares" means the 125,000 Common Shares to be issued by the Corporation to a trade creditor in partial settlement of a debt owing by the Corporation to the trade creditor;

"2000 Convertible Notes" means (i) a $600,000 principal amount of convertible promissory note issued on October 11, 2000 which bears interest at 15% per annum, is secured by a charge on the assets of the Corporation and may be converted by the holder into 1,132,075 Note Shares; (ii) a $500,000 convertible promissory note issued on November 9, 2000 which bears interest at 10% per annum, is secured by a charge on the assets of the Corporation and may be converted by the holder into 1,666,667 Note Shares; (iii) a $1,000,000 convertible promissory note issued on December 12, 2000 which bears interest at 10% per annum, is secured by a charge on the assets of the Corporation and may be converted by the holder into 4,000,000 Note Shares; and (iv) a $250,000 convertible promissory note issued on December 22, 2000 which bears interest at 10% per annum, is secured by a charge on the assets of the Corporation and may be converted by the holder into 833,333 Note Shares;

"ANL Payment Date" means five (5) days prior written notice upon the earlier of: (i) April 30, 2002; and (ii) such other date as the principal amount of the ANL Loan shall become payable in accordance with the terms and conditions of the ANL Terms Letter;

"ANL" means Associated Newspapers Limited;

"ANL Loan" means the convertible loan in the amount of $250,000 granted by ANL to the Corporation on April 30, 2001 in connection with the issuance of a $250,000 principal amount of Special Note;

"ANL Terms Letter" means the terms letter dated March 22, 2001, as amended on April 30, 2001 between the Corporation and ANL;

"ASC" means the Alberta Securities Commission;

"ASE" means the Alberta Stock Exchange;

"Globemedia" means Bell Globemedia Publishing Inc.;

"CBCA" means the *Canada Business Corporations Act*;

"CDNX" means the Canadian Venture Exchange Inc.;

"Closing Dates" means the closing dates for each of the Corporation's private placements of Purchased Securities being October 11, 2000, November 9, 2000, December 12, 2000 and December 22, 2000 in respect of the 2000 Convertible Notes; February 14, 2001 in respect of the Special Warrants; May 9, 2001 and July 25, 2001 in respect of the Series A Shares; and April 30, 2001 and May 17, 2001 in respect of the Special Notes;

"Common Share" means a common share in the capital of the Corporation;

"Corporation" or **"Megawheels"** means Megawheels Inc.;

"Conxsys" means Conxsys Inc.;

"E-commerce" means all types of revenue generating business activity on the Internet;

"Escrowed Shares" means Common Shares which have been deposited in escrow pursuant to the requirements of the ASC and the CDNX;

"ESWheels Insert" means the weekly automotive section published in the *Evening Standard* newspaper pursuant to an agreement between Megawheels and ANL;

"February 2001 Loan" means the $1,115,000 convertible loan granted to the Corporation in connection with the issue of the Special Warrants on February 14, 2001;

"February 2001 Notes" means the $1,115,000 principal amount of convertible demand promissory notes issuable on exercise or deemed exercise of the Special Warrants;

"GlobeMegawheels Insert" means the weekly automotive section published in the Toronto edition of *The Globe and Mail* newspaper pursuant to an agreement between Megawheels and *The Globe and Mail*;

"GlobeMegawheels Website" means the website jointly established by Megawheels and *The Globe and Mail* located at www.globemegawheels.com;

"Globemedia Loan" means the convertible loan in the amount of $1,000,000 granted by Globemedia to the Corporation on May 17, 2001 in connection with the issuance of a $1,000,000 principal amount of Special Note;

"Globemedia Payment Date" means five (5) days prior written notice upon the earlier of: (i) May 17, 2002; and (ii) such other date as the principal amount of the Globemedia Loan shall become payable in accordance with the terms and conditions of the Globemedia Terms Letter;

"Globemedia Terms Letter" means the terms letter dated March 14, 2001, as amended on April 4, 2001 and May 15, 2001 between the Corporation and Globemedia;

"Internet" means an international collection of computer networks interconnected with routers, which are devices which receive and transmit data packets between segments within a network or in different networks;

"May 2001 Notes" means the $1,250,000 principal amount of convertible demand promissory notes issuable on conversion or deemed conversion of the Special Notes;

"MegaWheels Media" means MegaWheels Media Inc., a predecessor of the Corporation;

"Megawheels Website" means the website of Megawheels, located at www.megawheels.com;

"Note Shares" means the Common Shares issuable on conversion or deemed conversion of the 2000 Convertible Notes;

"Purchased Securities" means the 2000 Convertible Notes, the Special Warrants, the Series A Shares, and the Special Notes;

"Qualifying Jurisdictions" means British Columbia, Alberta and Ontario;

"Reverse Publishing" means the electronic conversion of digital files to files which are ready for print;

"Series A Expiry Time" means 5:00 p.m. (Toronto time) on the date which is the earlier of (i) May 9, 2002; and (ii) the third business day following the issuance of a receipt by the securities regulatory authorities in the Qualifying Jurisdictions for a (final) prospectus qualifying the Series A Units;

"Series A Shares" means the 13,444,547 convertible preferred shares, Series A convertible into Series A Units;

"Series A Units" means the 13,444,547 units issuable on conversion or deemed conversion of the Series A Shares each consisting of one Series B Share and one Warrant;

"Series B Shares" means the 13,444,547 convertible preferred shares, Series B issuable on conversion or deemed conversion of the Series A Shares and convertible into one Common Share;

"Special Note Expiry Time" means 5:00 p.m. (Toronto time) on the earlier of (i) the Globemedia Payment Date or ANL Payment Date, as applicable, and (ii) the fifth business day following the issuance of a receipt by the Securities Regulatory Authorities in the Qualifying Jurisdictions for a (final) prospectus qualifying the Special Note Units;

"Special Note Units" means the units issuable on conversion or deemed conversion of the Special Notes consisting of $1,250,000 principal amount of May 2001 Notes and 3,750,000 Warrants;

"Special Notes" means the $1,250,000 principal amount of special convertible demand promissory notes convertible into Special Note Units;

"Special Warrant Units" means 1,115,000 units issuable on exercise or deemed exercise the Special Warrants each consisting of $1.00 principal amount of February 2001 Notes and 5.88 Warrants;

"Special Warrants" means 1,115,000 Special Warrants issued in connection with the February 2001 Loan;

"UK Website" means the website of the *Evening Standard*, hosted by Megawheels, located at www.thisislondon.co.uk/esw;

"Underlying Securities" means the Note Shares, the Special Warrant Units, the Series A Units and the Special Note Units;

"Warrants" means 6,558,824 Warrants issuable on exercise or deemed exercise of the Special Warrants, 13,444,547 Warrants issuable on conversion or deemed conversion of the Series A Shares and 3,750,000 Warrants issuable on conversion or deemed conversion of the Special Notes; and

"Websites" means the Megawheels Website, the GlobeMegawheels Website and the UK Website.

BUSINESS OF MEGAWHEELS

Incorporation and Completion of Major Transaction

Megawheels was incorporated under the provisions of the *Business Corporations Act* (Alberta) on April 29, 1998 as "Westview Multimedia Inc." and was continued under the *Canada Business Corporations Act* ("CBCA") on April 30, 1999. On May 12, 1999, the Corporation changed its name from "Westview Multimedia Inc." to "Megawheels.com Inc." and consolidated its issued common shares on a 2-for-1 basis. On May 30, 1999, the Corporation amalgamated with its wholly owned subsidiary, MegaWheels Media. The head and registered office of Megawheels is located at Suite 400, 255 17th Avenue S.W., Calgary, Alberta, T2S 2T8.

Megawheels (then Westview Multimedia Inc.) was listed on the ASE as a junior capital pool company in October 1998 and completed its major transaction in May 1999 which consisted of the following:

- the consolidation of all of the issued and outstanding common shares of Westview Multimedia Inc. on the basis of one consolidated share for every two previously issued common shares;
- the acquisition of all of the issued and outstanding shares of MegaWheels Media on the basis of one consolidated Westview Multimedia Inc. share for one common share of MegaWheels Media;
- the name change from "Westview Multimedia Inc." to "Megawheels.com Inc."; and
- the amalgamation of Megawheels with its wholly owned subsidiary, MegaWheels Media.

The Common Shares are listed on the CDNX under the symbol "MGW".

The business of Megawheels was carried on by MegaWheels Media prior to completion of the major transaction described above. MegaWheels Media was incorporated under the CBCA on January 24, 1995 as "Rapid Exchange Inc." Rapid Exchange Inc. changed its name to "MegaWheels Media Inc." on November 21, 1997.

Effective September 1, 1998, MegaWheels Media amalgamated with its wholly owned subsidiary, Rapid Exchange Western Canada Inc. and incorporated under the *Business Corporations Act* (Alberta) on October 15, 1997.

The controlling shareholders of MegaWheels Media held 62% of the issued and outstanding shares of Westview Multimedia Inc. prior to the completion of the major transaction. The major transaction was carried out as a reverse take-over by MegaWheels Media of Westview Multimedia Inc. See "Financial Statements".

Megawheels Limited was incorporated under the provisions of the *Companies Act (1985) England* on July 31, 2000 and is a wholly-owned subsidiary of Megawheels. The head and registered office of Megawheels Limited is located at 6 Laurence Pountney Hill, London, England, EC4R 0BL.

In May 2000, the Corporation completed the acquisition of all of the issued and outstanding common shares of Conxsys Inc. ("Conxsys"), a Toronto- based developer of dealer management software. Conxsys was incorporated under the *Business Corporations Act* (Ontario) on March 9, 1990.

On May 9, 2001, Megawheels filed Articles of Amendment designating the Series A Shares and the Series B Shares and the rights, privileges, restrictions and conditions thereon. See "Description of Share Capital - Preferred Shares" and "Plan of Distribution".

On July 4, 2001, the Corporation changed its name from "Megawheels.com Inc." to "Megawheels Inc.".

Overview of the Business of Megawheels

The business of Megawheels is based on providing technology products and out-sourced business services for two primary customer groups: newspaper publishers and automotive manufacturers. The Corporation's two main products, Net2Print and inVision, are designed to increase revenues for these two customer groups as well as reduce their costs and increase operational efficiency. Net2Print is Reverse Publishing software that provides newspapers with a custom branded online searchable automotive database that can be incorporated into their existing website. This data can be efficiently extracted in digital format for inclusion in printed automotive newspaper supplements and other media. inVision is dealer-based software that allows automotive dealers to digitize, list and manage their inventory on the Corporation's Websites and transmit advertising content to media companies. Megawheels facilitates certain business operations of newspaper publishers and automotive manufacturers by hosting online links to their end-users, automotive dealers and consumers.

Megawheels produces the content for advertising in a weekly automotive section of the Toronto edition of *The Globe and Mail* as well as hosting the website located at www.globemegawheels.com which is linked to the main *Globe and Mail* web centre located at www.globeandmail.com. This portal provides the principal means for a Canadian audience to access the English language version of the Megawheels Website, located at www.megawheels.com. Through the Megawheels Website and the GlobeMegawheels Website, the Corporation provides information on new and pre-owned vehicles listed for sale in its database. The database is comprised of information acquired from automotive dealers and individual sellers of pre-owned vehicles primarily from markets where *The Globe and Mail* has significant circulation. The dealer network benefits from this combined print and online advertising capability and manages its inventory and accesses the Websites with inVision software.

In August 2000, Megawheels expanded its operations into the United Kingdom. Megawheels Limited, a wholly-owned subsidiary of Megawheels, entered into an agreement with ANL, publisher of the *Evening Standard* in London, England, for the establishment of a website listing vehicles for sale in the United Kingdom located at www.thisislondon.co.uk/esw. The UK Website forms part of the Evening Standard's main website located at www.thisislondon.co.uk. The agreement also provides for the publication of the ESWheels Insert, a weekly automotive insert in the *Evening Standard*. The UK Website was launched in October 2000 and the ESWheels Insert commenced publication on February 2, 2001.

On March 13, 2001, the Corporation signed a binding terms letter with HIASYS, the new media division of Herald Media of Boston Massachusetts for the establishment of an automotive website aimed at a Boston area audience. Under the terms letter, Megawheels has agreed to license its website database technology and search engine to HIASYS for a term of three years. Megawheels has also agreed to establish a separate website for HIASYS which will be branded "Carfind" and be available for all newspapers owned by Herald Media for incorporation into their existing websites. Herald Media is among the 40 largest newspaper publishers in the U.S. and is comprised of 5 daily newspapers, including the *Boston Herald* with the largest circulation, 86 weekly newspapers, 14 retail inserts, specialty publications and numerous related websites.

General Development of the Business

In 1995, Megawheels commenced operation of an online consumer-oriented business through the introduction of the Megawheels Website, providing online advertising for auto dealerships. The Corporation subsequently evolved into a technology driven business solutions provider to the automotive advertising and retail sectors. Megawheels has continued to operate with the objectives of satisfying the needs of consumers for comprehensive online research, improving advertising efficiencies for automotive manufacturers and dealers, particularly in the used car segment, and improving operational efficiencies for automotive dealers.

In 1998, the Corporation launched Megawheels magazine, a used car classified magazine comprised primarily of dealer inventory with some private listings. Publication of the magazine and the corresponding success of the Corporation's Reverse Publishing technology led to the establishment of the working relationship with *The*

Globe and Mail. The Corporation ceased publication of the magazine in December 1999 when it commenced publication of the GlobeMegawheels Insert. As a consequence, the Corporation shifted away from the requirement to invest in consumer targeted advertising in favour of media partnerships that leverage historically strong local and regional brands to drive awareness and traffic to its Websites and automotive inserts.

In May 2000, the Corporation completed the acquisition of all of the issued and outstanding common shares of Conxsys, a Toronto-based developer of dealer management software. This acquisition provided the Corporation with an operating division as well as a research and development platform from which to develop the integration of Drive, inVision and Net2Print. See "Business of Megawheels - Drive".

Revenue and Marketing

The Corporation's principal sources of revenue are technology licensing and out-sourced production services fees from media companies, monthly license fees from dealers using its inVision product and monthly licence fees from dealers who use all or some of the components of the Drive dealer management system. Additional revenue is also generated by listing and display advertising fees in respect of newspaper inserts and online advertising from related websites. New revenue sources in 2001 are anticipated to include listing and display advertising fees in respect of new newspaper inserts, fees from licensing the website component of its Net2Print product, out-sourced production services as contracted with HIASYS as well as technology licencing fees from manufacturers for custom branded websites connected to their dealer networks by inVision.

The Corporation's strategy outside Canada is to affiliate itself with an existing newspaper publisher in a geographic region and to provide that publisher with a custom branded automotive website, the data from which can be digitally transposed into an automotive advertising newspaper insert. This strategy is designed to leverage local brand, sales force and print and distribution assets of newspapers to stimulate demand for the Corporation's products in the region. After an initial joint effort with the Corporation, the local newspaper group would then take primary responsibility for the marketing of inVision to its dealer customers allowing them to digitize their inventory, display it on the website and list selected inventory in the newspaper insert. The newspaper would sell ongoing display advertising to automotive dealers, third-party vendors, associations and manufacturers, using its local brand to market the website to consumers within the region. Newspapers are able to focus on revenue generation and can out-source ongoing production for its automotive newspaper insert to Megawheels, who would be responsible for taking the display, classified and editorial content and creating a digital file of the ready-to-print newspaper insert.

The Corporation's longer term strategy is to broaden its relationship with newspapers and leverage auto sector success into real estate marketing and the career classified vertical market. In each market area, the Corporation would continue its penetration into the automotive sector such that once a dealer network is established in a region and the necessary software adaptations implemented, the Corporation would undertake to market its technology products to local automotive dealerships.

In Canada, the Corporation is working with Globe Interactive to position the GlobeMegawheels Website as one of Globe Interactive's nine sites located at the globeandmail.com Web Centre. On January 9, 2001, BCE Inc. announced the creation of a new company, Bell Globemedia, which brings together CTV Inc., *The Globe and Mail*, Globe Interactive and Sympatico, resulting in the merger of a national television network with Canada's leading on-line service provider as well as a national newspaper and its related websites. Bell Globemedia is owned as to 70.1% by BCE Inc., 20% by The Thomson Corporation and 9.9% by The Woodbridge Company Limited. As Globe Interactive's only automotive site, management of the Corporation believes that the Megawheels Website is strategically positioned to capture significant marketshare in the online automotive sector in Canada and anticipates that the Corporation will gain increased exposure through the merged corporation's expanded online network and implementation of its media convergence strategy.

Net2Print

Net2Print is computer software that converts automobile advertising from the Internet into print format. Specifically, the software creates a print-ready-file, combining listings from the Megawheels database, display advertising and editorial content for a newspaper advertising insert. The software also provides newspaper publishers with the Corporation's complete automotive database under a custom labelled website that can also be included in the newspaper's own website. Such a website provides an additional advertising medium for the newspaper's automotive dealer customer base and provides consumer access to the Websites through the local newspaper website. Net2Print reduces traditional pre-production costs and increases the speed at which newspaper inserts and specialty magazines can be created. Net2Print also allows media companies to out-source all pre-production activity and extend conventional cut-off deadlines to print production thereby increasing the time available to capture new advertising revenue prior to production.

Fees charged for the provision of Net2Print are generally comprised of fees for providing and maintaining the website and preparing advertising inserts. These fees are negotiated between the parties and may include a share of online or print advertising revenues. To date, the subscribers to Net2Print software include *The Globe and Mail* and ANL. As of March 12, 2001, Herald Media has licensed the website-only technology component as the search-engine for www.carfind.com, its online resource for readers of the *Boston Herald* and its 110 community newspapers. It is anticipated that publication of a newspaper insert will commence in Fall 2001.

The Globe and Mail

GlobeMegawheels Insert

Pursuant to an agreement dated November 24, 1999, as amended under a binding terms letter dated January 29, 2001, between Megawheels and *The Globe and Mail*, a division of Globemedia (formerly a division of Thomson Canada Limited), Megawheels provides display advertising and vehicle listings in a weekly automotive section published in the Toronto edition of *The Globe and Mail* newspaper. Megawheels is responsible for the classified content of the insert which it derives from vehicle listings from the database and for the design and preparation of the insert. Under the agreement, profits or losses relating to the business generated by the GlobeMegawheels Insert are shared equally by the two parties.

The GlobeMegawheels Insert was initially published in the Calgary, Edmonton and Vancouver editions of *The Globe and Mail* in October 1999 and in the Victoria, Ottawa and Toronto editions of *The Globe and Mail* in January, 2000. Pursuant to a letter agreement dated October 19, 2000, between *The Globe and Mail* and Megawheels, the parties confirmed their agreement to discontinue the publication of the inserts in Victoria and Ottawa in May 2000 and agreed to discontinue the publication of the Calgary, Edmonton and Vancouver inserts in October 2000. While the Toronto automotive insert is proving to be profitable, the publication of the GlobeMegawheels Insert in the other Canadian cities indicated that circulation levels had not yet reached a level necessary to support a publication of this type.

Under the terms of the amending terms letter dated January 29, 2001, the agreement terminates on December 31, 2003 unless earlier terminated in accordance with the terms of the agreement. The agreement may be terminated by *The Globe and Mail* on certain specified events, including where Megawheels fails to maintain a minimum of 100 dealers on the GlobeMegawheels Website which are located within the greater Toronto area and where revenue from the insert fails to exceed expenses for a period of three consecutive months. The amendment further provides that the non-competition clause in the original agreement is amended to allow Megawheels to enter into similar agreements with daily newspapers not owned or controlled by certain newspaper publishers as more particularly specified in the amendment. The parties intend to more clearly define the terms of the amending terms letter in a more detailed amending agreement.

Pursuant to a letter agreement dated November 23, 1999 between *The Globe and Mail* and Megawheels, Megawheels has granted a right of first refusal to *The Globe and Mail* in the event of an offer to purchase the business of Megawheels by certain specified competitors of *The Globe and Mail*. See "Material Contracts".

GlobeMegawheels Website

Pursuant to an agreement made as of January 1, 2000, as amended under a binding terms letter dated January 26, 2001, between Megawheels and Globe Interactive ((formerly Globe Information Services, a division of Globemedia), Megawheels and Globe Interactive have jointly established the GlobeMegawheels Website located at www.globemegawheels.com. The GlobeMegawheels Website is one of the websites which is part of the Globe Interactive family of websites accessible from the main web centre located at www.globeandmail.com. Visitors to the Websites who indicate a preference to see the English language, Canadian-based version of the Megawheels Website are automatically linked to the GlobeMegawheels Website. The GlobeMegawheels Website has the graphic user interface of a Globe Interactive website. Globe Interactive is responsible for supplying non-vehicle related content, including advertising and links to other Globe Interactive sites or associated sites, and Megawheels is responsible for supplying vehicle related content, including the search engine and vehicle information database.

The agreement terminates on December 31, 2003 unless earlier terminated in accordance with the terms of the agreement. The agreement may be terminated by Globe Interactive upon certain specified events including where Megawheels undergoes a change of control involving a named competitor.

The parties entered into the amending terms letter on January 26, 2001 in order to provide the basis upon which the parties are prepared to proceed with the creation of additional co-branded websites. The amendment provides that Globe Interactive is responsible for negotiating all aspects of, and selling all advertising on, all national co-branded websites that are to be connected to the Megawheels Website through the GlobeMegawheels Website, and Megawheels is responsible for incorporating the user interface of the national websites into the co-branded websites. In addition, Megawheels is responsible for negotiating all aspects of agreements for local co-branded websites with newspapers which Megawheels is not precluded from carrying on business with under the non-competition provision of the agreement. Megawheels has agreed that all local websites will only be connected to the Megawheels Website through the GlobeMegawheels Website. Megawheels is entitled to an annual licencing fee and a percentage of net advertising revenues once the net advertising revenue exceeds a specified amount in a given calendar year. Megawheels retains all the rights in, and income generated from vehicle related content on the GlobeMegawheels Website. The parties intend to more clearly define the terms of the amending terms letter in a more detailed amending agreement.

Associated Newspapers Limited

On August 1, 2000, Megawheels Limited, a wholly-owned subsidiary of Megawheels, entered into a Website and Newspaper Insert Agreement with ANL. ANL is owned by the Daily Mail and General Trust, a newspaper conglomerate based in the United Kingdom. The agreement relates to the establishment of the UK Website and the publication of the ESWheels Insert, a weekly insert containing vehicle advertising and editorial content related to vehicles in the *Evening Standard*, a newspaper published in London, England and owned by ANL. The agreement provides that, for the development and production of the UK Website, ANL is responsible for supplying non-vehicle related content, including advertising and links to other ANL sites and Megawheels Limited is responsible for supplying vehicle-related content, including the search engine and vehicle information database. ANL is the proprietor of the UK Website under the agreement. For the publication of the ESWheels Insert, ANL is responsible for display advertising and Megawheels Limited is responsible for the classified content of the ESWheels Insert which it derives from vehicle listings from the UK Website database. Under the agreement, each party is responsible for a portion of the costs and each party is entitled to a portion of the revenue associated with the UK Website and publication of the ESWheels Insert.

The UK Website was launched on October 7, 2000 and as of May 23, 2001 the UK Website lists approximately 13,200 vehicles from over 280 listing dealers. The publication of the ESWheels Insert in the *Evening Standard* commenced on February 2, 2001. Due to the success of this undertaking, the Corporation is pursuing an agreement for the publication of an automotive insert in the *Daily Mail*, a newspaper owned by ANL and circulated throughout the United Kingdom, as well as in other regional newspapers.

The agreement terminates on August 1, 2003 unless earlier terminated in accordance with the agreement. Megawheels Limited has agreed that, during the term of the agreement, it will not enter into any agreement with another newspaper publisher in the United Kingdom for the provision of services similar to those provided by Megawheels Limited under the agreement. Notwithstanding the foregoing, if, by January 31, 2002, the parties have not signed a written agreement providing for inserts to be included in newspapers that are circulated in all metropolitan areas of the United Kingdom, Megawheels Limited may, after written notice to ANL, conclude an agreement with another party relating to the establishment of a website and publication of inserts in newspapers that circulate in areas not covered by agreements between ANL and Megawheels Limited. See "Material Contracts".

The obligations of Megawheels Limited under the agreement have been guaranteed by Megawheels pursuant to a guarantee made effective as of August 1, 2000. See "Material Contracts".

In addition to the *Evening Standard*, the *Daily Mail*, and *The Mail on Sunday*, ANL has a free daily newspaper, the *Metro*. The total circulation of the *Evening Standard*, the *Daily Mail*, *The Mail on Sunday* and the *Metro* exceeds 2.7 million people. The daily readership of the newspapers published by ANL amounts to approximately 14 million people or 12% of the United Kingdom market.

Herald Interactive Advertising Systems, Inc.

On March 13, 2001, the Corporation signed a binding terms letter with HIASYS, the new media division of Herald Media of Boston, Massachusetts for the establishment of an automotive website aimed at both a Boston and state-wide audience. Under the terms letter, Megawheels has agreed to license its website database technology and search engine to HIASYS for a term of three years. Megawheels has also agreed to establish a separate website for HIASYS which will be branded "Carfind" and be available for all newspapers owned by Herald Media for incorporation into their existing websites. Additionally, Megawheels will transfer existing Carfind.com website data and Herald Media newspaper classified data to the new website and make it accessible using the Megawheels search engine.

Megawheels is responsible for website maintenance, updating and hosing as well as management and Herald Media is responsible for all advertising sales including sales of inVision. Under the terms letter, Megawheels will be entitled to technology licencing fees and support fees and HIASYS will be entitled to all advertising revenue on the website. Megawheels has agreed that it will not enter into any technology agreements with any competitive newspaper that has a significant circulation base within the Boston area. Additionally, the parties have agreed to investigate the establishment of a regional automotive section for one of the Herald Media regional newspapers. The target date for the launch of such an insert is Fall 2001.

Herald Media is among the 40 largest newspaper publishers in the U.S. and, through its acquisition of Community Newspaper Company, is comprised of 5 daily newspapers, including *The Boston Herald* with the largest circulation, 86 weekly newspapers, 14 retail inserts, specialty publications and numerous related websites. Herald Media estimates total readership for its newspapers at over 2 million.

inVision

inVision is software delivered via the Internet on an application service provider ("ASP") basis which allows automotive dealers to digitize, list and manage their inventory on the Corporation's Websites and transmit advertising content to multiple media companies. inVision is comprised of three main components:

- www.megawheels.com provides consumer access to the database and acts as the compiler for the Corporation's automotive listings;

- Publysis is proprietary content and production software which compiles database information into a camera-ready print file for classified advertising; and

- the dealer management function of inVision allows dealers to track used-car inventory online and manage the flow of information to media outlets. Included in dealer management function is MegaImage, proprietary software which allows digital photographs to be uploaded to the Websites.

inVision provides a cost effective means for newspapers to transfer advertising content to their end-users, automotive dealers and consumers, and for manufacturers to increase the speed with which available inventory for sale can be communicated to both wholesale and retail customers. Media partners of Megawheels can establish direct online links to both consumers and auto dealers for advertising, thereby eliminating the traditional costs associated with sales representatives visiting customers on-site to obtain photographs, product information and creative layout required for advertising content.

The Corporation's databases are currently comprised of approximately 25,000 new and pre-owned vehicles for sale, including information on the inventory of over 500 automobile dealerships located in Canada, the United Kingdom, the United States and Australia. The databases are updated directly by dealers who maintain their listings on an ongoing basis and by individuals who may renew their listing after an initial 30 day listing period. Subscribers are charged a base subscription fee which may vary depending on a number of factors, including the market, automotive dealership group discounts and the length of the subscription contract.

Visitors to the Megawheels Website can indicate a preference to see listings in Canada, the United States, the United Kingdom or Australia and can choose a French language version of the Megawheels Website for Canadian listings. Those visitors who indicate a preference to see the English-language, Canadian-based version of the Megawheels Website are automatically linked to the GlobeMegawheels Website. The Megawheels Website is visited by an average of 180,000 "unique visitors" per month. For the purposes of this count, each individual who visits the Megawheels Website during a twenty-four hour period is recorded as one visit regardless of the number of visits by that individual during that period.

Information provided on the UK Website is supplied from the Corporation's database located in the United Kingdom and is configured for United Kingdom consumers. The UK Website is accessible from the Megawheels Website and from the Evening Standard's main Internet site located at www.thisislondon.co.uk.

The Websites provide the following services to automotive manufacturers and their dealers:

- an Internet advertising site that allows dealers to list their entire inventory in a digitized format;

- a global portal through which consumers can access online inventory;

- an in-house means of creating advertising materials, inventory lists and vehicle stickers;

- an electronic site for wholesaling inventory between dealers; and

- a site for all online inventory that can also be sent to manufacturers' and dealers' newspaper outlets in digital format.

The Websites provide the following services to newspaper publishers:

- a means by which a newspaper's automotive customers can input inventory online;
- a cost effective tool for producing content for a printed automotive publication; and
- the addition of a searchable global online automotive database to a newspaper's existing website as well as an automotive database which forms part of the newspapers website.
- a searchable automotive database which allows consumers to:
    - search, sort and compare the automobiles in the database according to combinations of the user's own preferences, including the make, model, year, price, colour, engine specification, number of kilometres and location of the vehicle, resulting in a customized list of available vehicles;
    - provide current data that is continuously updated and available 24 hours a day;
    - allow a user to locate and contact the seller; and
    - read product and safety reviews.

Research and Development

Drive

Drive is a modular software system that provides integrated support to the retail, service and management operations of automotive dealers. The software can be provided on an in-house server or via the Internet on an ASP basis.

Pursuant to a Share Purchase Agreement dated May 9, 2000, the Corporation completed the acquisition of all of the issued and outstanding shares of Conxsys, the Toronto based developer of Drive. The total acquisition cost was comprised of cash and Common Shares totalling $1,672,500 before expenses related to the acquisition. The Corporation agreed to issue to the vendors of the Conxsys shares 300,000 Common Shares with an agreed value of $300,000, or $1.00 per share, and to make aggregate cash payments of $1,372,500, over the 24 months following the date of acquisition. In addition, the Corporation may be required to make a further cash payment of up to $322,500 if certain performance related targets are met within 18 months after the acquisition date. See "Material Contracts".

The 300,000 Common Shares are held in escrow pursuant to an escrow agreement dated May 9, 2000 between the vendors of the Conxsys shares, the Trustee and Megawheels. Under the escrow agreement and the Share Purchase Agreement, such shares are to be released to the vendors no later than 24 months after the date of acquisition but may be released sooner if certain performance related targets are met. On May 9, 2001, 150,000 shares were released from escrow. See "Escrowed Shares".

The acquisition of the Conxsys shares was financed primarily through the issue of a $1,500,000 convertible promissory note to eLab Technology Ventures Inc. ("eLab") on April 28, 2000. See "Principal Shareholders".

Drive is comprised of five modules: showroom (sales, finance and insurance); parts; service; accounting; and manufacturer communications. Each module can be installed and run independently in any of the dealership departments or can be implemented as a dealership-wide system. Drive was designed to increase operational efficiency and reduce costs by linking dealer management functions, eliminating re-keying of information and tracking inventory, financial, sales and customer information. The ASP model allows remote operations support so that functions such as software upgrades, back-ups, installation of bug fixes and data cleansing may be provided via the Internet. The Corporation has successfully tested the ASP model of Drive and has commenced its installation in dealerships. Management of the Corporation expects ASP acceptance to grow in the market leading to increased installations of the ASP model of Drive in 2001.

Drive is currently installed in 75 automotive dealerships, primarily located in Ontario. The fees charged to users of Drive include an initial licence fee, installation and training fees and a monthly licence fee plus support fees thereafter. The amount of these fees varies depending on the size of the dealership and the components of Drive subscribed for.

Auction Services

In addition to Drive, the Corporation has expanded its technology offering through the acquisition of a license for online auction services from Bid.com International Inc. ("Bid.com"). Effective September 30, 1999, Megawheels entered into a License and Services Agreement with Bid.com relating to the non-exclusive licensing of software and hosting services. This technology will enable Megawheels to provide online vehicle auction services for automotive manufacturers, dealers and individuals, including bidding and listing of vehicles for sale by auction. Bid.com is a leading provider of online auction services worldwide. The agreement has a term of 15 years and may be renewed for additional one year periods thereafter. The agreement contemplates that the license will be terminable on default by either party and in the event of default by Bid.com, Megawheels will have access to the source code for the auction service software which will be deposited with an independent depository. In consideration of the grant of the license, Megawheels issued 1,600,000 special warrants all of which have been converted by Bid.com into 1,600,000 Common Shares. The agreement also provides that net online auction revenues derived by Megawheels from the use of the licensed software will be shared by Bid.com and Megawheels. The auction technology has been customized to work in the Megawheels environment and live tests with selected dealers have been successfully completed. See "Material Contracts".

Competition

Megawheels' primary competition comes from two distinct groups: Internet automotive websites and producers of Reverse Publishing software and websites.

As a result of the recent market trend in the technology sector, many of the approximately 60 automotive Internet websites have either ceased operations or merged with other organizations. Many of the business models that were focused on charging dealers on a per lead basis have been unable to sustain operations given the limited revenues they have generated. Of the remaining competitors, each website provides some form of searchable database and generates revenue either by acting as a referral agent to dealers or through direct dealer inventory listings. Many sites refer consumers to financing and insurance sources and, in some cases, are linked to manufacturers' sites and consumer data reports. Management of the Corporation believes that Megawheels is well positioned in the market as it provides an independent website that can be multi-purposed to meet the needs of: (i) newspaper publishers seeking a cost-effective automotive online presence and Reverse Publishing solution, (ii) manufacturers seeking to establish an electronic link between their dealers and consumers that will ensure brand consistency as well as strengthened dealer and consumer communication; and (iii) dealers seeking a cost-effective tool to enhance their online presence and incorporate effective one-entry inventory and media management. Also unique to Megawheels is the interrelationship between its Websites, newspaper publishers and its automotive dealer network and its ability to provide dealer management system software to automotive dealers.

Producers of Reverse Publishing software specialize in converting Internet developed content to print. There are few competitors in this sector. Alternatives are offered by Carwave and Gannett Technologies in the U.S.

Management of the Corporation believes that it has a superior technology offering, substantiated recently by the President of Carwave joining Megawheels in a senior marketing role in the U.S. and the relative absence of competitive site installations in Europe. Due to recent developments in the U.S., management of Megawheels believes that the Corporation has an opportunity to infiltrate the U.S. market in providing technology which links digital content to print production. Unlike Megawheels, existing competitors use third party websites for online content and rely on newspapers to generate listings. Management of the Corporation believes that it has an advantage in its relationships with both newspaper publishers and automotive dealers and in its ability to link the two groups through the Websites. The principal website competitors include PowerADz, AdOne and Cars.com. While these companies sell an aggregated database to newspapers, they do not provide a facility to mirror online content with print. The Corporation views these website companies as potential customers for its Net2Print technology and, while Cars.com offers one consolidated online brand for newspapers, the Corporation uses it technology to provide custom branded solutions.

Employees

Megawheels currently has 47 employees of whom 9 are sales staff, 15 are product installation, training and support staff, 9 are software development and technology support staff and 14 are design and administrative staff.

Technology

The Corporation's servers, except those servicing the United Kingdom market, are located in the network operations centre ("NOC") in Calgary, Alberta. The NOC is is scaleable to a 100Mb fibre-optic Internet backbone provided by Telus Advanced Communications, a division of Telus Corporation. A separate power supply feeding several uninterruptible power supplies ensures that the Megawheels Website servers, database servers, ASP servers, or other critical production servers have two hour reserves in the case of a power failure. The NOC is climate-controlled and is capable of housing hundreds of servers. Currently, over thirty servers are used for the Corporation's Websites, database, firewall, electronic mail, corporate file and print, and development networks. All production servers used for the inVision and Net2Print products are fully redundant, including redundant database servers with automated failover. Megawheels has installed a commercial firewall protection component to protect confidential information against unauthorized access. Additionally, the Corporation has scheduled redundancy with the UK servers. The Corporation has also implemented a disaster recovery plan designed to restore system operations as quickly as possible after a malfunction.

Most of the Corporation's hardware is made by Hewlett-Packard and the Corporation's software products, inVision and Net2Print, are built using a suite of development tools designed by Microsoft Corporation. Drive, Megawheels' dealership management software package, is developed in the Unix and Linux operating system using C and C++. Newsprint production servers are resident on both PC and MacIntosh platforms running proprietary Publisys software.

Disaster Recovery Plan

The Corporation's back-up server system is designed to mitigate the effects of a power outage or other disaster such as fire, flood or explosion. The Corporation backs-up transaction files on a half hour basis and performs a complete data back-up every four hours. Daily site back-ups are stored on tapes in a fire-proof safe located on the Corporation's premises. In addition, a weekly server back-up is completed and stored off-site by a third party. The Corporation's current back-up and recovery program is designed with external partners to provide complete server, data and IP re-direction in the case of a fire, flood or explosion. This program allows Megawheels to rebuild its entire server network and restore full operation of its services within 6 to 8 hours should Megawheels not have access to the NOC. The NOC is in a climate controlled, secure area, accessible to only Megawheels network operations staff. Additionally, systems and applications software duplicates are stored offsite. For less-severe disasters, where the NOC is accessible to Megawheels' staff, site restoration could be achieved within 2 hours.

USE OF PROCEEDS

The net proceeds raised through the sale of the Purchased Securities, after deducting estimated expenses of $500,000, are $6,925,160, which amount was paid to the Corporation on the Closing Dates. The 125,000 Common Shares will be issued in partial settlement of a debt owed to a trade creditor representing $21,250 in respect of executive search consulting services. The net proceeds were used and will be used for the continuation and expansion of the business of Megawheels from October 2000 to October 2001 as follows:

- Advertising and promotion to increase awareness of the GlobeMegawheels Website, the GlobeMegawheels Insert, the UK Website, the ESWheels Insert and Net2Print.
- Printing costs associated with the production of the GlobeMegawheels Insert and the ESWheels Insert.
- Costs associated with the sale and technical support of the Drive and inVision products to automobile dealers.
- General administration expenses including employee salaries, office related costs, professional fees and other general administrative costs.
- Systems development and support for the Websites and Drive software.

The estimated working capital deficiency at June 30, 2001 is $4,715,000. This deficiency includes convertible debentures totalling $6,093,000 of which $4,965,000 principal amount of convertible debentures are convertible into Common Shares upon the issuance of a receipt by the securities regulatory authorities in the Qualifying Jurisdictions for a (final) prospectus qualifying the Underlying Securities.

The Corporation's only other source of funds is cash from operations. The Corporation estimates its revenue for the third quarter to be approximately $990,000. The following table sets out the allocation of funds derived from the sale of the Purchased Securities and the issuance of the 125,000 Common Shares and an estimate of the allocation of available funds to support the following activities:

Description of Use	**Proceeds from Purchased Securities and 125,000 Common Shares**	**Other Available Funds**
Advertising and marketing	$ 844,395	$ 119,000
Cost associated with newspaper inserts	$ 1,503,435	$ 218,000
Sales and customer support costs	$ 1,249,430	$ 178,000
General administration	$ 2,353,070	$ 336,000
System development and support	$ 974,830	$ 139,000
Total	**$ 6,925,160**	**$ 990,000**

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected financial data should be read in conjunction with "Management' Discussion and Analysis of Results of Operations and Financial Condition" and the consolidated financial statements of the Corporation and related notes included elsewhere in this prospectus. The selected financial information is derived from the consolidated financial statements of the Corporation.

SUMMARY FINANCIAL INFORMATION
(Derived from the audited consolidated financial statements of Megawheels except for the six months ended February 28, 2001)

	For the six months ended February 28, 2001	For the year ended August 31,		
	(unaudited)	2000	1999	1998
Revenues	$1,697,824	$2,674,028	$728,363	$259,365
Loss before income taxes	$(5,024,826)	$(7,557,499)	$(3,380,456)	$(1,046,201)
Loss for the period	$(4,863,816)	$(7,465,740)	$(3,380,456)	$(1,046,201)
Basic loss per share	$(0.24)	$(0.48)	$(0.47)	$(0.41)
Cash dividends	nil	nil	nil	nil

	As at February 28, 2001	As at August 31,		
	(unaudited)	2000	1999	1998
Working capital (deficiency)	$(4,488,591)	$183,946	$330,116	$(15,038)
Total assets	$6,678,897	$8,522,001	$1,298,856	$384,152
Total long-term liabilities	$857,808	$1,184,647	-	$68,970
Shareholders' equity (deficiency)	$(312,271)	$4,298,946	$685,255	$174,557

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion should be read in conjunction with Financial Statements of the Corporation. See "Consolidated Financial Statements".

Results of Operations

Overview

Megawheels commenced active business operations in August, 1996. The Corporation continues to expand its business operations rapidly, both geographically and in services offered. As a result of this strategy, the Corporation relies on investments of capital in the growth activities of the Corporation in order to generate revenues and profits from operations. The Corporation has incurred net losses since inception and continuing investments of capital in the growth activities of the Corporation are therefore required.

Fiscal Year Ended August 31, 2000 versus Fiscal Year Ended August 31, 1999

Revenues increased 267% in fiscal 2000 over fiscal 1999 from $728,363 to $2,674,028. The increase is largely due to the advertising revenues from the publication of the GlobeMegawheels Insert which commenced in Calgary, Edmonton and Vancouver in October 1999, and in Victoria, Ottawa and Toronto in January 2000. The publication of the GlobeMegawheels Insert was discontinued in Ottawa and Victoria in May 2000 and in Calgary, Edmonton and Vancouver in October 2000, but continues in Toronto. While the Toronto automotive insert is proving profitable, the publication of the GlobeMegawheels Insert in the other Canadian cities indicated that there was insufficient critical mass in those cities to achieve acceptable profit levels with a publication of this type.

Revenue from automobile dealers who subscribe for inVision increased 75% over fiscal 1999, reflecting the growth in the number of automobile dealers using this service.

On May 19, 2000, Megawheels completed the acquisition of Conxsys, a Toronto based developer of dealer management system software. Revenues include those of Conxsys from the date of acquisition which have averaged approximately 16% of total revenues since then. For the year ended December 31, 1999, Conxsys, revenues totalled $840,619.

Operating and overhead expenses increased 149% in fiscal 2000 over fiscal 1999, reflecting the Corporation's focus on growth. The increase in printing and distribution costs is primarily due to the Corporation's share of printing and other expenses related to publishing the GlobeMegawheels Insert. Sales and customer support costs increased as staff was added to expand the dealer network using inVision.

Website development and support costs were up 353% in fiscal 2000 over fiscal 1999 due to the re-design of the Megawheels Website in March, more comprehensive ongoing support and other internal systems development initiatives.

General and administrative expenses increased 115% in fiscal 2000 over fiscal 1999. Administrative staff and related office expenses increased as necessary infrastructure was developed to support the growth and expansion of the Corporation. In May 1999, the Corporation incurred significant increases in public reporting and other investor relations expenses in connection with the completion of its major transaction. Accounting and legal expenses also increased due to financing and general reporting requirements in the year.

Advertising and marketing costs increased 256% due primarily to promotional and advertising expenses associated with the launch and ongoing support of the GlobeMegawheels Insert.

The increase in depreciation and amortization is the result of an increase of approximately $4.5 million in net capital assets from fiscal 1999 to fiscal 2000 resulting from the acquisition of a technology auction license, the Drive software and from an increase in goodwill resulting from the acquisition of Conxsys.

While revenues grew substantially during the year, operating and overhead expenses also grew significantly. As a result, the net loss after taxes for fiscal 2000 increased to $7,465,740 from $3,380,456 in fiscal 1999.

Fiscal Year Ended August 31, 1999 versus Fiscal Year Ended August 31, 1998

In fiscal 1999, revenues increased 181% over fiscal 1998 reflecting both significantly higher levels of activity on the Megawheels Website from sales of advertising and listings in a new publication, the Megawheels magazine. The growing level of activity on the Megawheels Website reflected an increased number of both private individuals and dealers who were utilizing the Megawheels Website to market their used car inventory. At August 31, 1999, 290 dealers were participating on the Megawheels Website, compared with only 136 at the same date in 1998.

The Megawheels magazine, which was distributed to customers through a variety of retail outlets, was first published in Calgary in March, 1999. Additional regional issues were published in Edmonton, Vancouver and Toronto. The Megawheels magazine was prepared using data gathered and stored in the Megawheels Website database and was published bi-weekly.

Operating expenses increased significantly over fiscal 1998, reflecting both the increased level of activity and costs associated with designing, printing and distributing the new Megawheels magazine.

Sales and customer support costs rose as new staff was added to the sales team to support the increase in the number of dealers in fiscal 1999 and the ongoing efforts to expand this number, particularly in central and eastern Canada. General and administrative costs also increased significantly in fiscal 1999 compared to fiscal 1998, again reflecting the significant growth in operating activities.

Printing and distribution costs were new in fiscal 1999 and relate to the publication of the Megawheels magazine. While the costs of producing and distributing the Megawheels magazine exceeded the revenues generated by it, the distribution of the Megawheels magazine filled a marketing function in promoting the Megawheels Website.

Website development expenses almost doubled in fiscal 1999 over fiscal 1998 as new functionality was added and newer technologies were introduced. Depreciation expense increased substantially in fiscal 1999, as it included $153,000 of undepreciated cost of computer equipment because the Corporation no longer leased hardware to dealers to enable them access the Megawheels Website. Revenue included approximately $121,000 of leasing income relating to this hardware.

6 Months Ended February 28, 2001 versus 6 Months Ended February 29, 2000

For the six months ended February 28, 2001 revenues were $1,697,824, an increase of 78% over revenues of $952,505 in the comparative fiscal 2000 six month period. In addition to the new revenues from the Drive system and the ESWheels Insert, the revenue increase included higher revenue from the GlobeMegawheels Insert for the 2001 period compared to the same period in 2000. Offsetting these increases was the absence of revenue in the 2nd quarter of fiscal 2001 from the Megawheels magazine, which ceased publication in November 1999.

For the six months ended February 28, 2001, total expenses increased 56% over the same period of the previous year although operating expenses before interest, depreciation and amortization increased 34% over the 2000 fiscal period.

Printing increased 28% primarily due to the publication of the ESWheels Insert. The increase in General and Administrative costs is attributable to higher office and staff support costs, including those related to the Toronto office, which supports the Drive product, and the office in London, England, increased professional fees arising from corporate financings and other matters and a greater level of investor relations activities. System development costs increases reflect development and support activities for the Drive system as well as higher levels of development and support activities related to the inVision and Net2Print products.

While revenue growth was greater than the growth in operating expenses, the net loss for the six months ended February 28, 2001 increased to $4,863,816 from $3,370,612 in the same period in 2000. However, the loss per share declined from $0.30 per share for the six months ended February 28, 2000 to $0.24 per share in the 2001 period.

Quarterly Results of Operations

	Quarters Ended (unaudited)							
	November 30, 1998[(1)]	**February 28, 1999[(1)]**	**May 31, 1999[(1)]**	**August 31, 1999**	**November 30, 1999**	**February 29, 2000**	**May 31, 2000**	**August 31, 2000**
Revenues	$116,692	$200,036	$159,234	$252,401	$393,415	$559,090	$782,490	$939,033
Loss before income taxes	$(380,757)	$(493,308)	$(761,245)	$(1,745,151)	$(1,452,036)	$(1,918,576)	$(2,076,731)	$(2,110,156)
Loss for the period	$(380,757)	$(493,308)	$(761,245)	$(1,745,151)	$(1,452,036)	$(1,918,576)	$(2,076,731)	$(2,018,397)
Basic loss per share	$(0.09)	$(0.09)	$(0.09)	$(0.17)	$(0.14)	$(0.16)	$(0.11)	$(0.10)

Note:

(1) Financial information for these periods is in respect of MegaWheels Media Inc.

Liquidity and Capital Resources

Cash used in operating activities in fiscal 2000 increased to $7,795,171 from $3,038,282 in fiscal 1999. The primary reason for this increase was the increase in the net loss for the year.

During fiscal 2000, the Corporation acquired Conxsys for $1,770,371. The purchase price was comprised of $1,530,371 in cash (including expenses related to the acquisition and after discounting future payments), part of which was paid on closing with the balance to be paid over a 24 month period, and 300,000 Common Shares of the Corporation recorded at $240,000.

The Corporation's cash requirements for operations in fiscal 2000, the Conxsys acquisition and other capital expenditures were met primarily through the issue of special warrants and a convertible promissory note. The special warrants were issued during the year for proceeds of $8,537,108, net of commissions and expenses. On April 28, 2000, the Corporation issued a $1,500,000 convertible promissory note, the proceeds from which were used primarily for the acquisition of Conxsys. The promissory note matured on April 28, 2001 and will be converted by the holder into 2,000,000 Common Shares of the Corporation. Accrued interest on the promissory note was satisfied through the issuance of Series A Shares.

During the first quarter of the 2001 fiscal year, the Corporation completed the acquisition of the network services division from Single Touch Technologies Inc. ("Single Touch") for $342,800. This acquisition enabled the Corporation to bring the critical equipment and support services related to its Websites and other software systems in house. These services had previously been provided by Single Touch on an outsourced basis.

During the six months ended February 28, 2001, the Corporation received $2,946,000 for working capital funding in exchange for the issue of convertible promissory notes. Promissory notes totalling $596,000 are repayable in August 2001 and the balance of the notes are repayable between October 2001 and December, 2001. The notes bear interest between 10% and 15% and can be converted into a total of 11,137,957 Common Shares. The Corporation also issued warrants to subscribe for 7,955,882 Common Shares at prices between $0.17 to $0.40 per share prior to maturity. The promissory notes are secured by a charge on the assets of the company.

Subsequent to the six months ended February 28, 2001, the Corporation completed a further $4.419 million of funding which management believes will be sufficient to meet its ongoing cash requirements until it achieves a break even cash flow position expected in the fourth quarter of the calendar year 2001. The Corporation issued convertible promissory notes of $1,769,000 of which $519,000 is payable on August 13, 2001 and the balance of the notes is repayable in May 2002. The notes bear interest between 10% and 14% and can be converted into a total of 8,052,941 Common Shares. The Corporation also issued share purchase warrants to subscribe for 6,802,941 Common Shares at prices between $0.17 to $0.25 per share prior to maturity. The remaining $2,650,000 was received in exchange for 13,250,000 Series A Shares each comprised of one Series B Share and one Warrant. Each Warrant is exercisable into one Common Share at a price of $0.20 until May 17, 2002.

On April 30, 2001, holders of an aggregate principal amount of $4,965,000 convertible promissory notes agreed to convert their promissory notes into Common Shares immediately following the issuance of a receipt by the securities regulatory authorities in the Qualifying Jurisdictions for a (final) prospectus qualifying the underlying Common Shares. In addition, such holders agreed to accept Series A Shares in satisfaction of accrued interest under the notes.

Management of the Corporation believes that these funds will be sufficient to meet the Corporation's cash needs until it achieves positive monthly cash flow anticipated by the end of the 2001 calendar year. Under the terms of an agreement for one of the convertible promissory notes, the Corporation is obligated to raise a further $1 million by September 30, 2001. Discussions are currently being held to complete this additional financing.

PLAN OF DISTRIBUTION

The Corporation is hereby qualifying for distribution, subject to adjustment in certain circumstances, 7,632,075 Note Shares issuable upon exercise of previously issued 2000 Convertible Notes; 1,115,000 Special Warrant Units each consisting of a $1.00 principal amount of February 2001 Note and 5.88 Warrants issuable on exercise of 1,115,000 previously issued Special Warrants; 13,444,547 Series A Units each consisting of one Series B Share and one Warrant issuable on exercise or deemed exercise of 13,444,547 previously issued Series A Shares; Special Note Units consisting of $1,250,000 principal amount of May 2001 Notes and 3,750,000 Warrants issuable on exercise or deemed exercise of $1,250,000 principal amount of previously issued Special Notes; and 125,000 Common Shares.

Convertible Notes

The 2000 Convertible Notes were sold to purchasers resident in the Province of Ontario in reliance upon exemptions from the prospectus and registration requirements contained in the securities legislation of the Province of Ontario. The 2000 Convertible Notes were issued pursuant to certain terms letters made between the Corporation and the purchasers and consist of the following: (i) a $600,000 principal amount of convertible promissory note issued on October 11, 2000 which bears interest at 15% per annum, is secured by a charge on the assets of the Corporation and may be converted by the holder into 1,132,075 Note Shares; (ii) a $500,000 convertible promissory note issued on November 9, 2000 which bears interest at 10% per annum, is secured by a charge on the assets of the Corporation and may be converted by the holder into 1,666,667 Note Shares; (iii) a $1,000,000 convertible promissory note issued on December 12, 2000 which bears interest at

10% per annum, is secured by a charge on the assets of the Corporation and may be converted by the holder into 4,000,000 Note Shares; and (iv) a $250,000 convertible promissory note issued on December 22, 2000 which bears interest at 10% per annum, is secured by a charge on the assets of the Corporation and may be converted by the holder into 833,333 Note Shares.

Pursuant to the Conversion Agreements, the holders of the 2000 Convertible Promissory Notes agreed to convert the principal amount of the 2000 Convertible Promissory Notes into Note Shares immediately following the issuance of a receipt by the securities regulatory authorities in the Qualifying Jurisdictions for a (final) prospectus qualifying the Notes Shares. Such holders also agreed to accept Series A Shares in satisfaction of accrued interest under the 2000 Convertible Notes. Certain conditions were also imposed under the Conversion Agreements in connection with the obligation of the 2000 Convertible Note holders to convert the 2000 Convertible Notes (the "Conversion Agreement Conditions"), which conditions were satisfied prior to the closing date and include the following: (i) the undertaking by Megawheels to file a prospectus by July 1, 2001 to qualify the Series A Units, Note Shares and the Special Warrant Units, as applicable, and to use all commercially reasonable efforts to ensure the issuance of a final receipt for the prospectus by the Qualifying Jurisdictions; (ii) the agreement by holders of all other convertible debt or securities exchangeable for convertible debt dated prior April 30, 2001 to convert the principal amount of such debt into Common Shares in accordance with the terms of such instruments; and (iii) the undertaking by Megawheels to take all necessary steps and to secure all necessary shareholder and regulatory approvals to effect a consolidation of its Common Shares on a one for six basis before August 17, 2001.

On May 9, 2001, the holders of the 2000 Convertible Notes released their security interest on the 2000 Convertible Notes and surrendered the 2000 Convertible Notes to be held in escrow pending the issuance of a receipt by the securities regulatory authorities in the Qualifying Jurisdictions for a (final) prospectus qualifying the Note Shares and delivery of certificates representing the Note Shares issuable to such holders on conversion of the 2000 Convertible Notes. Interest on the 2000 Convertible Notes ceased to accrue on May 9, 2001 and the Series A Shares dated May 9, 2001 representing the amount of accrued interest under the 2000 Convertible Notes were issued to the holders of 2000 Convertible Notes.

Special Warrants

The Special Warrants were sold to purchasers resident outside of Canada and to purchasers resident in the provinces of British Columbia, Alberta and Ontario in reliance upon exemptions from the prospectus and registration requirements contained in the securities legislation of those jurisdictions. The Special Warrants were issued in accordance with a terms letter dated February 14, 2001 wherein certain investors, including directors and senior officers of the Corporation, agreed to provide the February 2001 Loan. In consideration for the February 2001 Loan, the Corporation issued 1,115,000 Special Warrants. The 1,115,000 Special Warrants are exercisable into 1,115,000 Special Warrant Units each consisting of $1.00 principal amount of February 2001 Note and 5.88 Warrants. The February 2001 Notes are convertible into Common Shares on the basis of one Common Share for each $0.17 principal amount of February 2001 Note held. Each whole Warrant entitles the holder thereof to acquire one Common Share at a price of $0.17 per Common Share until August 13, 2001. Interest on the loan was charged at 14% per annum and the loan was secured by a charge on the assets of the Corporation.

Pursuant to the Conversion Agreements, the holders of Special Warrants have agreed to exercise the Special Warrants into the February 2001 Notes and to convert the principal amount of the February 2001 Notes into Common Shares, in accordance with the terms thereof, immediately following the issuance of a receipt by the securities regulatory authorities in the Qualifying Jurisdictions for a (final) prospectus qualifying the Special Warrant Units. The obligation of the Special Warrant holders to convert the 2000 Notes was also subject to the Conversion Agreement Conditions. In addition, the Special Warrant holders agreed to accept Series A Shares in satisfaction of accrued interest under the February 2001 Loan. In accordance with a condition of approval imposed by the CDNX, directors and senior officers of the Corporation who received Series A Shares in satisfaction of accrued interest under the February 2001 Loan have agreed to forfeit their entitlement to receive Warrants upon conversion of the Series A Shares held by them.

On May 9, 2001, the holders of the Special Warrants released their security interest on the February 2001 Loan and surrendered the Special Warrants to be held in escrow pending the issuance of a receipt by the securities regulatory authorities in the Qualifying Jurisdictions for a (final) prospectus qualifying the Special Warrant Units and delivery of a certificate representing the Common Shares issuable to such holders on conversion of the February 2001 Notes. Interest on the February 2001 Loan ceased to accrue on May 9, 2001 and the Series A Shares dated May 9, 2001 representing the amount of accrued interest under the February 2001 Loan were issued to the holders of Special Warrants.

Series A Shares

The Series A Shares were sold to purchasers resident outside of Canada and to purchasers resident in the provinces of British Columbia, Alberta and Ontario in reliance upon exemptions from the prospectus and registration requirements contained in the securities legislation of those jurisdictions. Pursuant to a Terms Letter dated March 23, 2001 (the "VIMAC Terms Letter"), 9,735,131 Series A Shares were granted to VIMAC Early Stage Fund LP ("VIMAC"), a U.S. venture capital firm, and pursuant to a subscription agreement dated May 9, 2001, 514,869 Series A Shares were sold to John Varghese, a director of Megawheels. The 514,869 Series A Shares have subsequently been transferred to a corporation owned as to 50% each by John Varghese and T. Christopher Bulger, directors of Megawheels. An additional 3,250,000 Series A Shares were issued to holders of 2000 Convertible Notes and/or Special Warrants who agreed, pursuant to the Conversion Agreements, to accept Series A Shares in lieu of accrued interest under the 2000 Convertible Notes and/or February 2001 Loan, as applicable. The remaining 194,547 Series A Shares were issued to a consultant of the Corporation on July 25, 2001 in settlement of a debt owing by the Corporation in respect of professional services provided by them.

Pursuant to the VIMAC Terms Letter, the Corporation undertook to take all necessary steps to authorize a consolidation of its Common Shares on a one for six basis before August 17, 2001. On June 29, 2001, VIMAC agreed that the consolidation by the Corporation of its Common Shares would be postposed until it could be combined with another appropriate transaction, such as a further round of financing or a public offering.

Each Series A Share consists of one Series B Share and one Warrant and may be converted by the holders thereof at any time until the Series A Expiry Time. Any Series A Shares not exercised prior to the Series A Expiry Time shall be deemed to have been converted immediately prior to the Series A Expiry Time without further action by the holder. Each Series B Share is convertible at the option of the holder at any time or times into one Common Share without payment of any additional consideration. Each whole Warrant entitles the holder thereof to acquire one Common Share at an exercise price of $0.20 per Common Share until May 9, 2002. In accordance with a condition of approval imposed by the CDNX, directors and senior officers of the Corporation who received Series A Shares in satisfaction of accrued interest under the February 2001 Loan have agreed to forfeit their entitlement to receive Warrants upon conversion of the Series A Shares held by them. See "Description of Share Capital - Preferred Shares" for a description of the rights, privileges, restrictions and conditions attaching to the Series A Shares and Series B Shares.

Shareholder Agreement

Under the terms of the VIMAC Terms Letter, the Corporation and VIMAC agreed that holders of Series A Shares and/or Series B Shares would be entitled to certain additional rights and privileges relating to the operations of Megawheels and their ownership of Series A Shares and/or Series B Shares. Such rights and privileges were confirmed in the Shareholder Agreement dated May 9, 2001 made among VIMAC and eLab, being the principal holders of Series A Shares, and the Corporation. On May16, 2001, VIMAC and eLab agreed that they would amend the Shareholder Agreement to make the Globemedia a party thereto.

The Shareholder Agreement provides that VIMAC and eLab shall have a right of first refusal to acquire, in respect of an issue of shares, options or rights to acquire shares of the Corporation, the proportionate number of shares, or options or rights in respect thereof, which the aggregate number of voting shares of the Corporation then held by VIMAC or eLab, bears to the total number of outstanding shares of the Corporation, calculated on the basis that VIMAC and eLab are the holders of the number of Common Shares to which they are entitled upon conversion of the Series B Shares and the 2,800,000 special warrants held by eLab on May 9, 2001. Such right shall not apply to shares issued by way of stock dividend to current shareholders or upon exercise of options or rights to acquire shares previously granted by the Corporation. The Corporation may offer any such shares, options or rights not acquired by VIMAC or eLab before the expiration of a period of 30 days thereafter, to any person or persons at a price not less than the acquisition price first offered to VIMAC and eLab and on terms of purchase no more favourable.

The Shareholder Agreement further provides that Megawheels shall have a board of directors consisting of seven (7) directors to be constituted as follows: one (1) nominee from management of the Corporation; one (1) nominee of VIMAC; one (1) nominee of eLab; three (3) independent nominees to be mutually agreed upon by VIMAC, eLab and the Corporation at least one of which shall be a U.S. resident; and one (1) strategic nominee to be mutually agreed upon by VIMAC, eLab and the Corporation. On May16, 2001, VIMAC and eLab agreed that they would amend the Shareholder Agreement to make Globemedia a party thereto and to provide that a director designated by Globemedia shall be one of the seven members of the board of directors for so long as Megawheels is obligated to nominate a Globemedia nominee for election to the board of directors under the terms of the Director Nomination and Pre-Emptive Right Agreement. On June 29, 2001, John Phillip Crawley, the Globemedia nominee was appointed director to hold office until the next annual general meeting of the shareholders of Megawheels. VIMAC and eLab further agreed that they shall vote at all meetings of the shareholders of Megawheels at which they are entitled to vote and act in all other respects in connection with the corporate proceedings of Megawheels so as to ensure that Martin Hilsenteger, John Varghese and Christopher Bulger are elected and/or appointed and maintained in office as directors of the Corporation, with the remaining three directors to be determined.

The Shareholder Agreement imposes restrictions on the disposition of securities by VIMAC and eLab. It provides that, except as provided in the Shareholder Agreement and other than a transfer to an affiliate or subsidiary of VIMAC or eLAB or an entity associated with VIMAC or partners or investors in any such VIMAC entity, neither VIMAC nor eLab shall directly or indirectly sell, assign, pledge or otherwise transfer or encumber the securities of the Corporation held by such parties from time to time and any attempt to accomplish or effect any or all of such acts shall be null and void. Every transfer of all or a portion of the securities held by VIMAC or eLab shall be subject to the condition that the proposed transferee, if not already bound by the Shareholder Agreement, shall first enter into a participation agreement wherein such transferee shall become bound by all the obligations and subject to the restrictions under the Shareholder Agreement. Further, if either VIMAC or eLab receive an offer to purchase securities of the Corporation then held by such shareholder, the shareholder shall be free to sell such securities only if such offeree has first offered such securities first to the Corporation and then to the other shareholder at the same purchase price and on the same terms in the manner specified in the Shareholder Agreement.

The Shareholder Agreement is terminable on the earlier of: (i) the date on which the Shareholder Agreement is terminated by written agreement of VIMAC and eLab; (ii) the date on which the Corporation is dissolved in accordance with the applicable provisions of the CBCA or makes an assignment in bankruptcy or if a receiving order is issued with respect to the Corporation; or (iii) upon the conversion to Common Shares of not less than 66 2/3% of the Series A Shares outstanding as of May 9, 2001. See “Material Contracts”.

Special Notes

The Special Notes were sold to Globemedia and to ANL in reliance upon exemptions from the prospectus and registration requirements contained in the securities legislation of their respective jurisdictions. Pursuant to a terms letter dated March 14, 2001, as amended on April 4, 2001 and May 15, 2001 between the Corporation and Globemedia (the "Globemedia Terms Letter"), Globemedia agreed to provide a convertible loan in the amount of $1,000,000 (the "Globemedia Loan") to the Corporation in exchange for a $1,000,000 principal amount of Special Note. Pursuant to a terms letter dated March 22, 2001, as amended on April 30, 2001 between the Corporation and ANL (the "ANL Terms Letter"), ANL agreed to provide a convertible loan in the amount of $250,000 (the "ANL Loan") to the Corporation in exchange for a $250,000 principal amount of Special Note. Each $100 principal amount of Special Note entitles the holder thereof to receive, upon exercise or deemed exercise thereof, one unit consisting of $100 principal amount of May 2001 Notes and 300 Warrants. The Special Notes may be converted at any time until the Special Note Expiry Time. Any Special Notes not converted prior to the Special Note Expiry Time shall be deemed to have been converted immediately prior to the Special Note Expiry Time without further action by the holder. Each May 2001 Note is convertible into Common Shares on the basis of $0.25 per Common Share. Each whole Warrant entitles the holder to purchase one Common Share at a price of $0.25 per share until May 17, 2002. The Special Notes and May 2001 Notes bear interest at 10% per annum and are secured by a charge on the assets of the Corporation.

Director Nomination and Pre-Emptive Right Agreement

In addition to the foregoing, the Globemedia Terms Letter provides that Globemedia shall be entitled to one seat on the board of directors of Megawheels and to a right of first refusal to maintain pro-rata ownership in any future financings of the Corporation, based on the Globe's share ownership in the Corporation at the time of such future financings. Such rights were confirmed in the Director Nomination and Pre-emptive Right Agreement dated May 17, 2001 between Globemedia and the Corporation. Under the terms of the Director Nomination and Pre-Emptive Right Agreement, Megawheels has agreed (i) to nominate for election to its board of directors one individual designated by Globemedia (the "Globemedia Designee") at each election of directors of Megawheels; (ii) to use its best efforts to provide for the appointment of the Globemedia Designee to its board of directors as soon as possible after the effective date of the Director Nomination and Pre-Emptive Right Agreement to hold office until the next annual meeting of shareholders; and (iii) to nominate a new Globemedia Designee where a Globemedia Designee ceases to hold office as a director by virtue of his death, resignation or disqualification from being a director under the CBCA. Where the shareholders fail to elect, or the board of directors fails to appoint, the Globemedia Designee as contemplated in (i), (ii) and (iii) above, or the Globemedia Designee is removed from the board of directors by the shareholders, such events shall constitute an event of default for the purposes of the Globemedia Terms Letter. On June 29, 2001, John Phillip Crawley, the Globemedia Designee, was appointed director to hold office until the next annual general meeting of the shareholders of Megawheels.

The Director Nomination and Pre-Emptive Right Agreement also provides that Globemedia shall have a right of first refusal to acquire, in respect of an issue of shares, options or rights to acquire shares of the Corporation, the proportionate number of shares, or options or rights in respect thereof, which the aggregate number of voting shares of the Corporation then held by Globemedia and its affiliates, bears to the total number of outstanding shares of the Corporation, calculated on the basis that Globemedia, with its affiliates, is the holder of the number of Common Shares to which it is entitled upon conversion of the Special Note and May 2001 Note. Such right shall not apply to shares issued by way of stock dividend to current shareholders or upon exercise of options or rights to acquire shares previously granted by the Corporation. The Corporation may offer any such shares, options or rights not acquired by Globemedia before the expiration of a period of 30 days thereafter, to any person or persons at a price not less than the acquisition price first offered to Globemedia and on terms of purchase no more favourable.

The Director Nomination and Pre-Emptive Right Agreement is terminable on the earlier of: (i) the date on which the agreement is terminated by written agreement of Globemedia; (ii) the date on which the Corporation is dissolved in accordance with the applicable provisions of the CBCA or makes an assignment into bankruptcy or if a receiving order is issued with respect to the Corporation; (iii) the later of (a) the date on which the Globemedia Loan is repaid in full; and (b) the termination of the Shareholder Agreement; and (iv) the date on which Globemedia, together with its affiliates, ceases to hold at least 2% of the Common Shares of the Corporation or other securities exercisable into such percentage of Common Shares of the Corporation calculated on a fully-diluted basis. On May16, 2001, VIMAC and eLab agreed that they would amend the Shareholder Agreement to make Globemedia a party thereto and to provide that a Globemedia Designee shall be a member of the board of directors of Megawheels for so long as Megawheels is obligated to nominate a Globemedia Designee for election to the board of directors under the terms of the Director Nomination and Pre-Emptive Right Agreement.

125,000 Common Shares

The 125,000 Common Shares will be issued to a trade creditor in partial satisfaction of a debt owing by the Corporation to the trade creditor in respect of executive search consulting services provided by them. The 125,000 Common Shares will be issued by the Corporation within the three day period following the issuance of a receipt by the securities regulatory authorities in the Qualifying Jurisdictions for a (final) prospectus qualifying the 125,000 Common Shares.

The subscription price for the Purchased Securities was determined by negotiation between Megawheels and the purchasers of thereof.

DESCRIPTION OF SHARE CAPITAL

The authorized capital of the Corporation consists of an unlimited number of Common Shares without nominal or par value, of which 25,017,612 are issued and outstanding at the date hereof, and an unlimited number of Preferred Shares issuable in series of which 15,000,000 Series A Shares and 15,000,000 Series B Shares are authorized and 13,250,000 Series A Shares are issued and outstanding as at the date of this prospectus. The following is a general description of the material rights, privileges, restrictions and conditions attaching to the shares of each class.

Common Shares

The holders of the Common Shares are entitled to dividends as and when declared by the board of directors, to one vote per share at meetings of shareholders of the Corporation and, upon liquidation, to receive such assets of the Corporation as are distributable to the holders of the Common Shares, subject to the rights of the holders of Preferred Shares.

Preferred Shares

The Preferred Shares are issuable in series, with each series consisting of such number of shares and having such rights, privileges, restrictions and conditions as may be determined by the Board of Directors of the Corporation prior to the issuance thereof. With respect to the payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, the Preferred Shares are entitled to preference over the Common Shares and any other shares ranking junior to the Preferred Shares and may also be given such other preference over the Common Shares and any other shares ranking junior to the Preferred Shares as may be determined at the time of creation of each series.

Series A Shares

Conversion Privilege and Automatic Conversion

The holders of Series A Shares shall have the right, at any time and from time to time until the Series A Expiry Time to convert each of their Series A Shares into a Series A Unit consisting of one Series B Share and one Warrant. Each Warrant entitles the holder to purchase (subject to adjustment in certain circumstances) one Common Share of the Corporation at any time until May 9, 2002, at an exercise price (subject to adjustment) of $0.20 per Common Share. Any Series A Shares not exercised prior to the Series A Expiry Time shall be deemed to have been converted immediately prior to the Series A Expiry Time without further action by the holder.

Participation upon Liquidation, Dissolution or Winding-Up

In the event of the liquidation, dissolution or winding-up of the Corporation or other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs or in the event of a sale or other disposition of, by conveyance, transfer, lease or otherwise, of the Corporation's undertaking as an entirety or substantially as an entirety or amalgamation or a merger with or into any other corporation, the holders of the Series A Shares shall be entitled to receive from the assets of the Corporation a sum equivalent to the aggregate subscription price therefor plus all declared and unpaid dividends thereon in respect of each Series A Share held by them respectively before any amount shall be paid or any assets of the Corporation distributed to the holders of any Common Shares or shares of any other class ranking junior to the Series A Shares. After payment to the holders of the Series A Shares of the amount so payable to them as above, the holders of Series A Shares shall be entitled to share in any further distribution of the assets of the Corporation on a pro-rata basis with the holders of the Common Shares, calculated on the basis as if the holders of the Series A Shares were the holders of the number of Common Shares which the holders are entitled to receive upon conversion of the Series B Shares, subject to adjustment, and the Series A Shares will participate rateably in the further distribution of assets with the holders of the Common Shares.

Dividends

In the event the Corporation pays a cash dividend to the holders of Common Shares, the Corporation shall pay the same amount of such dividend to holders of the Series A Shares, calculated on the basis as if the holders were the holders of the number of Common Shares which the Holders are entitled to receive upon conversion of the Series B Shares, subject to adjustment and the Series A Shares will participate rateably in any such dividend with the holders of the Common Shares.

Voting

The holders of the Series A Shares shall be entitled to receive notice of and to attend all and any meeting of the shareholders of the Corporation and shall be entitled to the number of votes as if the holders of the Series A Shares were the holders of the number of Common Shares which such holders are entitled to receive upon conversion of the Series B Shares in respect of each Series A Share held at all such meetings, except a meeting of holders of a particular class of shares other than the Series A Shares who are entitled to vote separately as a class at such meeting.

Retraction

In the event the Common Shares are not Listed on The Toronto Stock Exchange ("TSE") or quoted on the National Market of the NASDAQ Stock Market Inc. on or before May 9, 2003, any holder of Series A Shares shall be entitled, by written notice to the Corporation, to require the Corporation to redeem, subject to the requirements of the CBCA, all or any of the Series A Shares registered in the name of such holder on the books of the Corporation. The Corporation shall redeem such Series A Shares by paying to such registered holder a sum equivalent to the aggregate subscription price therefor multiplied by three (3) plus all declared and unpaid dividends for each such Series A Share being redeemed by such shareholder, subject to adjustment.

Restrictions on Dividends and Other Distributions

Notwithstanding anything provided in the Series A Share conditions: (i) no dividends on any class of shares of the Corporation shall be declared, paid or set aside, (ii) no distributions other than dividends shall be made in respect of the Common Shares or any other shares ranking junior to the Series A Shares, and (iii) no Common Shares or any other shares ranking junior to the Series A Shares shall be purchased, redeemed or otherwise acquired by the Corporation, where the same would impair the ability of the Corporation to redeem or have retracted any of the Series A Shares of the Corporation.

Series B Shares

Conversion Privilege

The holders of Series B Shares shall have the right, at any time and from time to time to convert each of their Series B Shares into one Common Share.

Participation upon Liquidation, Dissolution or Winding-Up

In the event of the liquidation, dissolution or winding-up of the Corporation or other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs or in the event of a sale or other disposition of, by conveyance, transfer, lease or otherwise, of the Corporation's undertaking as an entirety or substantially as an entirety or amalgamation or a merger with or into any other corporation (an “Event”), the holders of the Series B Shares shall be entitled to receive from the assets of the Corporation a sum equivalent to the aggregate subscription price originally received by the Corporation on the issuance of the Series A Shares plus all declared and unpaid dividends in respect of each Series B Share held by them respectively before any amount shall be paid or any assets of the Corporation distributed to the holders of any Common Shares or shares of any other class ranking junior to the Series B Shares upon an Event. After payment to the holders of the Series B Shares of the amount so payable to them as above, the holders of Series B Shares shall be entitled to share in any further distribution of the assets of the Corporation on a pro-rata basis with the holders of the Common Shares, calculated on the basis as if the holders of the Series B Shares were the holders of the number of Common Shares which the holders are entitled to receive upon conversion of the Series B Shares, subject to adjustment, and the Series B Shares will participate rateably in the further distribution of assets with the holders of the Common Shares, provided, however, that the Series B Shares shall rank *pari passu* with the Series A Shares with respect to any amount to be paid or any assets of the Corporation distributed upon an Event .

Dividends

In the event the Corporation pays a cash dividend to the holders of Common Shares, the Corporation shall pay the same amount of such dividend to holders of the Series B Shares, calculated on the basis as if the holders were the holders of the number of Common Shares which the holders are entitled to receive upon conversion of the Series B Shares, subject to adjustment as hereinafter provided and the Series B Shares will participate rateably in any such dividend with the holders of the Common Shares. Provided, however, that the Series B Shares shall rank *pari passu* with the Series A Shares with respect to any dividend by the Corporation.

Voting

The holders of the Series B Shares shall be entitled to receive notice of and to attend all and any meeting of the shareholders of the Corporation and shall be entitled to the number of votes as if the holders of the Series B Shares were the holders of the number of Common Shares which such holders are entitled to receive upon conversion of the Series B Shares in respect of each Series B Share held at all such meetings, except a meeting of holders of a particular class of shares other than the Series B Shares who are entitled to vote separately as a class at such meeting.

Retraction

In the event the Common Shares are not listed on the TSE or quoted on the National Market of the NASDAQ Stock Market Inc. on or before May 9, 2003, any holder of Series B Shares shall be entitled, by written notice to the Corporation, to require the Corporation to redeem, subject to the requirements of the CBCA, all or any of the Series B Shares registered in the name of such holder on the books of the Corporation. The Corporation shall redeem such Series B Shares by paying to such registered holder a sum equivalent to the aggregate subscription price therefor multiplied by three (3) plus all declared and unpaid dividends for each such Series A Share being redeemed by such shareholder, subject to adjustment.

Restrictions on Dividends and Other Distributions

Notwithstanding anything provided in the Series B Share conditions: (i) no dividends on any class of shares of the Corporation shall be declared, paid or set aside, (ii) no distributions other than dividends shall be made in respect of the Common Shares or any other shares ranking junior to the Series B Shares, and (iii) no Common Shares or any other shares ranking junior to the Series B Shares shall be purchased, redeemed or otherwise acquired by the Corporation, where the same would impair the ability of the Corporation to redeem or have retracted any of the Series B Shares of the Corporation. Provided, however, that the Series B Shares shall rank *pari passu* with the Series A Shares with respect to any dividends, other distributions or purchases or redemptions of shares by the Corporation.

CAPITALIZATION

The following table sets out the capitalization of the Corporation as at August 31, 2000 and May 31, 2001, before and after giving effect to the exercise or conversion of the Purchased Securities and the issuance of the 125,000 Common Shares:

Capital	**Authorized**	**Outstanding as at August 31, 2000 (audited)[(1)]**	**Outstanding as at May 31, 2001 (unaudited)**	**Outstanding as at May 31, 2001 after giving effect to the exercise/conversion of the Purchased Securities and the issuance of the 125,000 Common Shares (unaudited)**
Short Term Debt	-	$1,433,333 [(2)]	$6,018,692 [(2)]	$3,714,972[(2)]
Short Term Debt Due to Shareholders	-	$151,100	$330,701	$330,701

Capital	Authorized	Outstanding as at August 31, 2000 (audited)(1)	Outstanding as at May 31, 2001 (unaudited)	Outstanding as at May 31, 2001 after giving effect to the exercise/conversion of the Purchased Securities and the issuance of the 125,000 Common Shares (unaudited)
Long Term Debt	-	Nil	Nil	Nil
Long Term Debt Due to Shareholders	-	$310,341	Nil	Nil
Common Shares	unlimited	$13,112,414 (20,350,945 shares)(3)	$13,112,414 (20,350,945 shares)(4)	$15,483,664 (28,108,020 shares)(4)(5)
Preferred Shares	unlimited; 15,000,000 Series A Shares; 15,000,000 Series B Shares (6)	Nil	$2,650,000(6)(7) (13,250,000 Series A)	$2,650,000(6)(8) (13,250,000 Series B)

Notes:

(1) At August 31, 2000, Shareholders' equity included contributed surplus of $100,000, special warrants of $3,207,559 and a deficit of $12,121,027.

(2) Short term debt is convertible into 2,000,000 Common Shares at August 31, 2000 and into 13,558,824 Common shares at May 31, 2001.

(3) Not including: (i) 1,586,625 Common Shares issuable pursuant to stock options granted to directors, officers and employees of the Corporation; (ii) 1,200,000 Common Shares issuable on exercise of share purchase warrants granted to former shareholders of MegaWheels Media. See "Stock Options and Warrants"; (iii) 480,000 Common Shares issuable on exercise of agent options granted in connection with the Corporation's February 2000 financing; (iv) 4,666,667 Common Shares issued on June 8, 2001 on exercise of special warrants granted on June 8, 2000; (v) 4,666,667 Common Shares issuable on exercise of common share purchase warrants granted on June 8, 2000; (vi) 2,150,000 Common Shares issuable upon conversion of a convertible promissory note issued on April 28, 2000; (vii) 3,825,000 Common Shares issuable on exercise of share purchase warrants in connection with the Corporation's February 2000 Financing.

(4) Not including: (i) 3,935,625 Common Shares issuable pursuant to stock options granted to directors, officers and employees of the Corporation; (ii) 1,200,000 Common Shares issuable on exercise of share purchase warrants granted to former shareholders of MegaWheels Media. See "Stock Options and Warrants"; (iii) 240,000 Common Shares issuable on exercise of agent options granted in connection with the Corporation's February 2000 financing; (iv) 4,666,667 Common Shares issued on June 8, 2001 on exercise of special warrants granted on June 8, 2000; (v) 4,666,667 Common Shares issuable on

exercise of common share purchase warrants granted on June 8, 2000; (vi) 4,450,000 Common Shares issuable on exercise of Warrants issued on October 11, 2000, November 9, 2000, December 12, 2000 and December 22, 2000; (vii) 2,000,000 Common Shares issuable upon conversion of a convertible promissory note issued on April 28, 2000; (viii) 6,558,824 Common Shares issuable on conversion of the February 2001 Notes; (ix) 6,558,824 Common Shares issuable on exercise of the Warrants issuable on conversion of the Special Warrants; (x) 5,000,000 Common Shares issuable on conversion of the May 2001 Notes; (xi) 3,750,000 Common Shares issuable on exercise of the Warrants issuable on conversion of the Special Notes; (xii) 13,444,547 Common Shares issuable on conversion of the Series B Shares; and (xiii) 13,444,547 Common Shares issuable on exercise of the Warrants issuable on exercise of the Series A Shares.

(5) Before deducting estimated expenses of $160,000 relating to equity portion of offerings.

(6) The Series A Shares and the Series B Shares were designated on May 9, 2001.

(7) Not including 194,547 Series A Shares issued on July 25, 2001.

(8) Not including 194,547 Series B Shares issuable on conversion of the 194,547 Series A Shares issued on July 25, 2001.

PRIOR SALES

No Common Shares have been issued in the previous 12 months.

PRINCIPAL SHAREHOLDERS

The following table sets out the names of every person or corporation who, to the knowledge of Megawheels, owns directly or indirectly, more than 10% of the Common Shares and more than 10% of the Preferred Shares as at the date of this prospectus.

Shareholder and Municipality of Residence	Type of Ownership	No. of Shares Beneficially Owned	Percentage of Shares Beneficially Owned
eLab	Direct Direct	3,800,000 Common 2,128,126 Series A	15.2% of Common 16.1% of Series A
Royal Bank Capital Partners	Direct	2,866,667 Common	11.5% of Common
Bid.com International Inc.	Direct	2,600,000 Common	10.4% of Common
VIMAC	Direct	9,791,068 Series A	73.9% of Series A

After giving effect to the conversion of the Convertible Demand Promissory Notes and prior to the conversion of previously issued securities, eLab's Common Share holdings will represent 25.9% and Royal Bank Capital Partner's Common Share holdings will represent 20.2%. eLab is owned as to 50% by Royal Bank of Canada and Royal Bank Capital Partners is a division of the Royal Bank of Canada.

ESCROWED SECURITIES

As of the date hereof, 4,053,351 Common Shares of the Corporation representing 16.2% of the outstanding Common Shares of the Corporation have been deposited in escrow (the "Escrowed Shares") with Montreal Trust Company of Canada (the "Trustee") as trustee.

On October 7, 1998, the Corporation, then Westview MultiMedia Inc., entered into an escrow agreement with the Trustee and certain shareholders of the Corporation pursuant to the requirement of the ASC in connection with the major transaction of the Corporation. Under this agreement, 1,000,000 Common Shares (then 2,000,000 pre-consolidation common shares) were deposited in escrow. Under the terms of the Agreement, one third of the Escrowed Shares held by each shareholder who is a party to the Agreement is to be released on each of the first, second and third anniversaries of the completion of the major transaction of the Corporation or upon the written consent of the ASC. As of June 1, 2001, two-thirds of these Escrowed Shares have been released from escrow.

On May 18, 1999, the Corporation and the Trustee entered into two escrow agreements with certain shareholders of the Corporation pursuant to the requirements of the ASC and the CDNX (then the ASE) in connection with the major transaction of the Corporation. Under these agreements, a total of 3,446,018 Common Shares were deposited in escrow. Of these Escrowed Shares, 3,407,018 Escrowed Shares are held for release based on the financial performance of Megawheels. Megawheels or the holder of these Escrowed Shares may apply annually for the release of up to one third of these Escrowed Shares per calendar year during the first three years of the escrow. There is no limit on the number of shares that may be released in the fourth and fifth years of the escrow. All releases are subject to the approval of the CDNX. Any Escrowed Shares that are not released from escrow by the fifth anniversary of escrow agreements will be cancelled. The remaining 39,000 Escrowed Shares are held based on a timed release. None of the Escrowed Shares under the performance escrow have been released and 66% of the Escrowed Shares under timed escrow have been released as of June 1, 2001.

Finally, on May 9, 2000, an additional 300,000 Common Shares were placed in escrow in connection with the acquisition by Megawheels of all of the outstanding shares of Conxsys pursuant to an escrow agreement between the Corporation, the vendors of the Conxsys shares and the Trustee. Under the escrow agreement and the share purchase agreement, such shares are to be released to the vendors no later than 24 months after the date of acquisition but may be released sooner if certain performance related targets are met. On May 9, 2001, 150,000 of these Common Shares were released from escrow. See “Business of Megawheels - Drive” and “Material Contracts”.

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets out the names and municipalities of residence of the directors and executive officers of Megawheels, their present positions with Megawheels, their principal occupations during the past five years, and the number of Common Shares held by them as at the date of this prospectus. The term of office of each of the Corporation’s directors expires on the next annual general meeting of the Corporation’s shareholders.

Name and Municipality of Residence	Current Office in the Corporation	Principal Occupation for Last 5 Years	No. of Shares Owned Beneficially or Subject to Control or Direction[(1)]
Martin Anthony Hilsenteger Calgary, Alberta	Chief Executive Officer and Chairman of the Board. Director since April 1998	Mr. Hilsenteger has been Chairman of the Board since October 2000, Chief Executive Officer since January 1997, and was President of the Corporation from January 1997 to October 2000. Prior thereto, Mr. Hilsenteger was the Controller for Westcoast Gas Service from February 1993. Prior thereto, Mr. Hilsenteger was self-employed. During the past three years he has been involved in various business ventures including Studon Electric and Single Touch (formerly Studon Business Solutions). From April 1988 until June 1991, Mr. Hilsenteger worked as an accountant for the accounting firm of Peat Marwick in Toronto and during such time achieved his Chartered Accountant designation.	1,172,067 Common Shares[(2)] 3,729 Series A Shares
Tom Stanton Seattle, Washington	President and Chief Operating Officer	Mr. Stanton has been President and Chief Operating Officer of Megawheels since November 2000. Prior thereto, Mr. Stanton was Regional Manager from 1998 to 1999 and Vice-President, Operations from 1996 to 1998 for Eaglequest Golf Centres Inc., a Vancouver based chain of golf centres across North America. From 1985 to 1996, Mr. Stanton was Executive Vice-President, Operations of Ernst Home Centres, a company based in Seattle, Washington.	3,729 Series A Shares

Name and Municipality of Residence	Current Office in the Corporation	Principal Occupation for Last 5 Years	No. of Shares Owned Beneficially or Subject to Control or Direction(1)
Robert Watt Garnett Richmond, British Columbia	Chief Financial Officer	Mr. Garnett, a Chartered Accountant, was appointed Chief Financial Officer of Megawheels in November 2000. Prior thereto and from 1998, Mr. Garnett was Senior Vice-President and Regional Manager of Family Golf Centres Inc. From 1996 until 1998, Mr. Garnett was President of Eaglequest Golf Centres Inc. of Vancouver, B.C. From 1995 to 1996, Mr. Garnett was a consultant to Insurance Auto Auctions Inc. From 1992 to 1995, Mr. Garnett was Director, Executive Vice-President and Chief Financial Officer of The Loewen Group Inc. in Burnaby B.C., a multi-national operator of funeral homes and cemeteries. Mr. Garnett is a director of Coast Capital Savings Credit Union and Helix Hearing Care of America Inc.	18,000 Common Shares 3,729 Series A Shares
William Elwood French Milton, Ontario	Executive Vice President, Media Partnerships. Director since November 2000	Mr. French was appointed Executive Vice-President, Media Partnerships of the Corporation in October 2000. Prior to joining Megawheels, Mr. French was Vice-President, Sales and Service at Beamscope Canada Inc., a sales, marketing and distribution company of brand name home office products from June 1999 until October 2000. From October 1996 to October 1998, Mr. French was Vice-President of Bell Canada's Financial Services Industry Business Unit. From April 1993 to September 1996, Mr. French held the position of Vice-President, Sales with Southam Inc. Mr. French has also been a director of several companies.	1,492 Series A Shares

Name and Municipality of Residence	Current Office in the Corporation	Principal Occupation for Last 5 Years	No. of Shares Owned Beneficially or Subject to Control or Direction(1)
James Robert McPherson Red Deer, Alberta(3)	Director since April 1998	Mr. McPherson has been a senior partner at McPherson L'Hirondelle Associates, a financial services firm in Red Deer, Alberta for over 20 years. This firm has five partners and specializes in estate and business succession planning, employee benefits, money market funds and financial planning. Mr. McPherson served as the MLA for Red Deer from 1982 until 1986. Mr. McPherson currently serves on the Board of Directors of several public companies.	25,000 Common Shares 1,492 Series A Shares
Charles S. Walker West Vancouver, British Columbia	Director since February 2000	Mr. Walker has been President and Chief Executive Officer of the Walker Group, Inc., a privately owned Corporation involved in manufacturing, administration, fulfillment services and marketing to the automotive and consumer goods industries since 1963. Mr. Walker currently serves on the board of directors of several public companies.	25,000 Common Shares 1,492 Series A Shares
T. Christopher Bulger (3) Toronto, Ontario	Director since January 2000	Mr. Bulger was appointed President and Chief Executive Officer of eLab Technology Ventures Inc., a Toronto based e-commerce venture capital fund, in December 1999. He served as Executive Vice-President, Business Development of Bid.com International Inc. from September 1998 to November 1999 and as Chief Financial Officer of Bid.com International Inc. from April 1996. During this period, Mr. Bulger was also an officer and partner with HDL Capital Corporation. Mr. Bulger is a Director of Bid.com International Inc.	261,163 Series A Shares (4)

Name and Municipality of Residence	**Current Office in the Corporation**	**Principal Occupation for Last 5 Years**	**No. of Shares Owned Beneficially or Subject to Control or Direction[(1)]**
John Varghese Toronto, Ontario	Director since November 2000	Mr. Varghese has been Vice-President, Investments of eLab Technology Ventures Inc since December 1999. During 1999, Mr. Varghese was a director of the Internet and Communications Fund of Royal Bank Ventures Inc. From 1997 to 1998, Mr. Varghese was a Vice-President of HDL Capital Corp., a Toronto based merchant bank focused on early stage technology investments. In 1996, Mr. Varghese was a corporate finance professional in the high technology group of Midland Walwyn Inc. During 1995, Mr. Varghese was responsible for strategic planning at Dell (Canada) Computer Corp. From 1993 to 1995, Mr. Varghese was Chief Operating Officer and Chief Financial Officer of Visible Decisions Inc. From 1991 to 1993, Mr. Varghese was a member of the management team in various divisions of Jim Pattison Industries. From 1988 to 1991, Mr. Varghese was a senior manager at KPMG Peat Marwick in Toronto. Mr. Varghese is a director of several companies.	261,164 Series A Shares[(4)]

Name and Municipality of Residence	Current Office in the Corporation	Principal Occupation for Last 5 Years	No. of Shares Owned Beneficially or Subject to Control or Direction(1)
John Phillip Crawley Toronto, Ontario	Director since June 2001	Mr. Crawley has been Publisher and Chief Executive Officer of *The Globe and Mail* since June 1999 and, prior thereto, was President and Chief Operating Officer of *The Globe and Mail* beginning in October 1998. From April 1997 to September 1998, Mr. Crawley was the Managing Director of *The New Zealand Herald*, and later CEO Designate of Wilson & Horton, the newspaper's owner and New Zealand's largest media group, including newspapers, radio, magazines and print. Between April 1993 and March 1997, he was Managing Director, *The Times Supplements*, London, a subsidiary of News International.	Nil

The composition of the board of directors is subject to the Shareholder Agreement among the Corporation, VIMAC and eLab and the Director Nomination and Pre-Emptive Right Agreement between the Corporation and Globemedia wherein VIMAC, eLab and Globemedia have been granted rights to select nominees for election to the board of directors. On May16, 2001, VIMAC and eLab agreed that they would amend the Shareholder Agreement to make Globemedia a party thereto and to provide that a director designated by Globemedia shall be one of the seven members of the board of directors for so long as Megawheels is obligated to nominate a Globemedia nominee for election to the board of directors under the terms of the Director Nomination and Pre-Emptive Right Agreement. On June 29, 2001, John Phillip Crawley, the Globemedia nominee was appointed director to hold office until the next annual general meeting of the shareholders of Megawheels. Under the Shareholder Agreement, VIMAC and eLab agreed that they shall vote at all meetings of the shareholders of Megawheels at which they are entitled to vote and act in all other respects in connection with the corporate proceedings of Megawheels so as to ensure that Martin Hilsenteger, John Varghese and Christopher Bulger are elected and/or appointed and maintained in office as directors of the Corporation, with the remaining three directors to be determined. See "Plan of Distribution".

Notes:

(1) Common Shares owned by directors and officers are subject to escrow restrictions. See "Escrowed Securities". The information relating to the Common Shares beneficially owned by each director has been furnished by the respective directors.
(2) 1,155,067 of the Common Shares are held by Teger Inc., a company controlled by Martin Hilsenteger.
(3) Members of the Audit Committee and the Compensation Committee.
(4) 514,869 Series A Shares are held by 1477288 Ontario Limited, a corporation in which T. Christopher Bulger and John Varghese are each a 50% shareholder.

MANAGEMENT AND KEY PERSONNEL

The following is a brief description of the key management of the Corporation.

Martin A. Hilsenteger, 37
Chairman of the Board and Chief Executive Officer

One of the founding shareholders of Megawheels, Mr. Hilsenteger has served as Chief Executive Officer and President since January 1997 and was President of the Corporation from January 1997 to October 2000 at which time Mr. Hilsenteger resigned as President to focus on his responsibilities as Chief Executive Officer and Chairman of the Board of Directors. Before joining Megawheels, Mr. Hilsenteger was the Controller for Westcoast Gas Service from 1993. Between 1991 and 1993, he was self employed as a consultant to the oil and gas industry. From April 1988 until June of 1991, Mr. Hilsenteger worked as an associate at Peat Markwick, during which time he achieved his Chartered Accountant designation. Mr. Hilsenteger has gained a broad understanding of the automobile industry as a result of his involvement in a franchised automotive retail store his family has owned for over 25 years. His early vision for Megawheels has improved operating efficiencies for automotive dealerships utilizing processes made possible through online business solutions. Mr. Hilsenteger has also been involved in establishing and building various business ventures including Single Touch (formerly Studon Business Solutions), an Alberta based developer of software solutions for the construction industry.

Tom Stanton, 59
President and Chief Operating Officer

Prior to joining Megawheels as President and Chief Operating Officer in November 2000, Mr. Stanton was Regional Manager from 1998 to 1999 and Vice-President, Operations from 1996 to 1998 of Eaglequest Golf Centres Inc., a Vancouver based chain of golf centres across North America. During his tenure with Eaglequest, Mr. Stanton was responsible for opening 18 sites across Canada and the United States, developing all aspects of site operations and achieving annualized revenues of Cdn. $40 million. Eaglequest was sold to a United States market leader for Cdn. $105 million, providing returns of 300% to initial shareholders. From 1985 to 1996, Mr. Stanton was Executive Vice-President, Operations for Ernst Home Centres, a company based in Seattle, Washington. While with Ernst, Mr. Stanton improved the financial position of the company from $232 million in revenue and heavy losses, to just under $600 million in revenue and healthy profits, while managing a staff of over 5,500. As well he participated in its initial public offering in 1994. As a principal of Paradigm Management Partners, Mr. Stanton brings an extensive background in change management and innovative operational stewardship to the Corporation.

Robert Watt Garnett, 52
Chief Financial Officer

Prior to joining Megawheels as Chief Financial Officer in November 2000, Mr. Garnett, a chartered accountant, was Senior Vice President and Regional Manager of Family Golf Centres Inc. From 1996 to 1998, Mr. Garnett was a founder and President of Eaglequest Golf Centres Inc. during which time he raised $50 million of debt and equity to fund the company's growth prior to its sale to a United States market leader for $105 million, providing returns of 300% to its initial shareholders. In 1995, Mr. Garnett was retained as a consultant by the Chairman and Chief Executive Officer of Insurance Auto Auctions Inc. to help restructure the company. Prior thereto, Mr. Garnett was Executive Vice President, CFO and Director of The Loewen Group Inc. during their most profitable growth period from 1992 to 1995 with $750 million in sales. During his tenure with the Loewen Group, Mr. Garnett created institutional investor interest in the United States which resulted in a majority ownership by U.S. based investors. Mr. Garnett has helped companies raise considerable capital over his career and has extensive experience as chief financial officer and principal of high growth public companies. Mr. Garnett is a director and past chairman of a $3 billion financial institution, is a principal of Paradigm Management Partners and is a director of other public and private companies.

Robert F. Jolly, 29
Chief Technology Officer

Prior to joining Megawheels, Mr. Jolly acquired a unique blend of experience encompassing automotive, sales, marketing, printing, computer and technical disciplines, including tenure as a technical analyst with a multi-national corporation dedicated to global sales of electronic printing equipment. Since joining the Corporation in 1997, Mr. Jolly has taken on a lead role in the management of the media partner relationships. Most recently, as Vice-President, Print Operations, Mr. Jolly was responsible for the operation of the publications department and has been instrumental in the definition, design and development of the Corporation's publication products and other corporate technology initiatives. As Chief Technology Officer, Mr. Jolly will steer the globalization of the Corporation's Reverse Publishing technology and oversee ongoing software development.

Each of the key management employees of the Corporation have entered into confidentiality and non-compete agreements as well as intellectual property agreements. The confidentiality and non-compete agreements provide that an employee may not disclose confidential information of Megawheels to third parties except in certain circumstances. The agreement also provides that employees who leave the Corporation may not work with a similar, Internet-based automotive listing and search service for a period of six months after termination of employment with the Corporation. The intellectual property agreements provide that any software or software property developed in the course of employment with Megawheels remains the property of Megawheels.

EXECUTIVE COMPENSATION

Compensation of Executive Officers

During the Corporation's fiscal year ended August 31, 2000, the Corporation had three executive officers, Martin Anthony Hilsenteger, Martin Ross Skinner and Elliott Bingham. Tom Stanton, President and Chief Operating Officer, Robert Garnett, Chief Financial Officer and William French, Executive Vice President, Media Partnerships, joined Megawheels in October 2000.

Messrs. Hilsenteger, Skinner, Bingham, Stanton, Garnett and French are each party to employment agreements with the Corporation. Pursuant to these agreements, Mr. Hilsenteger receives an annual salary of $250,000, Mr. Skinner and Mr. Bingham each receive annual salaries of $120,000, Mr. Stanton receives an annual salary of US $144,000, Mr. Garnett receives an annual salary of $120,000 and Mr. French receives an annual salary of $250,000. The remuneration received is subject to review from time to time by the Corporation's Board of Directors.

Set out below are particulars of compensation paid to the following persons (the "Named Executive Officers"):

(e) the Chief Executive Officer of the Corporation;

(f) each of the Corporation's four most highly compensated executive officers, other than the Chief Executive Officer, who were serving as executive officers at August 31, 2000 and whose total salary and bonus exceeded $100,000 during the fiscal year ended August 31, 2000; and

(g) any additional individuals for whom disclosure would have been provided under (b) but for the fact that the individual was not serving as an officer of the Corporation at the end of the most recently completed financial year.

The following table sets forth compensation paid by the Corporation to the Corporation's Named Executive Officers, Mr. Hilsenteger, Mr. Skinner and Mr. Bingham, for the financial years of the Corporation ended August 31, 2000, 1999 and 1998. No other executive officer of the Corporation received a combined base salary and bonus of more than $100,000 in the fiscal year of the Corporation ended August 31, 2000 or in any previous year.

Name and Principal Position	Fiscal Year Ending August 31	Annual Compensation			Long Term Compensation			All Other Compen-sation ($)
					Awards		Payouts	
		Salary ($)	Bonus ($)	Other annual compen-sation ($)	Securities Under Options/ SAR's Granted (#)	Restricted Shares or Restricted Share Units (#)	LTIP Payouts ($)	
Martin Anthony Hilsenteger (1) Chief Executive Officer and Chairman of the Board	2000	140,000	Nil	Nil	400,000	Nil	Nil	Nil
	1999 (2)	93,000	Nil	Nil	75,000	Nil	Nil	Nil
	1998 (2)	7,000	Nil	9,510	83,125	Nil	Nil	Nil
Martin Ross Skinner (3)	2000	120,000	Nil	Nil	Nil	Nil	Nil	Nil
	1999(4)	75,000	20,000	Nil	325,000	Nil	Nil	Nil
	1998(4)	50,000	Nil	Nil	83,125	Nil	Nil	Nil
Elliott Bingham (5)	2000	114,154	Nil	Nil	100,000	Nil	Nil	Nil

Notes:

(1) Mr. Hilsenteger commenced employment with the Corporation in January 1997 as President and Chief Executive Officer, ceased acting as President in October 2000 and was appointed Chairman of the Board in October 2000.

(2) Reflects compensation paid by the Corporation and the Corporation's predecessor, MegaWheels Media.

(3) Mr. Skinner commenced employment with the Corporation in April 1998 as President of Westview Multimedia Inc. and acted as Executive Vice-President of the Corporation from May 1999 until October 2000 and Secretary of the Corporation from May 1999 until July 2000. Mr. Skinner ceased employment with the Corporation in May 2001.

(4) Reflects compensation paid by the Corporation and the Corporation's predecessor, Westview Multimedia Inc.

(5) Mr. Bingham commenced employment with the Corporation as Vice-President, Finance in September 1999 and acted as Chief Financial Officer of the Corporation from September 1999 until October, 2000. Mr. Bingham, ceased employment with the Corporation in June 2001.

Stock Options

The following table details information with respect to the grant of stock options to Messrs. Hilsenteger, Skinner and Bingham during the fiscal year of the Corporation ended August 31, 2000:

Option Grants During the Most Recently Completed Financial Year					
Name	**Securities Under Option/SARs Granted ($) #**	**% of Total Options/SARs Granted to Employees in Financial Year (%)**	**Exercise or Base Price ($/Security)**	**Market Value of Securities Underlying Options/SARs on the Date of Grant ($/Security)**	**Expiration Date**
Martin Anthony Hilsenteger(1)	400,000	33.7%	$1.25	$0.80	April 13, 2003
Martin Ross Skinner	NIL	N/A	N/A	N/A	N/A
Elliott Bingham(2)	100,000	8.4%	$1.00	$1.21	September 20, 2002

Notes:

(1) As of May 2001, an additional 545,000 options have been granted to Mr. Hilsenteger.
(2) AS of May 2001, an additional 198,000 option have been granted to Mr. Bingham.

Stock Options Exercised

The following table sets out information with respect to all options of the Corporation exercised by Messrs. Hilsenteger, Skinner and Bingham during the most recently completed fiscal year of the Corporation and all options held by Messrs. Hilsenteger, Skinner and Bingham that were outstanding on August 31, 2000:

Aggregated Option Exercises During the Most Recently Completed Financial Year End and Financial Year End Option Values				
Name	**Securities Acquired on Exercise (#)**	**Aggregate Value Realized ($)**	**Unexercised Options/SARs at Fiscal Year End (#) Exercisable/ Unexercisable**	**Value of Unexercised in-the-Money Options/SARs at Fiscal Year End ($) Exercisable/ Unexercisable(1)**
Martin Anthony Hilsenteger	Nil	N/A	558,125	$28,281
Martin Ross Skinner	Nil	N/A	158,125	$28,281
Elliott Bingham	Nil	N/A	100,000	Nil

Note:

(1) All unexercised in-the-money options are exercisable at fiscal year-end.

Remuneration of Directors

The Corporation has seven directors, two of whom are executive officers. The directors of the Corporation have not received any fees to date for acting in that capacity. During the financial year ended August 31, 2000 the directors received grants of stock options under the Corporation's stock option plan. See "Stock Options and Warrants".

INDEBTEDNESS OF DIRECTORS AND SENIOR OFFICERS

In February 2001 and March 2001, Megawheels loaned a total of $25,000 with interest at the prime bank rate to Martin Hilsenteger, Chairman and Chief Executive Officer of the Corporation, to purchase 25,000 Special Warrant Units. The loan is repayable prior to August 31, 2001.

STOCK OPTIONS AND WARRANTS

The Corporation has adopted a stock option plan (the "Plan") for the benefit of its directors, officers, employees, consultants and other key personnel. A number of Common Shares equal to twenty (20%) percent of the issued and outstanding Common Shares in the capital stock of the Corporation from time to time are reserved for issuance pursuant to the Plan. The Plan provides that the terms of the options and the option price shall be fixed by the Board of Directors subject to the price restrictions and other requirements of the CDNX. Options may be granted under the Plan to any person who is a director, officer, employee, consultant or key personnel of the Corporation or its subsidiaries and only upon the recommendation of the Board of Directors. Stock options granted under the Plan expire no later than the fifth anniversary of the date on which such options are granted and the exercise price must be paid in full upon exercise of the option.

The following table sets out information with respect to options to purchase Common Shares granted by the Corporation (including MegaWheels Media prior to amalgamation) which are outstanding as of July 15, 2001.

Name	Number of Shares	Exercise Price	Expiry Date	Market Value on Date of Grant(1)
Executive Officers (4 persons)	852,000	$0.20	April 18, 2006	$0.19
	83,125	$0.40	October 30, 2003	-
	50,000	$0.50	March 22, 2002	-
	300,000	$0.75	October 15, 2004	$0.40
	50,000	$0.77	August 24, 2002	$0.98
	75,000	$1.00	December 15, 2002	$0.33
	25,000	$1.00	April 3, 2003	$0.80
	400,000	$1.25	April 3, 2003	$0.80
Directors (3 persons)	4,375	$0.40	October 30, 2003	-
	25,000	$0.77	August 24, 2002	$0.98
	75,000	$1.00	April 3, 2003	$0.60
Employees (45 persons)	1,170,000	$0.20	April 18, 2006	$0.19
	83,125	$0.40	October 30, 2003	-
	121,000	$0.50	March 22, 2002	-
	100,000	$0.75	November 12, 2004	$0.25
	50,000	$0.77	August 24, 2002	$0.98
	125,000	$0.85	August 31, 2002	$1.00
	100,000	$1.00	September 20, 2002	$1.21
	60,000	$1.25	March 9, 2003	$0.80
	75,000	$1.25	May 10, 2003	$0.55

Note:

(1) The market value at the date of grant for options granted by Megawheels Media or Westview Multimedia Inc., the Corporation's predecessors, are not ascertainable.

In addition, there are 1,200,000 outstanding warrants to purchase Common Shares, exercisable at $0.85 until December 31, 2001. These warrants were issued by MegaWheels Media to persons who purchased common shares in MegaWheels Media under an offering memorandum dated December 21, 1998.

TRADING HISTORY

The outstanding Common Shares of the Corporation were listed on the ASE on October 7, 1998 under the trading symbol "MGW". The following table summarizes the reported high and low closing prices and the volume of trading of the Common Shares as reported by the ASE and the CDNX after January 1, 1999 for the periods indicated:

Period(1)	Price Range		Trading Volume
	High $	Low $	
1999			
1st Quarter(1)(2)	$0.40	$0.30	136,000
2nd Quarter(1)	$3.50	$0.91	1,131,055
3rd Quarter	$1.50	$0.50	5,040,694
4th Quarter	$1.40	$0.80	1,082,500
2000			
1st Quarter	$1.90	$0.75	4,610,200
2nd Quarter	$1.10	$0.40	1,665,800
3rd Quarter	$0.85	$0.51	1,019,300
4th Quarter	$0.51	$0.13	1,293,200
2001			
January	$0.24	$0.10	1,122,500
February	$0.25	$0.16	534,900
March	$0.27	$0.11	719,200
April	$0.25	$0.17	235,200
May	$0.20	$0.14	405,000
June	$0.18	$0.14	385,083
July 1 to July 27	$0.18	$0.14	52,575

Notes:

(1) Information prior to May 18, 1999 is in respect of Westview Multimedia Inc. prior to completion of its major transaction. See "Business of Megawheels - Incorporation and Completion of Major Transaction".

(2) Between March 24 and March 31, 1999 there was a trading halt pending announcement of a takeover bid in connection with the major transaction.

CONFLICTS OF INTEREST

Certain directors of Megawheels are associated with other companies, which may give rise to conflicts of interest. In accordance with the CBCA, directors who have a material interest in any person who is a party to a material contract or proposed material contract with the Corporation are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of the Corporation. See "Interests of Management and Others in Material Transactions".

PROMOTERS

The securities legislation defines a "promoter" to include a person who directly or indirectly takes the initiative in founding or organizing the business of an issuer. Mr. Martin A. Hilsenteger has participated in founding and organizing the business of Megawheels, and has subscribed for and received those Common Shares and Preferred Shares which are referred to under the heading "Directors and Executive Officers".

DIVIDEND POLICY

The Corporation has not paid dividends on its Common Shares or Preferred Shares to date. The payment of dividends on Common Shares and Preferred Shares in the future is dependant on the earnings and financial condition of the Corporation and such other factors as the directors consider appropriate. In the event the Corporation pays a cash dividend to holders of Common Shares, the Corporation shall pay the amount of such dividend to holders of Series A Shares and holders of Series B Shares, calculated on the basis that the holders of Series A Shares and the holders of Series B Shares are holders of the number of Common Shares which the Series A Share holders and the Series B Share holders are entitled to receive upon conversion of the Series B Shares, subject to adjustment in certain circumstances. The Series A Shares and the Series B Shares are to participate rateably in any such dividend with the holders of Common Shares. See "Description of Share Capital - Preferred Shares".

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as noted below, there are no material interests, direct or indirect, of directors, senior officers or any shareholder who beneficially owns, directly or indirectly more than ten percent of the outstanding Common Shares or any known associate or affiliate of such persons, in any transaction within the last three years or in any proposed transaction which has materially affected or would materially affect Megawheels.

Martin Anthony Hilsenteger, Chief Executive Officer, Chairman of the Board and Director of the Corporation, was also the President, Chief Executive Officer, Director and a shareholder of MegaWheels Media. Following completion of the major transaction, Mr. Hilsenteger exercised control over 1,305,067 or approximately 13.59% of the then issued and outstanding post-consolidation Common Shares of the Corporation. In addition, the Corporation provided working capital loans of $195,116 to Single Touch (formerly Studon Business Solutions Corp.), a corporation in which Mr. Hilsenteger has an indirect shareholding of 37%. The amount of the loan is repayable on demand at an interest rate of prime plus 2% and has no fixed term of repayment. See "Financial Statements".

T. Christopher Bulger and John Varghese, directors of the Corporation, are the President and Chief Executive Officer and the Vice-President, Investments, respectively, of eLab. The Corporation has entered into the following transactions with eLab: On June 8, 2001, eLab acquired 2,000,000 Common Shares and 2,000,000 share purchase warrants of the Corporation on exercise of previously issued special warrants granted to eLab; on May 9, 2001 the Corporation issued 2,128,116 Series A Shares to eLab in satisfaction of interest and fees owing in connection with convertible promissory notes previously issued to eLab; on November 9, 2000, the Corporation issued to eLab a $500,000 convertible promissory note convertible into 1,666,667 Common Shares and issued warrants to subscribe for 1,250,000 Common Shares at a price of $0.30 per share; on

October 11, 2000, the Corporation issued to eLab a $600,000 convertible promissory note convertible into 1,132,075 Common Shares and paid a fee of $100,000 in cash and warrants to subscribe for 200,000 Common Shares at a price of $0.40 per share; on April 28, 2000, the Corporation issued to eLab a $1,500,000 convertible promissory note convertible into 2,000,000 Common Shares and warrants to subscribe for 150,000 Common Shares at a price of $0.75 per share. See “Principal Shareholders” and “Plan of Distribution”.

Following the issuance of the Special Warrants, Series A Shares and convertible promissory notes to eLab, eLab owns Common Shares and securities convertible into Common Shares representing an aggregate of 20,593,839 Common Shares, or 21.1% of the outstanding Common Shares of Megawheels calculated on a fully diluted basis and owns 2,128,126 Series A Shares representing 16.1% of the outstanding Series A Shares of Megawheels.

RISK FACTORS

An investment in the Common Shares should be considered a highly speculative investment. Potential investors should carefully review the following factors together with the other information contained in this prospectus before making an investment decision.

Financing Risks

The Corporation has incurred significant operating losses and cash flow deficiencies from operations. It had a working capital deficiency of $4,488,591 and a shareholder deficiency of $312,271 at February 28, 2001. Management of Megawheels believes it has sufficient cash on hand to meet all its expenditures until such time as its revenues exceed its expenses, currently expected to occur in the fourth quarter of the 2001 calendar year. However, if the Corporation is unable to achieve positive cash flow within this time period, continued operations will be dependent on the Corporation's ability to raise additional capital to fund the cash shortfall. The ability of Megawheels to arrange financing will depend in part upon the prevailing market conditions and on the business performance of Megawheels. There is no assurance that, if deemed necessary, Megawheels will be successful in its efforts to arrange additional financing on terms satisfactory to Megawheels, or at all. In the event additional securities are issued by Megawheels, shareholders of Megawheels would suffer additional dilution.

New Business Venture

The business of Megawheels is in a growth market stage. On May 30, 1999, Megawheels.com Inc. and its wholly owned subsidiary, MegaWheels Media amalgamated to form Megawheels. MegaWheels Media was incorporated on January 24, 1995 for the primary purpose of pursuing opportunities in the Internet advertising business. Prior to its amalgamation with MegaWheels Media, Megawheels.com Inc. did not carry on any business. MegaWheels Media commenced its business in June of 1996. Megawheels has a relatively short history of operations and has not earned a profit to date. Megawheels and its predecessor, MegaWheels Media, incurred substantial operating losses in the financial years ended August 31, 1998, 1999 and 2000. See “Financial Statements”. Megawheels' ability to mitigate its risks is dependent upon its ability to gain market share and acceptance for its services and products in North America, the United Kingdom and Europe. Megawheels has limited cash and other assets and a limited business history. Holders of securities of Megawheels must rely solely on the ability, expertise, judgement, discretion, integrity and good faith of Megawheels's management in all aspects of the development and implementation of Megawheels's business strategy. See “Directors and Executive Officers”.

Competition

Within the United States, Megawheels faces a high degree of competition from two incumbent products owned by Gannett Company, Inc. This limits the market potential of its products to newspaper publishers not currently using either Celebro or AutoChooser Reverse Publishing software, the competitive companies owned by Gannett Company, Inc. In Great Britain, Europe and other global markets such as South America, there is no presence in the reverse-publishing market, however, there is a stronger manufacturer presence. To succeed in these markets, the Corporation must establish solid relationships with both newspaper publishers and manufacturers. Megawheels does not have the financial resources necessary to undertake an advertising campaign designed to educate these markets about its services . Megawheels must adopt other strategies to increase customer awareness of its services. There is no guarantee that consumers, automobile dealers and newspaper publishers and manufacturers will choose Megawheels over its competition.

Dependence on Ongoing Business Relationships with Newspaper Publishers

The Corporation's business relationships with *The Globe and Mail* and the *Evening Standard* forms an integral part of the maintenance and development of the Corporation's business. Therefore, a disruption in the business operations of *The Globe and Mail* or the *Evening Standard* would interfere with the publication of the GlobeMegawheels Insert and the ESWheels Inserts and could have a negative impact on the Corporation.

Limited Market Penetration

Megawheels currently has modest market penetration in Canada and the United Kingdom and market penetration in the United States is limited. Megawheels has only a small body of dealers in Canada using its Drive product. The Corporation currently has two agreements for the publication of newspaper automotive advertising inserts; its success is dependent upon the Corporation entering into additional similar contracts and into contracts with auto manufacturers and other auto dealer groups to expand the subscriber base of its inVision product. There is no guarantee that efforts by Megawheels to achieve higher market penetration or to enter into additional contracts with newspaper publishers, auto manufacturers and other auto dealer groups will be successful.

Uncertain Acceptance of Megawheels

The Corporation believes that strong brand recognition is critical to achieving widespread acceptance of the GlobeMegawheels Website and the UK Website, especially in light of the intensely competitive nature of the online business-to-consumer market. The success in promoting these websites as well as any additional media partner's sites will depend largely on the efforts of newspaper publishers who are primarily responsible for marketing and on the Corporation's ability to offer a high quality, easy-to-use, vehicle location service. If consumers do not perceive these websites as an effective marketing and sales channel for their vehicles, or if customers do not perceive Megawheels as offering an effective and user-friendly platform to purchase vehicles, these efforts will be unsuccessful in promoting and maintaining its brand. There is no assurance that the newspaper publishers' efforts will result in a level of brand recognition sufficient to result in increased revenue for the Corporation. If the Corporation is unable to achieve an acceptable level of awareness of its co-branded websites and related newspaper automotive advertising inserts, the Corporation's financial position would be materially and adversely affected.

Dependence On The Internet Infrastructure

The success of the Websites and the other services operated by the Corporation will depend to a significant degree upon the development and maintenance of the Internet infrastructure and reliable Internet access and services. If the necessary infrastructure, standards, protocols or complementary products, services or facilities are not developed, or if the Internet does not become a viable commercial marketplace, the Corporation's business, results of operations, cash flow and financial condition will be materially and adversely affected.

Even if the infrastructure, standards, protocols and complementary products, services or facilities are developed and the Internet becomes a viable commercial marketplace in the long term, the Corporation might be required to incur substantial expenditures in order to adapt its service to changing Internet technologies, which could have a material adverse effect on the Corporation's business, financial condition, results of operations, cash flow and prospects.

Technological Change

The Internet and e-commerce industries are characterized by rapid technological change, changes in user and customer requirements, frequent new service or product introductions embodying new technologies and the emergence of new industry standards and practices that could render the Corporation's existing Websites and proprietary technology obsolete. The Corporation's performance will depend, in part, on its ability to license leading technologies, enhance its existing services, develop new proprietary technology that addresses the increasingly sophisticated and varied needs of its prospective customers, and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. The development of the Websites and other proprietary technology entails significant technical and business risks. There can be no assurance that the Corporation will be successful in using new technologies effectively or adapting its Websites and proprietary technology to customer requirements or emerging industry standards.

Dependence on Key Personnel; Need for Additional Personnel

The Corporation's success is substantially dependent on the ability and experience of its senior management and other key personnel. The Corporation does not have long term employment agreements with all of its key personnel and is still in the process of establishing "key person" life insurance policies. Moreover, to accommodate its current size and manage its anticipated growth, the Corporation must maintain and expand its employee base. There can be no assurance that the Corporation will retain existing personnel or hire additional, qualified personnel. The inability of the Corporation to retain and attract the necessary personnel or the loss of services of any of its key personnel could have a material adverse effect on the Corporation.

Internet Security

A significant barrier to e-commerce and communications is the secure transmission of confidential information over public networks. The Corporation relies on encryption and authentication technology licensed from third parties to provide the security and authentication necessary to effect secure transmission of confidential information. There can be no assurance that the advances in computer capabilities, new discoveries in the field of cryptography or other events or developments will not result in a compromise or breach of the algorithms used by the Corporation to protect customer transaction data. Concerns over the security of Internet transactions and communications and the privacy of users may also inhibit the growth of the Internet generally, and the Internet in particular, as a means of conducting commercial transactions. There can be no assurance that the Corporation's security measures will prevent security breaches and protect the Corporation from any resulting risk of loss.

MATERIAL CONTRACTS

The following are the only material contracts, other than contracts entered into in the ordinary course of business, to which the Corporation is a party:

(1) Director Nomination and Pre-Emptive Right Agreement dated May 17, 2001 between the Corporation and Globemedia. See "Plan of Distribution - Special Notes".

(2) Globemedia Terms Letter dated March 14, 2001, as amended on April 4, 2001 and May 15, 2001 between the Corporation and Globemedia. See "Plan of Distribution - Special Notes".

(3) Shareholder Agreement dated May 9, 2001 among the Corporation, VIMAC and eLab. See “Plan of Distribution - Seris A Shares”.

(4) Conversion Agreement dated April 30, 2001 between eLab and the Corporation. See “Plan of Distribution”.

(5) VIMAC Terms Letter dated March 23, 2001 between the Corporation and VIMAC. See “Plan of Distribution - Series A Shares”.

(6) Binding Terms Agreement dated March 12, 2001 between Herald Interactive Advertising Systems, Inc. and the Corporation. See “Business of the Corporation - Herald Interactive Advertising Systems, Inc. ”

(7) Term Sheet dated February 14, 2001 relating to the February 2001 Loan and issue of Special Warrants. See “Plan of Distribution - Special Warrants”.

(8) Terms Letter dated January 29, 2001 between the Corporation and *The Globe and Mail*. See “Business of Megawheels - *The Globe and Mail*”.

(9) Terms Letter dated January 26, 2001 between the Corporation and Globe Interactive, as amended on January 26, 2001. See “Business of Megawheels - GlobeMegawheels Website”.

(10) Website and Newspaper Insert Agreement dated August 1, 2000 between ANL and Megawheels Limited. relating to the establishment of the UK Website and the publication of the ESWheels Insert. See “Business of Megawheels - Associated Newspapers Limited”.

(11) Guarantee dated August 1, 2000 between ANL, Megawheels Limited and the Corporation. See “Business of Megawheels - Associated Newspapers Limited”.

(12) Share Purchase Agreement dated May 9, 2000 between Mark Kudlac, Rose Kudlac and the Corporation relating to the sale of all the outstanding shares of Conxsys to the Corporation. See “Business of Megawheels - Drive”.

(13) Escrow Agreement dated May 9, 2000 between the Corporation, the Trustee, Rose Kudlac and Mark Kudlac. See “Business of Megawheels - Drive” and “Escrowed Securities”.

Copies of these agreements will be available for inspection at the registered offices of the Corporation during ordinary business hours while the securities offered by this prospectus are in the course of distribution and for a period of 30 days thereafter.

LEGAL PROCEEDINGS

The Corporation is not aware of any material legal proceedings nor are any such proceedings known by the Corporation to be contemplated.

LEGAL MATTERS

Certain legal matters relating to the distribution of the securities offered hereby will be passed upon by McCarthy Tétrault LLP, Barristers and Solicitors, on behalf of the Corporation.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of Megawheels are Ernst & Young LLP, Chartered Accountants, located at 1000, 440 - 2nd Avenue S.W., Calgary, Alberta, T2P 5E9. Computershare Investor Services Inc. (formerly Montreal Trust Company of Canada), at its principal office in Calgary, Alberta, is the transfer agent and registrar for the Common Shares.

RESTRICTIONS ON RESALE OF SECURITIES

Any Underlying Securities issued to holders of Purchased Securities which are exercised or deemed to be exercised or converted or deemed to be converted prior to the issuance of a receipt for the prospectus, will be subject to the relevant hold periods under applicable securities legislation.

PURCHASERS' CONTRACTUAL AND STATUTORY RIGHTS OF ACTION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after the receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

In the event that a holder of a Purchased Security, who acquires Underlying Securities of the Corporation upon the exercise or conversion of the Purchased Security as provided for in this prospectus, is or becomes entitled under applicable securities legislation to the remedy of rescission by reason of this prospectus or any amendment thereto containing a misrepresentation, such holder shall be entitled to rescission not only of the holder's exercise or conversion of its Purchased Security(ies) but also of the private placement transaction pursuant to which the Purchased Security was initially acquired, and shall be entitled in connection with such rescission to a full refund of all consideration paid to the Corporation on the acquisition of the Purchased Security. In the event such holder is a permitted assignee of the interest of the original Purchased Security subscriber, such permitted assignee shall be entitled to exercise the rights of rescission and refund granted hereunder as if such permitted assignee was such original subscriber. The foregoing is in addition to any other right or remedy available to a holder of the Purchased Security under section 130 of the *Securities Act* (Ontario), Section 168 of the *Securities Act* (Alberta), section 131 of the *Securities Act* (British Columbia) or otherwise at law.

Consolidated Financial Statements

Megawheels.com Inc.

As at February 28, 2001 and 2000 (Unaudited) and
August 31, 2000 and 1999
For the Six months ended February 28, 2001 and 2000 (Unaudited) and
For the Years ended August 31, 2000, 1999, and 1998

AUDITORS' REPORT

To the Directors of
Megawheels.com Inc.

We have audited the consolidated balance sheets of Megawheels.com Inc., as at August 31, 2000 and 1999 and the consolidated statements of loss and deficit and cash flows for each of the years in the three year period ended August 31, 2000. These consolidated 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 auditing standards generally accepted in Canada. 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 August 31, 2000 and 1999 and the results of its operations and its cash flows for each of the years in the three year period ended August 31, 2000 in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP

Calgary, Canada
October 18, 2000
(except for note 16 which is
as of July 30, 2001)

Chartered Accountants

Megawheels.com Inc.

CONSOLIDATED BALANCE SHEETS

[See Incorporation and Basis of Presentation - Note 1]

	February 28	August 31	
	2001	**2000**	**1999**
	$	$	$
	(unaudited)		
ASSETS ***[note 8]***			
Current			
Cash	138,789	628,313	522,609
Trade accounts receivable	325,634	301,683	157,262
Other accounts receivable	127,804	221,660	256,900
Inventory	19,875	65,692	—
Prepaid expenses and deferred charges	837,551	916,006	6,946
Deposits	—	439,000	—
Due from related companies *[note 9]*	195,116	650,000	—
	1,644,769	3,222,354	943,717
Restricted Deposit ***[note 14]***	100,000	100,000	—
Due from related company ***[note 9]***	—	—	125,000
Capital assets ***[notes 5 and 9]***	4,520,859	4,737,356	230,139
Goodwill ***[notes 4 and 6]***	413,269	462,291	—
	6,678,897	8,522,001	1,298,856
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)			
Current			
Accounts payable and accrued liabilities *[note 9]*	1,688,675	1,453,975	613,601
Due to shareholders *[note 7]*	231,402	151,100	—
Convertible debenture *[note 8]*	4,213,283	1,433,333	—
	6,133,360	3,038,408	613,601
Future income taxes ***[notes 4 and 13]***	713,295	874,306	—
Due to shareholders ***[note 7]***	144,513	310,341	—
Commitments and contingencies ***[notes 10 and 14]***			
Shareholders' equity (deficiency)			
Share capital *[note 10]*	13,160,414	13,112,414	3,665,199
Contributed surplus *[note 8]*	383,000	100,000	—
Special warrants *[note 10]*	3,129,158	3,207,559	1,675,343
Deficit	(16,984,843)	(12,121,027)	(4,655,287)
	(312,271)	4,298,946	685,255
	6,678,897	8,522,001	1,298,856

See accompanying notes

On behalf of the Board: (signed) Martin A. Hilsenteger (signed) James R. McPherson

Director Director

Megawheels.com Inc.

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

	For the six months ended February 28		For the years ended August 31		
	2001	**2000**	**2000**	**1999**	**1998**
	$	**$**	$	$	$
	(unaudited)				
Revenue	1,697,824	952,505	2,674,028	728,363	259,365
Operating expenses					
General and administrative *[note 9]*	1,887,317	1,109,853	2,841,142	1,322,321	433,162
Sales and customer support	1,029,228	1,074,903	2,428,367	1,297,816	500,696
Printing and distribution	1,240,996	971,046	2,036,833	708,009	—
Advertising and marketing	697,950	676,757	1,148,430	322,940	206,337
Software development and support *[note 9]*	803,016	386,715	1,124,140	247,921	127,570
Interest expense *[note 8]*	424,393	—	129,232	—	—
Depreciation and amortization *[note5]*	639,750	103,843	523,383	209,812	37,801
	6,722,650	4,323,117	10,231,527	4,108,819	1,305,566
Loss before income taxes	(5,024,826)	(3,370,612)	(7,557,499)	(3,380,456)	(1,046,201)
Future income taxes *[note 13]*	(161,010)	—	(91,759)	—	—
Loss for the period	(4,863,816)	(3,370,612)	(7,465,740)	(3,380,456)	(1,046,201)
Deficit, beginning of period	(12,121,027)	(4,655,287)	(4,655,287)	(1,274,831)	(228,630)
Deficit, end of period	(16,984,843)	(8,025,899)	(12,121,027)	(4,655,287)	(1,274,831)
Basic loss per share	(0.24)	(0.30)	(0.48)	(0.47)	(0.41)

See accompanying notes

Megawheels.com Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the six months ended February 28		For the years ended August 31		
	2001	**2000**	**2000**	**1999**	**1998**
	$	**$**	$	$	$
CASH WAS PROVIDED BY (USED FOR):	(unaudited)				
Operating activities					
Loss for the period	(4,863,816)	(3,370,612)	(7,465,740)	(3,380,456)	(1,046,201)
Add (deduct) non-cash items:					
Depreciation and amortization	639,750	103,843	524,874	209,812	37,801
Accreted interest expense *[note 8]*	116,950	—	33,332	—	—
Future income taxes	(161,010)	—	(91,759)	—	—
Loss on asset sale	13,092	—	—	—	—
	(4,255,034)	(3,266,769)	(6,999,293)	(3,170,644)	(1,008,400)
Net changes in non-cash working capital *[note 12]*	738,127	(764,307)	(795,878)	132,362	(81,462)
	(3,516,907)	(4,031,076)	(7,795,171)	(3,038,282)	(1,089,862)
Investing activities					
Decrease (increase) in due from related companies	454,884	(375,000)	(525,000)	(100,000)	(25,000)
Purchase of capital assets *[note 9]*	(356,863)	(322,034)	(573,045)	(200,156)	(265,734)
Investment in Conxsys Inc., net of cash acquired *[note 4]*	—	—	(1,343,308)	—	—
Increase in restricted deposit	—	—	(100,000)	—	—
	98,021	(697,034)	(2,541,353)	(300,156)	(290,734)
Financing activities					
Common shares issued for cash	—	—	—	1,324,750	781,526
Cash acquired in acquisition of Megawheels *[note 3]*	—	—	—	378,061	—
Common shares issued on exercise of warrants and options	—	317,449	239,000	513,000	—
Share subscriptions *[note 10]*	—	—	—	—	567,762
Increase in (repayment of) long-term Debt	—	—	—	(60,000)	60,000
Repayment of advances from shareholders	—	—	—	(8,970)	(37,164)
Issue of convertible debenture	2,946,000	—	1,500,000	—	—
Increase (decrease) in bank indebtedness	—	—	(31,250)	(10,794)	8,472
Issue of special warrants	(16,638)	5,329,549	8,734,478	1,725,000	—
	2,929,362	5,646,998	10,442,228	3,861,047	1,380,596
Increase (decrease) in cash	(489,524)	918,888	105,704	522,609	—
Cash, beginning of period	628,313	522,609	522,609	—	—
Cash, end of period	138,789	1,441,497	628,313	522,609	—
Cash interest paid	—	—	413	5,200	7,500

See accompanying notes

Megawheels.com Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2000, 1999 and 1998 and February 28, 2001 (unaudited)
(Note: Information as at February 28, 2001 and for the periods ended February 28, 2001 and 2000 is unaudited.)

1. INCORPORATION AND BASIS OF PRESENTATION

Megawheels.com Inc. (the "Company" or "Megawheels") (formerly Westview Multimedia Inc.) is incorporated under the laws of Canada and operates in one principal business segment as a provider of automotive dealership management software systems, internet based automotive marketing databases and automotive print advertising systems and services in Canada.

The accompanying consolidated financial statements have been prepared on a going concern basis, which presumes the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. The Company has incurred significant operating losses and cash flow deficiencies from operations and had a working capital deficiency of $4,488,591 and a shareholder deficiency of $312,271 at February 28, 2001. The Company's ability to continue as a going concern is dependent on achieving profitable operations and upon obtaining additional financing. See additional funds raised since the quarter ended (note 16). The outcome of these matters cannot be predicted at this time. These financial statements do not contain any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue in business.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations, which have been made using careful judgment. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

a) Consolidation

These financial statements include the accounts of the Company (see note 3) and its wholly owned subsidiaries, Conxsys Inc. ("Conxsys") and Megawheels Limited.

b) Inventory

Inventory consists mainly of computer hardware and is stated at the lower of cost, on a first-in first-out basis, and net realizable value.

c) Prepaid expenses and deferred charges

Prepaid expenses include expenditures for prepaid advertising, which are recorded at cost and expensed in the period in which the related advertising services are received. Deferred charges represent financing costs for the issue of convertible debentures which are amortized to earnings over the term of the related issue.

d) Goodwill

Goodwill is recorded at cost and is amortized on a straight line basis over 5 years. The recoverability of goodwill is assessed periodically based on management estimates of undiscounted future cash flows from the acquired business to which the goodwill relates.

e) Capital assets

Capital assets are recorded at cost and amortized based on estimated useful lives as follows:

Computer equipment	30% declining balance
Furniture and equipment	20% declining balance
Software license	Straight line over the 15 year contract life
Leasehold improvements	Over the term of the leases (2, 3.1 and 5 years)
Computer software	Straight line over 3 years
Inventory held for lease	Over the term of the leases (4 years)

f) Revenue recognition

Revenue from customer service agreements is recognized on a monthly basis over the period of the contracts. Revenue from magazine distribution is recorded based on net monthly sales made by the distribution companies.

g) Software development costs

Costs of developing, updating and maintaining internally developed computer software and websites are expensed as incurred. The cost of acquiring third party software is capitalized and amortized over its estimated useful life.

h) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, the Company records income taxes to give effect to temporary differences between the carrying amount and the tax basis of the Company's assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Company's income taxes payable for the year or for a later period. Future income taxes are recorded at the income tax rates that are expected to apply when the future tax liability is settled or the future tax asset is realized. When necessary, valuation allowances are established to reduce future income tax assets to the amount expected to be realized. Income tax expense is the tax payable for the period and the change during the period in future income tax assets and liabilities.

i) Stock-based compensation plan

No compensation expense is recognized where stock options are issued to and paid for by employees or other parties. Any consideration received on exercise of stock options is credited to share capital.

j) Loss per share

Loss per share has been calculated using the imputed earnings method, based on the weighted average number of common shares outstanding during the period. The effect on loss per share of the exercise of options and warrants is anti-dilutive. The weighted average shares outstanding for the periods presented were for the periods ended: February 28, 2001 - 20,217,612; 2000 – 11,111,689; August 31, 2000 - 15,567,173; 1999 - 7,208,168; 1998 – 2,526,311.

3. REVERSE TAKEOVER

On May 20, 1999, Megawheels and MegaWheels Media Inc. ("MegaWheels Media") engaged in a reverse takeover and amalgamation. All of the outstanding equity securities of MegaWheels Media were exchanged on a one for one basis for equivalent equity securities in Megawheels. After the takeover, but prior to amalgamation, MegaWheels Media became a wholly-owned subsidiary of Megawheels. Subsequent to the reverse takeover, Megawheels and MegaWheels Media amalgamated and continued under the name Megawheels.com Inc. As the controlling shareholders of MegaWheels Media owned 62% of the issued and outstanding shares of Megawheels subsequent to the transaction, this business combination has been accounted for as a reverse takeover whereby MegaWheels Media is deemed to have acquired Megawheels. Accordingly, the consolidated balance sheets of the Company as at August 31, 2000 and 1999 are based upon the accounts of MegaWheels Media at their historical net book value and include the acquired net assets of Megawheels which are comprised of cash of $504,555 and accrued liabilities and transaction costs of $126,494. The comparative consolidated financial statements for the periods prior to May 20, 1999 are those of MegaWheels Media.

4. ACQUISITION OF CONXSYS

On May 19, 2000, Megawheels purchased all of the outstanding shares of Conxsys. These consolidated financial statements include the results of Conxsys subsequent to May 19, 2000. The purchase was recorded as follows:

	$
Fair market value of assets (liabilities) acquired:	
Cash	13,564
Other current assets	122,609
Computer software	2,166,065
Other capital assets	72,362
Goodwill	490,229
Bank loan – current	(18,750)
Other current liabilities	(97,143)
Future income taxes	(966,065)
Bank loan - long term	(12,500)
Total purchase price	1,770,371
Purchase price consisted of:	
Cash	1,530,371
300,000 Common shares issued	240,000
Total consideration paid/payable	1,770,371

Megawheels.com Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2000, 1999 and 1998 and February 28, 2001 (unaudited)
(Note: Information as at February 28, 2001 and for the periods ended February 28, 2001 and 2000 is unaudited.)

5. CAPITAL ASSETS

	February 28, 2001		
	Cost $	**Accumulated Depreciation and Amortization** $	**Net Book Value** $
Computer equipment	1,005,879	444,362	561,517
Furniture and equipment	381,538	69,172	312,366
Software license	2,000,000	188,889	1,811,111
Leasehold improvements	165,469	27,471	137,998
Computer software	2,284,534	597,998	1,686,536
Inventory held for lease	17,619	6,288	11,331
	5,855,039	1,334,180	4,520,859

	August 31, 2000		
	Cost $	**Accumulated Depreciation and Amortization** $	**Net Book Value** $
Computer equipment	831,842	361,239	470,603
Furniture and equipment	322,279	40,992	281,287
Software license	2,000,000	122,222	1,877,778
Leasehold improvements	47,359	2,731	44,628
Computer software	2,265,135	217,179	2,047,956
Inventory held for lease	17,619	2,515	15,104
	5,484,234	746,878	4,737,356

	August 31, 1999		
	Cost $	**Accumulated Depreciation** $	**Net Book Value** $
Computer equipment	439,312	245,019	194,293
Furniture	42,259	6,413	35,846
	481,571	251,432	230,139

Depreciation and amortization disclosed is related to capital assets and goodwill. For the period ending February 28, 2000, $590,728 (1999 - $103,843) and for the year ended August 31, 2000, $495,445 (1999 - $209,812; 1998 - 37,801) of the depreciation and amortization disclosed is related to capital assets.

Megawheels.com Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2000, 1999 and 1998 and February 28, 2001 (unaudited)
(Note: Information as at February 28, 2001 and for the periods ended February 28, 2001 and 2000 is unaudited.)

6. GOODWILL

	$
Balance at August 31, 1999	—
Goodwill recorded on acquisition of Conxsys Inc.	490,229
Amortization for the year ended August 31, 2000	(27,938)
Amortization for the period ended February 28, 2001	(49,022)
Balance at February 28, 2001	413,269

7. DUE TO SHAREHOLDERS

Due to shareholders at February 28, 2001 and August 31, 2000, is comprised of payments, discounted at an imputed rate of 15%, due to the previous Conxsys shareholders, arising from the acquisition of Conxsys. The amount is payable over the 2 year period ending May 19, 2002.

8. CONVERTIBLE DEBENTURES

(See note 16)

On April 28, 2000, the Company issued a $1,500,000 one-year 15% convertible debenture maturing on April 28, 2001. The debenture is convertible at any time into 2,000,000 common shares of the Company at the option of the holder. The debenture holder also received 150,000 warrants to purchase common shares of the Company at $0.75. The warrants are exercisable for a period of one year from the date of issue. The debenture is collateralized by a charge on the Company's assets and is repayable with 5 days written notice by either party up to the maturity date. Interest is payable at maturity or on earlier payment of the debenture. The debt component is recorded at $1,400,000 and the discount from the amount repayable at maturity is accreted over the term of the debenture. The conversion option, valued at $100,000, is recorded as contributed surplus.

On October 11, 2000, the Company issued a $600,000 one-year 15% convertible debenture maturing on October 11, 2001. The debenture is convertible at any time into 1,132,075 common shares of the Company at the option of the holder. The debenture holder also received 200,000 warrants to purchase common shares of the Company at $0.40. The warrants are exercisable for a period of one year from the date of issue. The debenture is collateralized by a charge on the Company's assets and is repayable with 5 days written notice by either party up to the maturity date. Interest is payable at maturity or on earlier payment of the debenture. The debt component is recorded at $560,000 and the discount from the amount payable at maturity is accreted over the term of the debenture. The conversion option, valued at $40,000, is recorded as contributed surplus.

On November 9, 2000, the Company issued a $500,000 one-year 10% convertible debenture maturing on November 9, 2001. The debenture is convertible at any time into 1,666,667 common shares of the Company at the option of the holder. The debenture holder also received 833,333 warrants to purchase common shares of the Company at $0.30. The warrants are exercisable for a period of two years from the date of issue The debenture is collateralized by a charge on the Company's assets and is repayable with 5 days written notice by either party up to the maturity date. Interest is payable at maturity or on earlier payment of the debenture. The debt component is recorded at $440,000 and the discount from the amount payable at maturity is accreted over the term of the debenture. The conversion option, valued at $60,000, is recorded as contributed surplus.

On December 12, 2000, the Company issued a $1,000,000 convertible debenture maturing on December 12, 2001 and bearing interest at 10% per annum. The debenture is convertible at any time into 4,000,000 common shares of the Company at the option of the holder. The debenture holder also received 3,000,000 warrants to purchase common shares of the Company at $0.25. The warrants are exercisable for a period of one year from the date of issue. The debenture is collateralized by a charge on the Company's assets and may be repaid by the Company at any time prior to maturity with the consent of the holder. The debt component is recorded at $885,000 and the discount from the amount payable at maturity is accreted over the term of the debenture. The conversion option, valued at $115,000, is recorded as contributed surplus.

On December 22, 2000, the Company issued a $250,000 convertible debenture maturing on December 22, 2001 and bearing interest at 10% per annum. The debenture is convertible at any time into 833,333 common shares of the Company at the option of the holder. The debenture holder also received 416,667 warrants to purchase common shares of the Company at $0.30. The warrants are exercisable for a period of two years from the date of issue. The debenture is collateralized by a charge on the Company's assets and may be repaid by the Company at any time prior to maturity with the consent of the holder. The debt component is recorded at $220,000 and the discount from the amount payable at maturity is accreted over the term of the debenture. The conversion option, valued at $30,000, is recorded as contributed surplus.

On February 14, 2001, the Company agreed to issue up to $1,115,000 of special warrants to certain individuals, including directors and senior officers of the Company. Each special warrant entitles the holder to receive $1.00 of principal amount of convertible debentures maturing on August 13, 2001 and bearing interest at 14% per annum and 5.88 common share purchase warrants. Each $1.00 of convertible debenture is convertible at any time into 5.88 common shares of the Company at the option of the holder. Each common share purchase warrants entitles the holder to purchase a common share of the Company for $0.17 and is exercisable until August 13, 2001. The debenture is collateralized by a charge on the Company's assets and may be repaid by the Company at any time prior to maturity with the consent of the holders. During the second quarter, the Company issued 596,000 special warrants for proceeds of $596,000. The special warrants were recorded as convertible debentures with the debt component of $558,000 and the discount from the amount payable at maturity is accreted over the term of the debenture. The conversion option, valued at $38,000, is recorded as contributed surplus.

9. RELATED PARTY TRANSACTIONS

The Company entered into transactions in the normal course of business with Studon Business Solutions Inc. ("Studon Business") and Studon Electric Controls Inc. (collectively "Studon"). Studon Business provided information technology consulting services to the Company related to the development and ongoing support of software systems and the websites, and also acquired and installed the majority of the Company's hardware. The Company also reimbursed Studon for office space and related equipment used by the Company. On September 1, 2000 the Company acquired the network services division assets of Single Touch Technologies Inc. (formerly Studon Business) for consideration of $261,000 and no longer uses information technology consulting services from Studon Business. The acquisition was recorded as a capital asset. The Company also incurred $81,800 of recruitment fees to hire the related technical staff. The total consideration of $342,800 was applied to reduce the amounts due from Studon. Certain shareholders of Studon hold non-controlling interests in Megawheels, and the Company and Studon have a common director. These transactions, which were subject to normal credit terms and recorded at the exchange amounts, were as follows:

	Six months ended February 28		**Years ended August 31**		
	2001	**2000**	**2000**	**1999**	**1998**
	$	**$**	$	$	$
Software development and Support costs	(451)	354,044	595,490	310,132	227,151
Capital assets purchased	44,127	225,037	309,182	115,481	130,039
General and administrative	1,633	67,996	100,284	121,380	28,084

Included in accounts payable and accrued liabilities are the following amounts payable to these related parties at February 28, 2001 – 8,241; August 31, 2000 - $98,478; 1999 - $26,468; 1998 - $37,725. Due from related companies represents loans by the Company to Studon. These loans are due upon demand, bear interest at 2% above prime per annum (February 28, 2001 - prime was 7¼%; August 31, 2000 - 7½%; August 31, 1999 - 6¼%), and have no fixed terms of repayment. The long term portion of these loans in 1999 was reclassified to current assets during 2000.

During the year ended August 31, 2000, fees of $350,000 were paid to a significant shareholder of the Company for financial and due diligence services provided to the Company.

10. SHARE CAPITAL

(See note 16)
Authorized:
An unlimited number of common voting shares

Issued:	**Number**	**$**
Common shares outstanding, September 1, 1998	4,090,546	881,626
Issued for cash	2,635,500	1,324,750
Subscriptions converted to shares	1,135,524	567,762
Common shares of MegaWheels Media prior to Megawheels acquisition	7,861,570	2,774,138
Change in shares and share capital as a result of reverse takeover on May 20, 1999	1,825,000	378,061
Issued on exercise of warrants	604,000	453,000
Issued on exercise of options	120,000	60,000
Common shares outstanding, August 31, 1999	10,410,570	3,665,199
Issued on acquisition of Conxsys Inc. (note 4)	300,000	240,000
Issued on exercise of warrants	9,275,000	9,118,215
Issued on exercise of options	165,375	89,000
Issued in exchange for loan receivable from employee	200,000	100,000
Loan receivable from employee for purchase of shares	—	(100,000)
Common shares outstanding, August 31, 2000	20,350,945	13,112,414
Shares relinquished by employee on forgiveness of loan	(200,000)	
Shares assigned to a creditor	200,000	48,000
Common shares outstanding, February 28, 2001	20,350,945	13,160,414

During the year ended August 31, 1998, the Company entered into subscriptions for 1,135,524 common shares for an aggregate cash consideration of $567,762. These subscriptions were filled through the issue of common shares in 1999.

The reverse takeover of Megawheels resulted in an increase in share capital of $378,061 (see note 3).

During the year ended August 31, 1999, the Company issued 2,004,000 units each consisting of one common share and one share purchase warrant. No value was ascribed to the warrants at the time of issue. During the year ended August 31, 2000, warrants totaling 200,000 were exercised for proceeds of $150,000 (August 31, 1999 warrants totaling 604,000 were exercised for proceeds of $453,000). The remaining 1,200,000 warrants have an exercise price of $0.75 if exercised before December 31, 2000 and $0.85 if exercised between January 1, 2001 and December 31, 2001. All issued warrants expire on December 31, 2001.

At February 28, 2001, there are 3,766,351 (August 31, 2000 – 4,099,685; 1999 - 4,446,018) common shares held in escrow under agreements dated October 7, 1998 and May 18, 1999, pursuant to the requirements of the Alberta Securities Commission and the Canadian Venture Exchange in connection with the reverse takeover of Megawheels (see note 3). Of these shares, 3,407,018 (August 31, 2000 - 3,407,018; 1999 - 3,407,018) are releasable based on the Company's financial performance and the remainder are releasable on certain specified dates.

The 300,000 common shares issued on the acquisition of Conxsys Inc. are held in escrow and are releasable between 12 and 24 months after the date of acquisition of May 19, 2000. On May 9, 2001, 150,000 common shares were released from escrow.

On November 30, 1999, the Company loaned, to an executive and former director, an amount of $100,000, which was used to exercise 200,000 share purchase options to acquire 200,000 common shares of the Company. The shares were pledged as security for the loan which has been recorded as a reduction of shareholders' equity at August 31, 2000. The loan, which was due on March 31, 2001 and bore interest at prime per annum (August 31, 2000 – prime was 7 ½ %), was forgiven on October 12, 2000 and the shares were returned to the Company. The shares were subsequently assigned to a creditor in partial settlement of an amount owing and have been recorded at $48,000.

Special warrants

During the year ended August 31, 1999, the Company issued 1,725,000 special B warrants for cash of $1,530,000 and $195,000 in subscriptions receivable, before issue costs of $49,657. During year ended August 31, 2000, the Company issued an additional 4,000,000 special B warrants for gross proceeds of $4,000,000, before issue costs of $228,247 and 1,750,000 special A warrants for gross proceeds of $1,750,000 before cash commission and issue costs of $228,881. Each special warrant was exchanged by the holders for one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share of the Company at $1.50 at any time prior to February 18, 2001, except that holders of 3,650,000 of the share purchase warrants agreed not to exercise their warrants after March 31, 2000.

In connection with the issue of special warrants the Company also issued 240,000 agent options, of which 85,000 expire on October 25, 2001 and the remainder expire on November 26, 2001. Each option is exercisable at $1.00 into one common share and one share purchase warrant prior to February 14, 2001 and into one common share only, if exercised thereafter. Each share purchase warrant entitles the holder to acquire one common share at $1.50 at any time prior to February 14, 2001.

During the year ended August 31, 2000, the Company issued 1,600,000 special C warrants, which were exercised into 1,600,000 common shares in exchange for a 15 year auction technology license.

In June 2000, the Company issued 4,666,667 special warrants for gross proceeds of $3,500,000 before fees and issue costs of $292,441 up to August 31, 2000 and an additional $78,401 paid during the six month period ending February 28, 2001. Each special warrant is exercisable into one common share and one share purchase warrant. Each share purchase warrant entitles the holder to acquire one common share of the Company at $1.50 at any time prior to November 1, 2001. The special warrants will be deemed to be exercised 5 business days following clearance of a prospectus qualifying the special warrants, or June 9, 2001, whichever is earlier.

11. STOCK OPTION PLAN

The Company initiated a stock option plan during the year ended August 31, 1999. These options are available to officers, employees, directors and other persons providing ongoing services to the Company. Under the plan, the number of common shares reserved for issuance must be a fixed number that is not greater than 20% (August 31, 1999 - 10%) of the issued and outstanding common shares. The number of common shares reserved for issuance was fixed by the shareholders on February 17, 2000 at 3,997,314 shares. The number of common shares reserved for issuance to any one optionee shall not exceed 5% of the issued and outstanding common shares of the Company at any one time. The following is a continuity of stock options outstanding for which shares have been reserved:

	Six months ended February 28, 2001		**Year ended August 31, 2000**	
	Shares	**Weighted–Average Exercise Price** $	**Shares**	**Weighted-Average Exercise Price** $
Opening	1,586,625	0.97	1,049,000	0.57
Granted	475,000	0.79	1,185,000	1.21
Exercised	—	—	365,375	0.52
Cancelled	15,000	0.75	282,000	1.09
Closing	2,046,625	0.93	1,586,625	0.97

The following summarizes information about stock options outstanding at February 28, 2001 and August 31, 2000:

Range of Exercise Prices $	**Number Outstanding At February 28, 2001**	**Weighted-Average Remaining Contractual Life (years)**	**Weighted Average Exercise Price** $	**Number Exercisable At February 28, 2001**	**Weighted Average Exercise Price** $
$0.40 to $0.50	351,625	1.8	0.45	351,625	0.45
$0.75 to $0.85	650,000	2.8	0.77	350,000	0.79
$1.00 to $1.25	1,045,000	1.8	1.18	629,000	1.14
	2,046,625	2.1	0.93	1,330,625	0.87

Range of Exercise Prices $	**Number Outstanding At August 31, 2000**	**Weighted-Average Remaining Contractual Life (years)**	**Weighted-Average Exercise Price** $	**Number Exercisable At August 31, 2000**	**Weighted Average Exercise Price** $
$0.40 to $0.50	361,625	2.3	0.45	361,625	0.45
$0.77 to $0.85	250,000	2.0	0.81	250,000	0.81
$1.00 to $1.25	975,000	2.3	1.20	555,000	1.16
	1,586,625	2.3	0.97	1,166,625	0.87

Megawheels.com Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2000, 1999 and 1998 and February 28, 2001 (unaudited)
(Note: Information as at February 28, 2001 and for the periods ended February 28, 2001 and 2000 is unaudited.)

At August 31, 2000, of the 1,586,625 stock options granted, 1,166,625 were fully vested. Of the remaining 420,000 stock options not yet vested, 282,500 will vest in April 2001 and 137,500 will vest in April 2002. The expiry dates of these options range from April 18, 2001 to October 30, 2003.

At February 28, 2001, of the 2,046,625 stock options granted, 1,330,625 were fully vested. Of the remaining 716,000 stock options not yet vested, 281,000 will vest in April 2001, 75,000 in October 2001, 25,000 in November 2001, 135,000 in April 2002, 75,000 in October 2002, 25,000 in November 2002, 75,000 in October 2003, and 25,000 in November 2003. The expiry dates of these options range from April 18, 2001 to November 12, 2004.

12. NET CHANGES IN NON-CASH WORKING CAPITAL

	Six months ended February 28		Years ended August 31		
	2001	**2000**	**2000**	**1999**	**1998**
	$	**$**	$	$	$
Trade accounts receivable	(23,951)	(231,119)	(72,435)	(87,592)	(8,435)
Other accounts receivable	93,856	8,097	35,240	(206,511)	(99,370)
Inventory	(45,817)	—	(21,619)	—	(5,078)
Prepaid expenses and deferred Charges	78,456	(90,153)	(902,510)	(1,418)	—
Deposits	439,000	(664,000)	(439,000)	—	—
Accounts payable and accrued liabilities	234,699	212,868	743,232	483,770	32,121
Due to shareholders	(85,826)	—	461,441	—	—
	667,573	(764,307)	(195,651)	188,249	(80,762)
Attributable to investing activities	(30,460)	—	(366,180)	(6,230)	(700)
Attributable to financing activities	(13,764)	—	(234,047)	(49,657)	—
Attributable to operating activities	738,127	(764,307)	(795,878)	132,362	(81,462)

Megawheels.com Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2000, 1999 and 1998 and February 28, 2001 (unaudited)
(Note: Information as at February 28, 2001 and for the periods ended February 28, 2001 and 2000 is unaudited.)

13. INCOME TAXES

The income tax benefit differs from the amount computed by applying the Canadian federal statutory tax rates to the loss before income taxes for the following reasons:

	Six months ended February 28		**Years ended August 31**		
	2001	**2000**	**2000**	**1999**	**1998**
	$	**$**	$	$	$
Income tax benefit at Canadian Statutory rates (44.6%)	(2,241,073)	(1,503,293)	(3,370,645)	(1,507,683)	(466,605)
Increase in tax benefit resulting from:					
Future tax asset valuation allowance	1,992,283	1,494,861	3,228,579	1,494,814	460,054
Non-deductible expenses	87,780	8,432	50,307	12,869	6,551
Income tax benefit	(161,010)	—	(91,759)	—	—

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of the Company's future tax assets and liabilities are as follows:

	February 28	**August 31**	
	2001	**2000**	**1999**
	$	$	$
Future tax assets:			
Net operating loss carryforwards	6,947,587	5,118,839	2,013,654
Cumulative eligible capital	5,240	5,418	6,349
Excess undepreciated capital cost over net book value	349,203	252,261	27,386
Share and warrant issue costs	380,948	345,981	62,851
Total future income tax assets	7,682,968	5,722,499	2,110,240
Valuation allowance	(7,682,968)	(5,722,499)	(2,110,240)
Net future income tax assets	—	—	—
Future tax liabilities:			
Software acquired on acquisition of Conxsys	713,295	874,306	—

The Company has provided a valuation allowance for the full amount of net future income tax assets in light of its history of operating losses since its inception.

At February 28, 2001, the Company has non-capital losses carried forward for Canadian income tax purposes and the expiry of these losses are as follows:

	$
2001	250,528
2002	29,752
2003	1,055,515
2004	1,281,617
2005	190,683
2006	1,690,787
2007	6,959,177
2008	4,124,199
	15,577,548

14. COMMITMENTS AND CONTINGENCIES

The Company has commitments for vehicle operating leases and leased premises. The lease terms expire on the dates ranging from March 2001 to August 2005. The lease commitments are as follows:

	$
Year ended August 31, 2001	238,426
2002	306,644
2003	252,609
2004	185,878
2005	98,662
	1,082,219

The Company has placed $100,000 as a deposit to support a letter of credit issued in connection with the lease of vehicles. The Company's access to the deposit is restricted as long as the letter of credit is outstanding.

15. FINANCIAL INSTRUMENTS

Financial instruments consist of cash, trade and other accounts receivable, deposits, due from related companies, accounts payable and accrued liabilities, due to shareholders and convertible debenture. There is no material difference between the carrying value of these instruments and their fair value.

16. SUBSEQUENT EVENTS

1. Financing

On March 16, 2001, the Company issued the remaining 519,000 special warrants approved in February 14, 2001 (see note 8), for proceeds of $519,000.

During the months of March through May 2001, the Company issued additional convertible debentures totaling $1,250,000 maturing one year after the date of issue and bearing interest at 10% per annum. The debentures are convertible at any time into 5,000,000 common shares of the Company at the option of the holders. The debenture holders also received 3,750,000 warrants to purchase common shares of the Company at $0.25. The warrants are exercisable for a one year period from the date of issue. The debentures are collateralized by a charge on the Company's assets and may be repaid by the Company at any time prior to maturity with the consent of the holder.

On May 9, 2001 the Company amended its authorized capital to include an unlimited number of preferred shares, issuable in series, of which 15,000,000 Series A shares and 15,000,000 Series B shares are authorized.

On May 9, 2001 the Company issued 13,250,000 Series A preferred shares for total proceeds of $2,650,000. Each Series A preferred share is exercisable into one Series B preferred share and one common share purchase warrant. The common share purchase warrants are exercisable into common shares at $0.20 each until May 17, 2002. Each Series B preferred share is convertible at any time into one common share. The provisions of the Series A and B shares include, amongst others, that the holder may require the Company to re-purchase the shares at three times their issue price if the company has not become listed on the Toronto Stock Exchange or Nasdaq by May 17, 2003. The Series A and B shares will carry votes equal to the number of common shares issuable on conversion of all Series B shares then outstanding.

On April 30, 2001, in conjunction with the issue of the preferred shares, holders of convertible debentures totaling $4,965,000 principal amount agreed to convert their debentures into common shares upon the Company receiving final receipts for a prospectus qualifying the common shares into which the debentures convert. In addition, such holders have agreed to accept Series A preferred shares on satisfaction of accrued interest.

In June 2001, the Company agreed to issue 125,000 common shares to a trade creditor in partial satisfaction of a debt owing by the Company.

In July 2001, the Company issued 194,547 Series A preferred shares to a trade creditor in partial satisfaction of a debt owing by the Company.

Megawheels.com Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2000, 1999 and 1998 and February 28, 2001 (unaudited)
(Note: Information as at February 28, 2001 and for the periods ended February 28, 2001 and 2000 is unaudited.)

2. Preliminary prospectus

On July 30, 2001, the Company filed a prospectus in respect of 7,632,075 common shares issuable upon exercise of previously issued convertible debentures, $1,115,000 principal amount of convertible debentures and 6,558,824 common share purchase warrants issuable upon exercise for previously issued special warrants, $1,250,000 principal amount of convertible debentures and 3,750,000 common share purchase warrants issuable upon exercise of previously issued special convertible debentures, 13,250,000 convertible preferred shares, Series B and 13,250,000 common share purchase warrants issuable upon exercise of previously issued convertible preferred shares, Series A, and 125,000 common shares issued by the Company to a trade creditor.

Unaudited Pro Forma Consolidated Statement of Loss

Megawheels.com Inc.

August 31, 2000

COMPILATION REPORT

To the Directors of
Megawheels.com Inc.

We have reviewed, as to compilation only, the accompanying pro forma consolidated statement of loss of Megawheels.com Inc. for the year ended August 31, 2000 which has been prepared for inclusion in this Prospectus. In our opinion, the pro forma consolidated statement of loss has been properly compiled to give effect to the proposed transactions and the assumptions described in the notes thereto.

Ernst & Young LLP

Calgary, Canada
July 30, 2001

Chartered Accountants

Megawheels.com Inc.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF LOSS

For the year ended August 31, 2000

	Megawheels $	Conxsys $	Transaction Adjustments $	Megawheels Pro Forma Consolidated $
		(unaudited) (Note 1)	(Note 2)	
Revenue	2,674,028	516,803		3,190,831
Cost of goods sold	—	104,909		104,909
Gross margin	2,674,028	411,894		3,085,922
Operating expenses				
General and administrative	2,841,142	130,328		2,971,470
Sales and customer support	2,428,367	222,833		2,651,200
Printing and distribution	2,036,833	—		2,036,833
Advertising and marketing	1,148,430	15,232		1,163,662
Website development and support	1,124,140	65,265		1,189,405
Depreciation and amortization	523,383	13,087	586,392	1,122,862
Interest expense	129,232	2,712	163,859	295,803
	10,231,527	449,457	750,251	11,431,235
Loss before income taxes	(7,557,499)	(37,563)	(750,251)	(8,345,313)
Future income taxes	(91,759)	—	(230,263)	(322,022)
Loss for the year	(7,465,740)	(37,563)	(519,988)	(8,023,291)
Basic loss per share	(0.48)			(0.51)

See accompanying notes to unaudited pro forma consolidated statement of loss

Megawheels.com Inc.

NOTES TO UNAUDITED PROFORMA CONSOLIDATED STATEMENT OF LOSS

August 31, 2000

1. BASIS OF PRESENTATION

The unaudited pro forma consolidated statement of loss and deficit of Megawheels.com Inc. (the "Company" or "Megawheels") has been prepared by management of Megawheels in accordance with accounting principles generally accepted in Canada from information derived from the consolidated statement of loss of Megawheels for the year ended August 31, 2000 and the statements of loss of Conxsys Inc. ("Conxsys") for the year ended December 31, 1999 and the five month period ended May 31, 2000, together with other information available to Megawheels. The unaudited pro forma consolidated statement of loss has been prepared for inclusion in this Prospectus. In the opinion of management of Megawheels this unaudited pro forma consolidated statement of loss contains all the adjustments required for fair presentation of the transaction as described below.

This pro forma consolidated statement of loss is not necessarily indicative of the results of operations that would have occurred if the events reflected therein had been in effect at the dates indicated or of the operating results that may be obtained in the future.

This unaudited pro forma consolidated statement of loss should be read in conjunction with the historical financial statements of Megawheels and Conxsys, and the Management's Discussion and Analysis of Results of Operation and Financial Condition of Megawheels included elsewhere in this Prospectus.

The unaudited pro forma consolidated statement of loss gives effect to the acquisition of Conxsys as if it had occurred on September 1, 1999. Accordingly, the results of operations displayed for Conxsys are those from September 1, 1999 to May 19, 2000, the period prior to the acquisition date.

2. TRANSACTION ADJUSTMENTS

On May 19, 2000, Megawheels purchased all of the outstanding shares of Conxsys. The acquisition was financed with a $1.5 million convertible debenture (the "Debenture") issued on April 28, 2000. The consolidated statement of loss of Megawheels for the year ended August 31, 2000 includes the results of Conxsys subsequent to May 19, 2000. The purchase was recorded as follows:

	$
Fair market value of assets (liabilities) acquired:	
Cash	13,564
Other current assets	122,609
Computer Software	2,166,065
Other capital assets	72,362
Goodwill	490,229
Bank loan – current	(18,750)
Other current liabilities	(97,143)
Future income taxes	(966,065)
Bank loan - long term	(12,500)
Total purchase price	1,770,371
Purchase price consisted of:	
Cash	1,530,371
Common shares issued	240,000
Total consideration paid/payable	1,770,371

Megawheels.com Inc.

NOTES TO UNAUDITED PROFORMA CONSOLIDATED STATEMENT OF LOSS

August 31, 2000

Additional adjustments to reflect the issuance of the $1.5 million convertible 15% debenture and certain other applicable transactions (collectively, the “Transaction Adjustments”) as if they had occurred on September 1, 1999, are described below:

i) An increase of $163,859 representing interest at a rate of 15% on the debenture principal amount of $1.5 million, compounded monthly, for the 261 day period from September 1, 1999 to May 19, 2000.

ii) An increase of $586,392 in amortization expense on computer software acquired in the amount of $2,166,065 and goodwill acquired in the amount of $490,229, both arising from the excess of the fair values assigned to the computer software and goodwill and their book values on the acquisition of Conxsys. The increase consists of additional amortization of $516,284 and $70,108 on the computer software and goodwill acquired respectively for the period from September 1, 2000 to the date of acquisition, May 19, 2000.

Income tax expense has been adjusted for the cumulative effect of the preceding Transaction Adjustments using the basic statutory income tax rate applicable (44.6%) to the adjustments.

Financial Statements

Conxsys Inc.

May 31, 2000 (Unaudited)
December 31, 1999
December 31, 1998 (Unaudited)

AUDITORS' REPORT

To the Directors of
Conxsys Inc.

We have audited the balance sheet of Conxsys Inc. as at December 31, 1999 and the statements of income (loss) and deficit and cash flows for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in Canada. 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Canada.

The financial statements as at December 31, 1998 and for the years ended December 31, 1998 and 1997 are unaudited.

Ernst & Young LLP

Toronto, Canada
July 25, 2000

Chartered Accountants

Conxsys Inc.

BALANCE SHEETS

(See Basis of Presentation – Note 1)

As at

	May 31	December 31	
	2000	**1999**	**1998**
	$	$	$
	(unaudited)		(unaudited)
ASSETS			
Current			
Cash	13,564	23,468	48,248
Accounts receivable	92,914	104,350	136,611
Inventory	41,065	40,047	49,573
Prepaid expenses	10,000	978	3,325
	157,543	168,843	237,757
Capital assets *[note 3]*	75,560	76,576	83,506
	233,103	245,419	321,263
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)			
Current			
Bank indebtedness *[note 4]*	18,750	18,750	18,750
Accounts payable and accrued liabilities	108,275	98,757	150,154
Advances from shareholders *[note 5]*	—	310,496	275,712
	127,025	428,003	444,616
Bank indebtedness *[note 4]*	12,500	20,313	39,063
Commitments *[note 9]*			
Shareholders' equity (deficiency)			
Share capital *[note 6]*	325,596	100	100
Deficit	(232,018)	(202,997)	(162,516)
	93,578	(202,897)	(162,416)
	233,103	245,419	321,263

See accompanying notes

Conxsys Inc.

STATEMENTS OF INCOME (LOSS) AND DEFICIT

	For the five month periods ended May 31		For the years ended December 31		
	2000	**1999**	**1999**	**1998**	**1997**
	$	$	$	$	$
	(unaudited)	(unaudited)		(unaudited)	(unaudited)
Sales	233,156	280,206	840,619	835,594	428,999
Cost of sales	28,312	78,725	236,174	252,971	119,727
Gross profit	204,844	201,481	604,445	582,623	309,272
Operating expenses					
Wages and employee benefits	185,422	150,496	451,489	356,194	296,221
Rent and occupancy charges	16,943	12,222	36,667	33,817	34,536
Office and general	13,648	20,286	60,859	68,282	30,356
Travel and automobile	5,374	10,806	32,418	43,468	29,654
Computer expenses	5,617	18,609	55,828	37,829	16,137
Professional fees	8,965	1,957	5,870	16,974	5,253
Training and publications	1,796	2,491	7,473	5,000	3,364
Bank charges and interest	1,610	1,759	5,276	3,992	2,298
Depreciation	7,417	6,180	18,541	7,449	9,875
	246,792	224,806	674,421	573,005	427,694
Income (loss) before the following:	(41,948)	(23,325)	(69,976)	9,618	(118,422)
Other income	12,927	4,309	29,495	37,375	35,345
Net income (loss) for the period	(29,021)	(19,016)	(40,481)	46,993	(83,077)
Deficit, beginning of period	(202,997)	(162,516)	(162,516)	(209,509)	(126,432)
Deficit, end of period	(232,018)	(181,532)	(202,997)	(162,516)	(209,509)

See accompanying notes

Conxsys Inc.

STATEMENTS OF CASH FLOWS

	For the five month periods ended May 31		For the years ended December 31		
	2000	**1999**	**1999**	**1998**	**1997**
	$	$	$	$	$
	(unaudited)	(unaudited)		(unaudited)	(unaudited)
CASH PROVIDED BY (USED FOR):					
Operating activities					
Net income (loss) for the period	(29,021)	(19,016)	(40,481)	46,993	(83,077)
Add non-cash items:					
Depreciation	7,417	6,180	18,541	7,449	9,875
	(21,604)	(12,836)	(21,940)	54,442	(73,202)
Net changes in non-cash working capital *[note 7]*	10,914	(31,337)	(7,263)	(59,701)	22,980
	(10,690)	(44,173)	(29,203)	(5,259)	(50,222)
Investing activities					
Purchase of capital assets	(6,401)	(11,611)	(11,611)	(2,421)	—
	(6,401)	(11,611)	(11,611)	(2,421)	—
Financing activities					
Advances received from shareholders	15,000	48,724	34,784	9,023	2,636
Proceeds from bank loan	—	—	—	6,250	51,563
Repayment of bank loan	(7,813)	(2,813)	(18,750)	—	—
	7,187	45,911	16,034	15,273	54,199
Increase (decrease) in cash	(9,904)	(9,873)	(24,780)	7,593	3,977
Cash, beginning of period	23,468	48,248	48,248	40,655	36,678
Cash, end of period	13,564	38,375	23,468	48,248	40,655
Cash interest paid	1,939	1,308	4,130	4,019	1,079

See accompanying notes

Conxsys Inc.

NOTES TO FINANCIAL STATEMENTS

(Information as at May 31, 2000 and for the five month periods ended May 31, 2000 and 1999 and as at December 31, 1998 and for the years ended December 31, 1998 and 1997 is unaudited)

1. BASIS OF PRESENTATION

Conxsys Inc. (the "Company") was incorporated in 1990 under the provisions of the Canada Business Corporations Act. The Company's business is the development and provision of an auto dealership management system.

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles on a going concern basis, which presumes the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. The Company has accumulated significant losses from operations amounting to $232,018 at May 31, 2000.

The Company's ability to continue as a going concern is dependent on achieving profitable operations and upon obtaining additional financing. The outcome of these matters cannot be predicted at this time.

These financial statements do not contain any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue in business.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in Canada requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of the revenue and expenses during the reporting periods. Actual results could differ from those estimates.

b) Inventory

Inventory consists of computer hardware and is stated at the lower of cost, on a first-in first-out basis, and net realizable value.

c) Capital assets

Capital assets are recorded at cost and depreciated over the estimated useful lives of the assets at the following rates calculated on a declining balance basis:

Computer equipment	30%
Office furniture and equipment	20%
Vehicles	20%
Leased computer inventory	Over the term of the leases (4 years)

d) Revenue recognition

Revenue from customer service agreements is recognized on a monthly basis over the period of the contracts.

e) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, the Company records income taxes to give effect to temporary differences between the carrying amount and the tax basis of the Company's assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Company's income taxes payable for the year or for a later period. Future income taxes are recorded at the income tax rates that are expected to apply when the future tax liability is settled or the future tax asset is realized. When necessary, valuation allowances are established to reduce future income tax assets to the amount expected to be realized. Income tax expense is the tax payable for the period and the change during the period in future income tax assets and liabilities.

3. CAPITAL ASSETS

Capital assets consist of the following:

	May 31, 2000		
	Cost $	Accumulated Depreciation $	Net Book Value $
Computer equipment	114,925	70,916	44,009
Office furniture and equipment	16,281	8,750	7,531
Vehicles	6,401	—	6,401
Leased computer inventory	37,150	19,531	17,619
	174,757	99,197	75,560

	December 31, 1999		
	Cost $	Accumulated Depreciation $	Net Book Value $
Computer equipment	114,925	66,552	48,373
Office furniture and equipment	16,281	8,212	8,069
Leased computer inventory	37,150	17,016	20,134
	168,356	91,780	76,576

	December 31, 1998		
	Cost $	Accumulated Depreciation $	Net Book Value $
Computer equipment	108,611	56,911	51,700
Office furniture and equipment	10,984	6,857	4,127
Leased computer inventory	37,150	9,471	27,679
	156,745	73,239	83,506

4. BANK INDEBTEDNESS

Bank indebtedness bears interest at prime plus 2.0%, is repayable on demand and is collateralized by limited guarantees and assignment of mortgages by the Company's shareholders at the time to a maximum of $55,000.

5. ADVANCES FROM SHAREHOLDERS

Advances from shareholders represent loans, from the Company's shareholders, which were non-interest bearing and due on demand. On May 9, 2000, the advances were exchanged for 24 common shares of the Company from treasury.

6. SHARE CAPITAL

Authorized
Unlimited number of common shares

Issued	Number of Shares	$
Balance, December 31, 1997, 1998 and 1999	100	100
Shares issued to settle advances from shareholders (see note 5)	24	325,496
Balance, May 31, 2000	124	325,596

NOTES TO FINANCIAL STATEMENTS

(Information as at May 31, 2000 and for the five month periods ended May 31, 2000 and 1999 and as at December 31, 1998 and for the years ended December 31, 1998 and 1997 is unaudited)

7. CHANGES IN NON-CASH WORKING CAPITAL

Cash was provided by (used in) operating activities by the net change in the following items:

	Five month periods ended May 31		Years ended December 31		
	2000 $	**1999** $	**1999** $	**1998** $	**1997** $
Accounts receivable	11,436	36,531	32,261	(36,357)	(38,917)
Inventory	(1,018)	(35,141)	9,526	(16,797)	21,656
Leased inventory	—	—	—	(33,329)	(38,548)
Prepaid expenses	(9,022)	(1,928)	2,347	4,215	(6,974)
Accounts payable and accrued liabilities	9,518	(30,799)	(51,397)	22,567	85,763
	10,914	(31,337)	(7,263)	(59,701)	22,980

8. INCOME TAXES

The income tax benefit differs from the amount computed by applying the Canadian federal statutory tax rates to the income (loss) before income taxes for the following reasons:

	Five month periods ended May 31		Years ended December 31		
	2000 $	**1999** $	**1999** $	**1998** $	**1997** $
Income tax expense (benefit) at Canadian statutory rate (44.6%)	(12,943)	(8,481)	(18,055)	20,959	(37,052)
Increase (decrease) in taxes resulting from:					
Future tax asset valuation allowance	12,943	8,481	18,055	—	37,052
Utilization of unrecognized loss carryforwards	—	—	—	(20,959)	—
Income tax benefit	—	—	—	—	—

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of the Company's future tax assets are as follows:

	May 31	December 31	
	2000	**1999**	**1998**
	$	$	$
Future tax assets:			
Net operating loss carryforwards	89,646	67,792	67,792
Cumulative eligible capital	178	178	210
Excess undepreciated capital cost over net book value	(3,424)	5,506	—
Total future tax assets	86,400	73,476	68,002
Valuation allowance	(86,400)	(73,476)	(68,002)
Net future tax assets	—	—	—

The Company has provided a valuation allowance for the full amount of future tax assets in light of its history of operating losses since inception. The Company has available for deduction against future taxable income undepreciated capital cost of approximately $68,000 and non-capital losses of $201,000 which expire commencing in 2000. These losses will expire as follows: 2000 - $24,000; 2001 - $35,000; 2002 - $19,000; 2003 - $5,000; 2005 - $69,000; 2006 - $44,000; 2007 - $5,000.

9. COMMITMENTS

The Company has rental lease commitments through October 31, 2000 on office premises of $26,300.

CERTIFICATE OF THE CORPORATION

Dated: July 30, 2001

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 8 of the *Securities Act* (Alberta) and Part XV of the *Securities Act* (Ontario) and the regulations thereunder.

(signed) MARTIN A. HILSENTEGER Chief Executive Officer	(signed) ROBERT W. GARNETT Chief Financial Officer

On behalf of the Board of Directors

(signed) CHARLES S. WALKER Director	(signed) JAMES R. MCPHERSON Director

CERTIFICATE OF THE PROMOTER

Dated: July 30, 2001

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 8 of the *Securities Act* (Alberta) and Part XV of the *Securities Act* (Ontario) and the regulations thereunder.

(signed) MARTIN A. HILSENTEGER
Chief Executive Officer