**PRELIMINARY PROSPECTUS DATED APRIL 28, 2000**

*This is a preliminary prospectus relating to these securities, a copy of which has been filed with the securities commission or other regulatory authority in each of the Provinces of Alberta, British Columbia, Manitoba, Ontario and Saskatchewan but which has not yet become final for the purpose of a distribution or a distribution to the public. Information contained herein is subject to completion or amendment. These securities may not be sold to, nor may offers to buy be accepted from, residents of such jurisdictions prior to the time a receipt for the final prospectus is obtained from the appropriate securities commission or other regulatory authority.*

*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 commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence. The securities offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities in the United States.*

New Issue

# TRAVELBYUS.COM LTD.

**$22,505,900**

**7,760,000 Common Shares and**
**3,880,000 Common Share Purchase Warrants issuable**
**upon the exercise of 7,760,000 Special Warrants**

**4,567,500 Common Shares issuable**
**upon the exercise of 4,567,500 Debenture Warrants**

This prospectus is being filed to qualify the distribution of 7,760,000 common shares (the "Common Shares") in the capital of travelbyus.com ltd. ("travelbyus.com" or the "Company") and 3,880,000 Common Share purchase warrants (the "Purchase Warrants") of the Company which will be issued, without additional consideration, upon the exercise of 7,760,000 previously issued and presently outstanding special warrants of the Company (the "Special Warrants"). This prospectus is also being filed to qualify the distribution of 4,567,500 Common Shares (the "Debenture Warrant Shares") which may be issued upon the exercise of 4,567,500 previously issued and presently outstanding Common Share purchase warrants (the "Debenture Warrants").

Each Special Warrant, upon exercise, will entitle the holder to receive one Common Share and one-half of one Purchase Warrant, without further payment. Each whole Purchase Warrant will entitle the holder thereof to purchase one Common Share at a price of $3.50 per share at any time on or before 4:30 p.m. (Toronto time) on March 21, 2001. An aggregate of 8,000,000 Special Warrants were issued and sold at a price of $2.50 per Special Warrant by way of private placement (the "Special Warrant Offering") pursuant to an agency agreement dated as of November 9, 1999 between the Company and Wellington West Capital Inc. (the "Agent"). As of the date hereof, 240,000 Special Warrants have been exercised. The price of the Special Warrants was determined by negotiation between the Company and the Agent. See "Plan of Distribution".

Each Debenture Warrant entitles the holder to purchase one Debenture Warrant Share at a price of $0.68 per share at any time on or before the earlier of 5:00 p.m. (Toronto time) on: (i) September 9, 2001; and (ii) the date which is 10 days following the date on which a holder of the Debenture Warrants receives notice from the Company that the expiry date of the Debenture Warrants has been abridged in accordance with the terms of the Debenture Warrants. An aggregate of 9,560,000 Debenture Warrants were issued together with $11,950,000 principal amount of 12.5% senior redeemable debentures by way of private placement pursuant to an agency agreement dated as of September

9, 1999 between the Company and the Agent. As of the date hereof 4,992,500 Debenture Warrants have been exercised. The exercise price of the Debenture Warrants was determined by negotiation between the Company and the Agent. See "Debenture Financing".

There is currently no market for the Purchase Warrants and none is expected to develop. The Common Shares are listed for trading on The Toronto Stock Exchange (the "TSE"), the Winnipeg Stock Exchange and the Frankfurt Stock Exchange. On September 8, 1999, the trading day prior to the issue of the Debenture Warrants, the closing price of the Common Shares on the TSE was $1.59, on December 20, 1999, the trading day prior to the issue and sale of the Special Warrants, the closing price of the Common Shares on the TSE was $4.52 per share and on April 27, 2000, the trading day prior to the date of this prospectus, the closing price of the Common Shares on the TSE was $2.38 per share.

| | Price to the Public | Agent's Commission(1) (2) | Net Proceeds to the Company (3) |
|---|---|---|---|
| Per Special Warrant ........................................ | $2.50 | $0.175 | $2.325 |
| Total Outstanding Special Warrants ................ | $19,400,000 | $1,358,000 | $18,042,000 |

Notes:
(1) No additional commission or fee will be payable to the Agent in connection with the issuance of the Common Shares and Purchase Warrants on the exercise of the Special Warrants.
(2) As additional compensation in connection with the issue and sale of the Special Warrants, the Company issued to the Agent and members of its selling group, compensation warrants (the "Compensation Warrants") exercisable without payment of additional consideration into 800,000 compensation options (the "Compensation Options") each entitling the holder to purchase one Common Share at a price of $2.50 per share at any time on or before 4:30 p.m. (Toronto time) on March 21, 2001. This prospectus qualifies for distribution the Compensation Options issuable upon exercise of the Compensation Warrants.
(3) Before deducting the expenses of the Special Warrant Offering estimated at $350,000 which, together with the Agent's commission, have been or will be, as the case may be, paid out of the proceeds of the Special Warrant Offering.

The Special Warrants are exercisable at any time on or before 4:30 p.m. (Toronto time) (the "Expiry Time") on the earlier of: (a) the day which is six business days after a receipt is issued by the securities regulatory authority in the Province of Canada in which a purchaser is resident for a (final) prospectus qualifying the Common Shares and Purchase Warrants to be issued upon exercise of the Special Warrants; and (b) December 21, 2000. Special Warrants which have not been exercised by the Expiry Time will be exercised by Montreal Trust Company of Canada, as Warrant Trustee, on behalf of the holders thereof immediately prior thereto without any further action on the part of the holders. If a receipt for a (final) prospectus qualifying the distribution of the Common Shares and Purchase Warrants issuable upon exercise of the Special Warrants has not been issued by the securities regulatory authority in the Province of Canada in which a purchaser is resident by 4:30 p.m. (Toronto time) on June 18, 2000, holders of Special Warrants resident in a Province of Canada in which a receipt has not been so issued shall be entitled to receive 1.1 Common Shares and one-half of one Purchase Warrant (in lieu of one Common Share and one-half of one Purchase Warrant) for each Special Warrant exercised thereafter. See "Plan of Distribution".

**Investment in the securities offered hereby should be considered to be speculative due to various factors, including the nature of the Company's business and its present stage of development. The *travelbyus.com* Web site is in the early stages of development. The Company has no operating history and anticipates incurring significant additional costs to fund increased marketing initiatives, additional strategic alliances, enhancements to the *travelbyus.com* Web site and technological and hardware products at least for the foreseeable future. See "Risk Factors". Assuming the issuance of 8,000,000 Common Shares upon the exercise of 8,000,000 Special Warrants outstanding on January 31, 2000 and the issuance of 5,122,500 Debenture Warrant Shares upon the exercise of 5,122,500 Debenture Warrants outstanding on January 31, 2000, but before giving effect to the exercise of 4,000,000 Purchase Warrants outstanding on January 31, 2000, the effective price paid for each Common Share issued through the purchase of a Special Warrant and for each Debenture Warrant Share issued through the exercise of a Debenture Warrant exceeds the**

**consolidated net tangible book value attributable to each Common Share as at January 31, 2000, by $2.23 and $0.41, respectively, representing a dilution factor of 89% and 60%, respectively. See "Dilution".**

Definitive certificates evidencing the Common Shares and Purchase Warrants issuable upon exercise of the Special Warrants and the Debenture Warrant Shares issuable upon exercise of the Debenture Warrants will be available for delivery upon the exercise of the Special Warrants and Debenture Warrants, respectively.

Certain legal matters relating to the distribution of the Common Shares and Purchase Warrants upon exercise of the Special Warrants and the distribution of the Debenture Warrant Shares upon exercise of the Debenture Warrants will be passed upon by Cassels Brock & Blackwell LLP, Toronto on behalf of the Company and by Aikins, MacAulay & Thorvaldson, Winnipeg on behalf of the Agent.

**TABLE OF CONTENTS**



**Information contained in the Company’s internet sites shall not be deemed to be part of this prospectus or incorporated herein by reference and should not be relied upon by prospective investors for the purposes of determining whether or not to invest in the securities offered hereunder.**

## PROSPECTUS SUMMARY

*This information is a summary only and is qualified by the more detailed information appearing elsewhere in this prospectus. Capitalized terms appearing herein and not otherwise defined have the respective meanings ascribed thereto elsewhere in this prospectus.*

### The Company

Travelbyus.com is an Internet-based travel company. The Company's Web site, *www.travelbyus.com*, provides consumers with on-line travel options 24 hours per day. Through the *travelbyus.com* Web site, consumers have the ability to browse travel options world-wide and book travel reservations. In addition to offering consumers travel options through the Internet, the Company also offers the consumer travel options through 1-800 call centers and traditional travel agencies.

Since April 1999, the Company has focused on completing strategic acquisitions to build the components of the Company's business model, which include product offerings, distribution, marketing and technology. The Company provides a broad range of travel products, targeted primarily at the leisure customer, including airline tickets, cruise packages and ground packages. The Company distributes such products to the consumer through the Internet, 1-800 call centers and traditional travel agencies and utilizes each distribution channel and traditional advertising sources for marketing purposes. The Company continuously seeks technology that allows it to distribute its products to the consumer effectively and offer consumers additional travel related options.

### The Offering

| | |
|---|---|
| **Issuer:** | travelbyus.com ltd. |
| **Special Warrant Offering:** | 7,760,000 Common Shares and 3,880,000 Purchase Warrants issuable upon the exercise of 7,760,000 presently outstanding Special Warrants issued and sold by the Company on December 21, 1999. |
| **Special Warrants:** | An aggregate of 8,000,000 Special Warrants were issued and sold by the Company for consideration of $2.50 per Special Warrant pursuant to a special warrant indenture (the "Special Warrant Indenture") between the Company and Montreal Trust Company of Canada, as Warrant Trustee. Each Special Warrant, upon exercise, entitles the holder to receive one Common Share and one-half of one Purchase Warrant, without further consideration, subject to adjustment as provided in the Special Warrant Indenture. The Special Warrants are exercisable at any time on or before 4:30 p.m. (Toronto time) (the "Expiry Time") on the earlier of: (a) the day which is six business days after a receipt is issued by the securities regulatory authority in the Province of Canada in which a purchaser is resident for a (final) prospectus qualifying the Common Shares and Purchase Warrants to be issued upon exercise of the Special Warrants; and (b) December 21, 2000. Special Warrants which have not been exercised by the Expiry Time will be exercised by Montreal Trust Company of Canada, as Warrant Trustee, on behalf of the holders thereof immediately prior thereto without any further action on the part of the holders. As of the date hereof, 240,000 Special Warrants have been exercised. This prospectus is being filed to qualify the distribution of 7,760,000 Common Shares and 3,880,000 Purchase Warrants which will be issued, upon the exercise of 7,760,000 presently outstanding Special Warrants. If a receipt for a (final) prospectus qualifying the distribution of the Common Shares and Purchase Warrants issuable upon exercise of the Special Warrants has not been issued by the securities regulatory authority in the Province of Canada in which a purchaser is resident by 4:30 p.m. (Toronto time) on June 18, 2000, holders of Special Warrants resident in a Province of Canada in which a receipt has not been so issued shall be entitled to receive 1.1 Common Shares and one-half of one Purchase |

Warrant (in lieu of one Common Share and one-half of one Purchase Warrant) for each Special Warrant exercised thereafter. See “Plan of Distribution”.

**Purchase Warrants:** Each whole Purchase Warrant will entitle the holder thereof to purchase one Common Share at a price of $3.50 per share at any time on or before 4:30 p.m. (Toronto time) on March 21, 2001. See “Plan of Distribution”.

**Debenture Warrant Offering:** 4,567,500 Debenture Warrant Shares which may be issued upon the exercise of 4,567,500 presently outstanding Debenture Warrants issued by the Company on September 9, 1999.

**Debenture Warrants:** An aggregate of 9,560,000 Debenture Warrants were issued together with $11,950,000 principal amount of 12.5% senior redeemable debentures by way of private placement pursuant to an agency agreement dated as of September 9, 1999 between the Company and the Agent. Each Debenture Warrant entitles the holder to purchase one Debenture Warrant Share at a price of $0.68 per share at any time on or before the earlier of 5:00 p.m. (Toronto time) on: (i) September 9, 2001; and (ii) the date which is 10 days following the date on which a holder of the Debenture Warrants receives notice from the Company that the expiry date of the Debenture Warrants has been abridged in accordance with the terms of the Debenture Warrants. As of the date hereof, 4,992,500 Debenture Warrants have been exercised. This prospectus is being filed to qualify the distribution of 4,567,500 Debenture Warrant Shares which may be issued, upon the exercise of 4,567,500 presently outstanding Debenture Warrants. See “Debenture Financing”.

**Use of Proceeds:** The aggregate net proceeds derived from the sale of 8,000,000 Special Warrants are estimated to be $18,250,000, after deducting the Agent’s commission of $1,400,000 and estimated expenses of the Offering of $350,000 and have been or will be used by the Company: (i) as to approximately $7,250,000 for the acquisition of Cheap Seats, Inc.; (ii) as to approximately $2,793,000 for the acquisition of the travel operations of Bell Travel Systems; (iii) as to approximately $2,646,000 for the acquisition of Cruise Shoppes America, Ltd.; (iv) as to approximately $1,800,000 to fund further enhancements to the *travelbyus.com* Web site; (v) as to approximately $3,000,000 to fund strategic investments; and (v) as to the balance for working capital and for general corporate purposes.

Assuming the exercise of all outstanding Debenture Warrants, the aggregate gross proceeds derived or to be derived from the issuance of 9,560,000 Debenture Warrants are $6,500,800 and have been or will be used by the Company: (i) as to approximately $4,500,000 to fund strategic investments; and (ii) as to the balance for working capital and for general corporate purposes.

Pending utilization of the net proceeds derived from the sale of the Special Warrants and derived or to be derived from the exercise of the Debenture Warrants, the Company has invested or will invest the unutilized funds in short-term, interest bearing obligations. See “Use of Proceeds”.

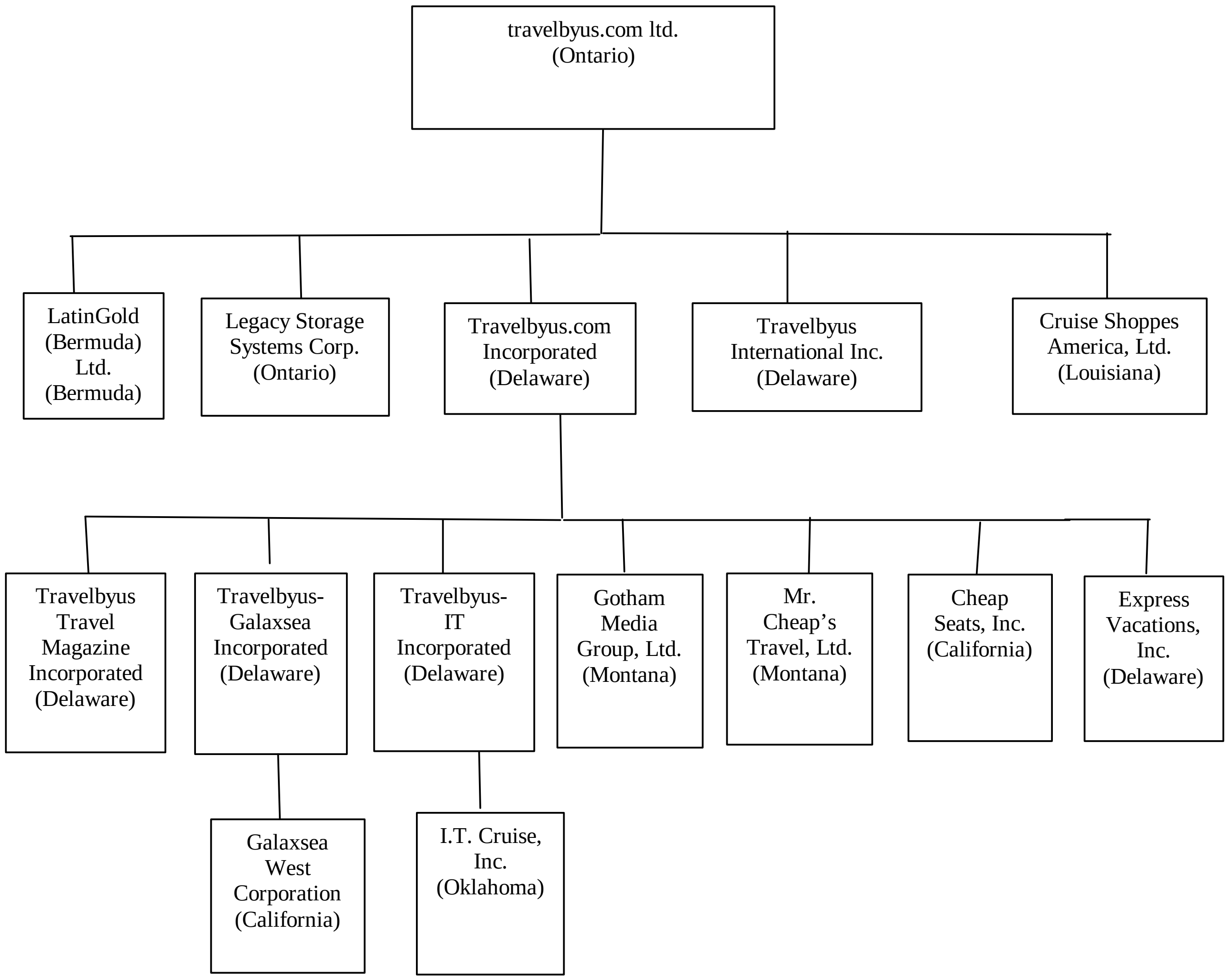
**Risk Factors:** An investment in the securities qualified hereby should be considered speculative. In evaluating the securities offered hereunder, prospective investors should consider a number of risk factors including the following: (i) the *travelbyus.com* Web site is in the early stages of development. The Company has no operating history and anticipates incurring significant additional costs to fund increased marketing initiatives, additional strategic alliances, enhancements to the *travelbyus.com* Web site and technological and hardware products at least for the foreseeable future; (ii) both the e-Commerce market and travel industry are highly competitive; (iii) use of the Internet by consumers is at a relatively early stage of development and market acceptance of the Internet as a medium for commerce is subject to a high level of uncertainty; (iv) a portion of the Company's revenues will come from commissions paid by travel suppliers, which if reduced or eliminated would adversely affect the Company; (v) the Internet and the e-Commerce industry are characterized by rapid technological change, changes in user and customer requirements and preferences, frequent new product and service introductions embodying new technologies and the emergence of new industry standards and practices that could render the Company's existing Web site and proprietary technology and systems obsolete; (vi) the Company could be adversely affected by the availability of capable and reliable software from licensees in the future; (vii) security concerns relating to computer break-ins, Internet security and computer viruses could have an adverse material affect on the Company's business; (viii) the Company's business could be adversely affected by systems overload or failure, and/or damage to or failure of the Company's technological infrastructure; (vix) there can be no assurance that the Company will be able to acquire, maintain or adequately protect its domain names; (x) adoption of laws and regulations relating to the Internet and e-Commerce could reduce the rate of growth of the Internet, which could potentially decrease the usage of the Company's Web site or could otherwise have a material adverse affect on the Company's business; (xi) the Company's management will have broad discretion in the application of the net proceeds from its financing activities; (xii) market demand for the services of the Company is substantially dependent upon the adoption of the Internet network for commerce; (xiii) the success of the Company will depend, in part, on its ability to maintain trade secret protection and operate without infringing the proprietary rights of third parties; (xiv) if the Company is unable to maintain or expand its relationship with travel suppliers, its ability to offer and expand travel service offerings or lower priced travel inventory could be reduced; (xv) the Company is substantially dependent upon the services of a few key personnel; (xvi) there can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company; (xvii) the Company may be subject to growth-related risks, including capacity constraints and pressure on its internal systems and controls; (xviii) it cannot be assumed that the Company will complete any acquisition it pursues on favourable terms, or that any acquisitions completed will ultimately benefit the Company's business; (xix) there is currently no market for the Purchase Warrants underlying the Special Warrants, and none may ever develop; (xx) certain directors of the Company may be in a position of conflict from time to time; and (xxi) the Company does not anticipate paying any dividends on its Common Shares in the foreseeable future. See "Risk Factors".

**THE COMPANY**

Travelbyus.com Ltd. ("travelbyus.com" or the "Company") was incorporated under the laws of the Province of Ontario on July 21, 1986 under the name MVP Capital Corp. On October 23, 1996, the Company filed articles of amendment to change the name of the Company to LatinGold Inc. and to consolidate the outstanding Common Shares on a one for 20 basis. Prior to 1999, the Company was a precious metals exploration company with a focus on Latin America and Mexico. In April 1999, to react to changing market conditions, the Company focused its business on the travel sector. As a result, on June 4, 1999, the Company filed articles of amendment to change the name of the Company to its current name.

The registered office of the Company is located at Scotia Plaza, Suite 2100, 40 King Street, West, Toronto, Ontario, M5H 3C2 and the head office of the Company is located at 204-3237 King George Hwy, South Surrey, British Columbia, V4P 1B7.

The Company carries on business through its wholly-owned direct and indirect subsidiaries as indicated in the following chart:




As used in this prospectus, except as otherwise required by the context, reference to the "Company" means travelbyus.com ltd. and its subsidiaries.

## BUSINESS OF THE COMPANY

*Certain of the information contained below has been obtained from publicly available information from third party sources. Neither the Company nor the Agent have verified the accuracy or completeness of any information contained in such publicly available information. Further, neither the Company nor the Agent have determined if there has been any omission by any such third parties to disclose any facts, information or events which may have occurred prior to or subsequent to the date as of which any such information contained in such publicly available information has been furnished or which may affect the significance or accuracy of any information contained in any such information and summarized herein.*

### Overview

Travelbyus.com is an Internet-based travel company. The Company's Web site, *www.travelbyus.com*, provides consumers with on-line travel options 24 hours per day. Through the *travelbyus.com* Web site, consumers have the ability to browse travel options world-wide and book travel reservations. In addition to offering consumers travel options through the Internet, the Company also offers the consumer travel options through 1-800 call centers and traditional travel agencies.

Since April 1999, the Company has focused on completing strategic acquisitions to build the components of the Company's business model, which include product offerings, distribution, marketing and technology. The Company provides a broad range of travel products, targeted primarily at the leisure customer, including airline tickets, cruise packages and ground packages. The Company distributes such products to the consumer through the Internet, 1-800 call centers and traditional travel agencies and utilizes each distribution channel and traditional advertising sources for marketing purposes. The Company continuously seeks technology that allows it to distribute its products to the consumer effectively and offer consumers additional travel related options.

### The travelbyus.com Business Model

The key components of the Company's business model include product offerings, distribution, marketing and technology.

#### *Product Offerings*

Since September 1999, the Company has made certain strategic acquisitions enabling it to offer consumers various travel products. The Company provides a broad range of travel products, targeted primarily at the leisure customer, including airline tickets, cruise packages and ground packages.

*Airline Tickets*

In September 1999, the Company acquired all of the issued and outstanding shares of each of Gotham Media Group, Ltd. ("Gotham Media") and Mr. Cheaps Travel, Ltd. ("Mr. Cheaps"). See "Recent Acquisitions – Gotham Media Group, Ltd. and Mr. Cheaps Travel, Ltd.". Gotham Media is a full service advertising agency that places billboard, radio, Internet, television and print advertising for its airline and hotel industry clients. Mr. Cheaps was founded in 1980 and is a full service travel agency specializing in discount and last minute airfares. Gotham Media and Mr. Cheaps combine a strategy of fulfilling marketing programs for airfare suppliers in exchange for travel products.

The Company, through Gotham Media, has existing contracts with billboard companies that allow it to purchase up to 10,000 billboards across North America at any one time. As a result of large volume purchases and long standing media relations, the Company obtains wholesale pricing on the billboards. The Company then offers an outdoor marketing program with a single billboard to airfare suppliers in exchange for airline tickets. The marketing program allows airlines to market their product without additional cash outlay. Airline suppliers who utilize the marketing program include American Airlines, United Airlines, Northwest Airlines, Frontier Airlines Inc., Proair Inc., AOM French Airlines, Air Tahiti Nui, and City Bird.

In December 1999, the Company acquired all of the issued and outstanding shares of Cheap Seats, Inc. ("Cheap Seats"). See "Recent Acquisitions – Cheap Seats, Inc.". Cheap Seats was founded in 1988 and is a net airfare consolidator with a wide range of net fare ticket contracts with several U.S. airline carriers. To purchase airfare at a discount in the ordinary course, a consumer is required to book their airfare 21 days in advance and stay at their destination over a Saturday night. With the net fare program, airline companies grant the Company the ability to waive the 21 day advance purchase restriction and the requirement to stay over a Saturday night. Since the Company has the ability to waive the fare restrictions, the Company can offer the airfare at a discounted price to consumers requiring a last minute flight or short duration flight. To the Company's knowledge, the Company is one of four net air consolidators to have such contracts in place.

The Company, through Mr. Cheaps and Cheap Seats maintains a rolling stock of airline ticket inventory at a discount to retail prices and is able to offer such airline tickets to its consumers at a competitive advantage. The Company also has the ability to combine the airfare with the cruise and ground packages to create value packaging.

*Cruise Packages*

On October 13, 1999, the Company acquired certain assets of Galaxsea Cruises and Tours, Inc. ("Galaxsea Cruises") and all outstanding shares of IT Cruise, Inc. See "Recent Acquisitions – International Tours, Inc., Galaxsea Cruises and Tours, Inc. and IT Cruise, Inc.". The Company, through Galaxsea Cruises maintains an office in California whereby it offers cruise packages directly to the consumer. The Company also offers cruise packages directly to the consumer through its *travelbyus.com* Web site and its 1-800 call centers.

In April 2000, the Company acquired the travel operations of Bell Travel Systems ("BTS") and all of the issued and outstanding shares of Cruise Shoppes America, Ltd. ("Cruise Shoppes"). See "Recent Acquisitions – Bell Travel Systems" and "Recent Acquisitions – Cruise Shoppes America, Ltd.". BTS is a travel company with approximately 119 associate cruise agency members and Cruise Shoppes is a nationwide cruise and leisure sales organization with over 350 associate cruise agency members. The acquisitions bring the total number of cruise agency members associated with the Company to over 2,700. As a result of the large number of cruise agency members associated with the Company, the Company obtains favourable rates on cruise packages, which can be offered to the cruise agency members at a discount to market.

*Ground Packages*

The Company, through its subsidiaries, has developed a comprehensive array of ground packages, including hotel, tour and car rental. The Company has business arrangements with various hotel chains, hotel properties and time share properties with concentration on Hawaii, Mexico, Las Vegas, Reno, Florida, California and Europe. Such hotels and properties provide the Company with reservations at a discount to market. Such discounted reservations are then made available directly to consumers and to associated agencies. The Company also has relationships with over 200 preferred suppliers. Preferred suppliers are travel entities that have negotiated special override commissions and rates with the Company in order to focus the Company on selling their products. A list of some of the key preferred suppliers include Walt Disney Attractions, Inc., Starwood Hotels and Resorts Worldwide, Inc., Continental Airlines, Inc., Delta Airlines, Inc., Holland America Line – Westours Inc., Princess Cruises, National Car Rental System, The Hertz Corporation, Amadeus Global Travel Distribution LLC and The Sabre Group, Inc.

***Distribution***

The Company's distribution channels allow the Company to market its products through the traditional travel agency base, 1-800 call centers and the Internet.

*Travel Agency*

In October 1999, the Company acquired certain assets of International Tours, Inc. ("International Tours"). See "Recent Acquisitions – International Tours, Inc., Galaxsea Cruises and Tours, Inc. and IT Cruise, Inc.". In April 2000, the Company acquired the travel operations of BTS. International Tours and BTS maintain a network of associated travel agencies in the United States. The acquisitions bring the total number of travel agency members associated with the Company to over 2,000. As a result of the large number of travel agency members associated with the Company, the Company obtains favourable rates on travel packages, which can be offered to the travel agency members at a discount to market.

*1-800 Call Centers*

The Company's 1-800 call centers offer small and medium sized independent travel agents with the opportunity to increase their client bases and travel product sales while earning higher commissions. The cornerstone of the program is the toll free 1-800-i-Travel phone number. The participating agency purchases a protected marketing territory (a "PMT"), from which it will be the exclusive recipient of all advertising benefits. Customer calls are then automatically routed to the office phone of the member agent serving the zip code from which the call originates. When any customer dials 1-800-i-Travel, the call is first answered by a professionally recorded digital announcement that requires the entry of the consumer's home zip code. This system enables consumers to dial 1-800-i-Travel from any touch-tone telephone in the United States and by entering their home zip code, be immediately connected to their local agency.

Offsetting the normal marketing limitations of independent travel agents, the 1-800-i-Travel co-operative marketing program pools agents' advertising budgets and booking volumes to provide major media advertising, volume based commission overrides and access to special travel packages previously unavailable to small and mid-sized, independent travel agencies.

The Company will begin its marketing efforts through its current associate members. As the marketing/advertising program begins in different market areas, there will be varying percentages of the population who are exposed to the 1-800-i-Travel advertising program, but who do not live within a member agency's PMT. This will result in many travel customer calls that cannot be routed to a local travel agency. Though the Company will initially be assigning additional zip codes to member agencies, creating a larger PMT for early members, there will be many areas that remain unassigned. As management of the Company believes it is important to professionally serve every calling customer, and as commission income may be generated in the process, the Company will operate a full service call center to take the unallocated calls. Consequently, the Company becomes a direct retail beneficiary of the overall marketing and advertising program, commission overrides, bulk travel purchases and other areas of service provided to member agencies.

*Internet*

The Company's Web site, *www.travelbyus.com*, provides consumers with on-line travel options 24 hours per day. Through the *travelbyus.com* Web site, consumers have the ability to browse travel options world-wide and book travel reservations.

All bookings for the Company's products must be transacted through the *travelbyus.com* Web site, therefore volume from traditional travel agencies will revert back to the *travelbyus.com* Web site. The Company offers travel agents guaranteed commissions on any consumer purchases transacted by their customers over the *travelbyus.com* Web site or through the Company's 1-800 call center. In addition, the Company is creating personalized web pages for its travel agencies, which are both linked to and powered by the *travelbyus.com* Web site. The travel agencies will then load their customers on to their own web page and encourage their customers to shop and book on-line. This creates the concept of “client ownership” for the agents, while allowing the *travelbyus.com* Web site to collect data and market directly to the agents’ customers.

The Company believes that the *travelbyus.com* Web site offers consumers certain advantages over traditional “call-in” and “walk-in” travel bookings including the following:

*Efficiency.* The *travelbyus.com* Web site provides consumers with a one-stop convenient location to browse thousands of travel options world-wide.

*Multiple Search Engines.* Consumers are able to search using one or a combination of several search criteria, including, type of vacation (i.e. family, honeymoon), location, price range, date and time.

*Live to the Internet.* The *travelbyus.com* Web site provides consumers with access to travel reservations and information on the Internet 24 hours per day.

*Real Time Availability.* The *travelbyus.com* Web site provides consumers with up-to-the-second reservation availability at selected destinations.

*Travel Information.* The *travelbyus.com* Web site provides consumers with information on destinations selected including, where available, information on services and fees, facilities and amenities, promotions offered and local weather forecasts.

***Marketing***

While the Company believes that the Internet has modified the business model for the travel industry, the Company also offers the consumer the ability to interact directly with a travel professional either by phone or in person. As such, the Company’s marketing strategy places consumers at the center of the process allowing them the option to ask questions, obtain information, order products and receive delivery from home, via the telephone and the Internet or from the traditional travel agency, interchangeably.

The Company’s marketing strategy is built on the following key ideas:

- Traditional travel agencies introduce consumers to the Company and allow for personal marketing of the Company’s *travelbyus.com* brand.
- Bricks-and-mortar outlets provide an opportunity to direct traffic to the *travelbyus.com* Web site. The Company can market its *travelbyus.com* Web site on shopping bags, tags and bills.
- Travel agencies can offer the Company’s products ahead of other travel product suppliers.
- The Company can offer increased levels of service through its distribution channels as all transactions are routed through the Company’s *travelbyus.com* Web site.
- The Company can promote its products with highly targeted marketing programs including television, radio, billboard and print.
- The Company offers consumers the ability to choose to do business via the telephone, the Internet or from the traditional travel agency.

The Company also markets its products through the television series “The Travel Magazine”. The Travel Magazine is a television travel show that has been airing world-wide since the early 1970’s. New Travel Magazine shows will target specific content, preferred locations and popular destination resorts for the Company. When aired on television, the shows will include repeated mention of the 1-800 phone numbers and the *travelbyus.com* Web site.

Additionally, pursuant to an advertising agreement dated March 8, 2000 between the Company and CenterLINQ, a product of GenesisIntermedia.com Inc., the Company will be the exclusive travel site to appear on CenterLINQ's broadcast television network in all malls where CenterLINQ's networks are placed. The term of the advertising agreement is three years.

**Technology**

As part of its business model, the Company continuously seeks technology that allows it to distribute its products to its consumers effectively and offer consumers additional travel related options. On March 30, 2000, the Company entered into a licensing agreement (the "Licensing Agreement") with ITA Software ("ITA Software") with respect to the proprietary air fare search engine of ITA Software. Pursuant to the Licensing Agreement, the Company has obtained a license, for a period of three years, to use certain licensed software for the purpose of enabling online customers to obtain information relating to airline routes and schedules, airfares and availability and to search for low airfares. The basic license fee for the licensed software will be based upon the number of transactions performed with the licensed software.

The Company also provides users with various services on the *travelbyus.com* Web site. The Web site will include a travel vault which will provide consumers with an Internet URL for the storage of personal information such as travel documentation, passport images, visas and itineraries. Additionally, pursuant to an agreement dated February 21, 2000 between the Company and Med-Emerg International Inc. ("Med-Emerg"), Med-Emerg will provide the Company's customers with global access to their personal health records, to healthcare content and e-commerce products and supplies through their clinic@home Web site. Such services will be offered as part of the Company's travel vault.

The Company has also entered into an agreement with Amadeus Global Travel Distribution LLC ("Amadeus"). Amadeus operates a computer reservation system that houses information on registered travel products, fares, schedules, conditions and restrictions. The agreement provides for the sharing of revenues from segment fees booked through the Company's system.

**Competition**

The markets for the Company's products are competitive and the Company is subject to competition from both established competitors and potential new market entrants. The Company faces competition from traditional travel agencies which remain the preferred source for travel reservations and Internet-based travel companies including Microsoft Expedia, Travelocity and Priceline.com Inc.

**Intellectual Property**

The Company protects its technology through a combination of copyrights, trade secrets and contractual arrangements. The Company regards its intellectual property as critical to its success, and relies on trademark and copyright law, trade secret protection and confidentiality and/or license agreements with its employees, suppliers, partners and others to protect its proprietary rights. The Company will pursue the registration of its trademarks and servicemarks in Canada and the United States as required. Effective trademark, servicemark, copyright and trade secret protection may not be available in every country in which the Company offers its services. The Company expects that it may license certain of its proprietary rights, such as trademarks or copyrighted material, to third parties in the future. The Company has applied for a patent of the *travelbyus.com* business model however there can be no assurance that such patent application will be accepted. "See Risk Factors – Intellectual Property".

**Personnel and Facilities**

The Company maintains a leased facility in Reno Nevada comprising approximately 37,000 square feet. The lease is for a term of five years. The Company also has leased offices in White Rock, Toronto, Los Angeles, Portland, Louisiana and St. Petersburg. As at the date hereof, the Company has approximately 200 full time employees.

## RECENT ACQUISITIONS

*Gotham Media Group, Ltd. and Mr. Cheaps Travel, Ltd.*

Pursuant to a share purchase agreement (the "Gotham/Mr. Cheaps Share Purchase Agreement") dated September 30, 1999 among the Company and George Beaudet, Bridget Beaudet, Scott A. Bays and Daniel B. Wedin (collectively, the "Gotham/Mr. Cheaps Vendors"), on October 4, 1999 the Company acquired all of the issued and outstanding common shares (the "Gotham Shares") of Gotham Media Group Ltd. ("Gotham Media") and all of the issued and outstanding shares (the "Mr. Cheaps Shares") of Mr. Cheaps Travel, Ltd. ("Mr. Cheaps"). As consideration for the Gotham Shares and the Mr. Cheaps Shares, the Company issued to George Beaudet and Bridget Beaudet 2,000,000 Common Shares at a price of US$1.00 per Common Share and paid US$3,000,000 in cash to the Gotham/Mr. Cheaps Vendors. A finder's fee of 150,000 Common Shares at a price of US$1.00 per Common Share was paid to Peter Adam, a former officer of the Company. Gotham Media is a full service advertising agency that places billboard, radio, Internet, television and print advertising for its airline and hotel industry clients. Mr. Cheaps is a full service travel agency specializing in discount and last minute airfares. See "Business of the Company – The travelbyus.com Business Model – Product Offerings – Airline Tickets".

Concurrent with the execution of the Gotham/Mr. Cheaps Share Purchase Agreement, the Company and Bridget Beaudet, a principal of Gotham and Mr. Cheaps, entered into an employment agreement dated September 30, 1999 whereby Bridget Beaudet agreed to be employed as Chief Financial Officer of Gotham Media for an initial term of two years commencing October 1, 1999. Additionally, Mr. Cheaps and Georgetown Inc. (the "Consultant") entered into a consulting agreement dated September 30, 1999 whereby the Consultant agreed to provide the services of George Beaudet to Mr. Cheaps, as Chairman and Chief Operating Officer of Mr. Cheaps for an initial term of two years.

*International Tours, Inc., Galaxsea Cruises and Tours, Inc. and I.T. Cruise, Inc.*

Pursuant to an agreement (the "IT Agreement") dated October 13, 1999 among the Company, Travelbyus – IT Incorporated ("Travelbyus-IT), Travelbyus Galaxsea Incorporated, International Tours, Inc. Galaxsea Cruises and Tours, Inc. and North American Gaming and Entertainment Company, the Company acquired certain assets of International Tours, Inc., (the "IT Assets"), certain assets of Galaxsea Cruises and Tours, Inc. (the "Galaxsea Assets") and all of the issued and outstanding common shares (the "IT Cruise Shares") of I.T. Cruise, Inc. ("IT Cruise"). As consideration for the IT Assets, the Company issued 333,333 Common Shares at a price of US$1.00 per Common Share and paid US$666,666 in cash, as consideration for the Galaxsea Assets, the Company paid US$285,000 in cash and as consideration for the IT Cruise Shares, the Company issued 666,667 Common Shares at a price of US$1.00 per Common Share and paid US$1,048,334 in cash. International Tours, Inc. maintains a network of affiliated travel agencies in the United States and Galaxsea Cruises and Tours, Inc. maintains a network of affiliated cruise-only offices.

Concurrent with the execution of the IT Agreement, Travelbyus-IT and Ronald Blaylock, a principal of International Tours Inc., entered into an employment agreement dated October 13, 1999 whereby Ronald Blaylock agreed to be employed as President of Travelbyus-IT for an initial term of three years commencing October 13, 1999.

*Express Vacations, LLC*

Pursuant to a unit purchase agreement (the "Express Vacations Unit Purchase Agreement") dated November 1, 1999 between the Company and John Fenyes, The John and Judy Fenyes Charitable Remainder Unitrust, Jon Snyder, the Jon and Janet Snyder Charitable Remainder Unitrust and Eldorado Resorts, LLC (the "Unit Holders"), the Company acquired all of the issued and outstanding units (the "Express Vacations Units") of Express Vacations, LLC. As consideration for the Express Vacations Units, the Company issued to the Unit Holders 3,462,000 Common Shares at a price of $1.70 per Common Share and paid US$2,000,000 in cash. A finder's fee of 150,000 Common Shares at a price of $1.70 per Common Share was paid to a third party. On November 1, 1999 Express Vacations, LLC merged with the Company's wholly-owned subsidiary, Express Vacations, Inc. ("Express Vacations"). Express Vacations operates a call center based in Reno, Nevada. See "Business of the Company – Business Model - Distribution". Additionally, Express Vacations offers vacation packages to numerous destinations including Hawaii, Mexico, Nevada, California and Europe. See "Business of the Company – The travelbyus.com Business Model – Product Offerings".

Concurrent with the execution of the Express Vacations Unit Purchase Agreement, Express Vacations and John Fenyes, a principal of Express Vacations, entered into an employment agreement dated November 1, 1999 whereby John Fenyes agreed to be employed as Executive Vice President and Chief Operating Officer of the Company and Express Vacations for an initial term of two years. Additionally, Express Vacations and Jon Snyder, a principal of Express Vacations, entered into an employment agreement dated November 1, 1999 whereby Jon Snyder agreed to be employed as President of the Company and Express Vacations for an initial term of two years.

*Travel Magazine*

Pursuant to an agreement of purchase and sale (the "1999 Travel Magazine Agreement") dated October 1, 1999 between the Company and First Property Holdings Inc. ("First Property"), on November 15, 1999 the Company acquired from First Property all rights, interest and title to 120 episodes of a television production known as "The Travel Magazine" (the "Old Series") except for certain home video rights and television distribution agency rights. As consideration for the Old Series, the Company issued First Property 2,855,883 Common Shares. Additionally, pursuant to an agreement of purchase and sale (the "2000 Travel Magazine Agreement") dated October 1, 1999 as amended by agreement dated January 21, 2000, between the Company and Travel Magazine 2000 Inc., the Company acquired the rights to 130 new half-hour Travel Magazine shows (the "New Series") to be produced over the next 19 months. As consideration for the New Series, the Company issued 1,146,497 Common Shares and will pay U.S.$1,800,000 against delivery of 40 episodes. Upon receipt of the 40 episodes, the Company has the right to terminate the arrangement or continue with the acquisition of the balance of 90 episodes for a further consideration of US$4,500,000 in cash or in Common Shares. The Travel Magazine is a television travel show that has been airing worldwide since the early 1970's. See "Business of the Company – The travelbyus.com Business Model - Marketing".

*Cheap Seats, Inc.*

Pursuant to a share purchase agreement (the "Cheap Seats Share Purchase Agreement") dated January 6, 2000 and effective as of December 1, 1999 among the Company and Robert Beaudet and Thomas Spagnola (together, the "Cheap Seats Vendors"), the Company acquired all of the issued and outstanding common shares (the "Cheap Seats Shares") of Cheap Seats, Inc. ("Cheap Seats"). As consideration for the Cheap Seats Shares, the Company issued to the Cheap Seats Vendors 5,000,000 Common Shares at a price of US$1.00 per Common Share and paid US$5,000,000 in cash, subject to adjustment based on Cheap Seats results of operations for the 12 month period ended November 30, 1999. The Cheap Seats Share Purchase Agreement also provides that the purchase price may be increased by up to US$4,000,000 based upon the increase in certain gross revenues during the period from October 1, 1999 to September 30, 2002. Cheap Seats is a net airfare consolidator with a wide range of net fare ticket contracts with several U.S. airline carriers. See "Business of the Company – The travelbyus.com Business Model – Product Offerings – Airline Tickets".

Concurrent with the execution of the Cheap Seats Share Purchase Agreement, Cheap Seats and Robert Beaudet, a principal of Cheap Seats, entered into an employment agreement dated January 6, 2000 whereby Robert Beaudet agreed to be employed as the President of Cheap Seats for an initial term of three years. Additionally, Cheap Seats and Thomas Spagnola, a principal of Cheap Seats, entered into an employment agreement dated January 6, 2000 whereby Thomas Spagnola agreed to be employed as the Vice President of Cheap Seats for an initial term of three years.

*Legacy Storage Systems Corp.*

Pursuant to a share purchase agreement (the "Legacy Share Purchase Agreement) dated December 1, 1999 between the Corporation and John Whyte, the Corporation acquired all of the issued and outstanding common shares (the "Legacy Shares") of Legacy Storage Systems Corp. ("Legacy") and a shareholders advance of $150,000 made by John Whyte to Legacy (the "Shareholder's Advance"). As consideration for the Legacy Shares and the Shareholder's Advance, the Corporation issued to John Whyte 3,028,000 Common Shares at a price of $0.725 per Common Share. In addition, the Legacy Share Purchase Agreement provided for the repayment of indebtedness of $50,000 owing to John Whyte by Legacy within 90 days of closing and on closing, the Company repaid indebtedness of $90,000 owing to Revenue Canada by Legacy. Legacy is comprised of three key divisions, being information technology, storage systems and manufacturing.

Concurrent with the execution of the Legacy Share Purchase Agreement, Legacy and John Whyte, the principal of Legacy, entered into an employment agreement dated December 1, 1999 whereby John Whyte agreed to be employed as the President and Chief Executive Officer of Legacy for an initial term of two years.

*1-800-i-Travel*

Pursuant to an asset purchase agreement (the "1-800 Agreement") dated December 7, 1999 among the Company, Express Vacations, John M. Elliott, Charles Farrell, Peter Adam, a former officer of the Company, and Gene Koch (collectively, the "1-800 Vendors"), Express Vacations acquired from the 1-800 Vendors a co-operative marketing program and certain related assets (the "800-i-Travel Cooperative Marketing Program"). As consideration for the 800-i-Travel Cooperative Marketing Program, the Company issued the 1-800 Vendors 350,000 Common Shares and warrants to purchase 50,000 Common Shares at an exercise price of US$1.00 per Common Share (the "1-800 Warrants"). As additional consideration, Express Vacations agreed to pay the 1-800 Vendors a royalty in an amount equal to US$0.10 per good faith consumer call placed to the toll-free numbers 1-800-487-2835 and 1-800-287-2835 (together, the "1-800 Numbers") from any location, irrespective of call duration for a period of 48 months as calculated in accordance with the 1-800-Agreement. The 1-800 Warrants are exercisable prior to December 7, 2002 provided certain performance criteria are fulfilled. Performance criteria are fulfilled if certain minimum numbers of consumer calls to the 1-800 Numbers have been achieved prior to May, 2001 or the average trading price of the Common Shares during November, 2000 has been US$4.00 per Common Share. In the event the performance criteria are not fulfilled, the 1-800 Vendors can exercise an automatic right to call the 800-i-Travel Cooperative Marketing Program and in the event the Company determines it no longer seeks to utilize the 1-800 Numbers or aggressively market the 1-800 Numbers, the Company has the right to transfer the 800-i-Travel Cooperative Marketing Program to the 1-800 Vendors. The 800-i-Travel Cooperative Marketing Program utilizes a sophisticated telephone switching technology that will route customers' calls to the closest appropriate member travel agency or to the Company's call center. See "Business of the Company – The travelbyus.com Business Model – Distribution-1-800 Call Centers".

*Bell Travel Systems*

Pursuant to an asset purchase agreement (the "BTS Agreement") dated April 3, 2000 among Murray L. "Jack" Bell, the Company and Travelbyus-IT Incorporated, the Company acquired the travel operations (the "BTS Purchased Assets") of Bell Travel Systems ("BTS"). As consideration for the BTS Purchased Assets, the Company issued 690,558 Common Shares at a price of $4.00 per Common Share and paid US$1,900,000 in cash. BTS is a travel company which currently has approximately 1,200 travel agency members. See "Business of the Company – Business Model – Products".

Concurrent with the execution of the BTS Agreement, Travelbyus-IT Incorporated and Murray L. "Jack" Bell, a principal of BTS (the "Consultant") entered into a consulting agreement dated April 3, 2000 whereby the Consultant agreed to provide services to Travelbyus-IT and act as the President of BTS Travel Network, a separate unincorporated division of Travelbyus-IT, for an initial term of two years.

*Cruise Shoppes America, Ltd.*

Pursuant to an agreement and plan of merger (the "Cruise Shoppes Agreement") dated April 4, 2000 among Cruise Shoppes America, Ltd. ("CSA"), Gary P. Brown, Michael J. Wild (collectively, the "CSA Stockholders"), the Company and Travebyus-Cruise Shoppes Inc., the Company acquired all of the issued and outstanding common shares of CSA (the "CSA Shares"). As consideration for the CSA Shares, the Company issued 2,619,000 Common Shares at a price of $4.00 per Common Share and paid US$1,800,000 in cash subject to adjustment commencing on July 2000 in the event that the then current trading price of the Company's shares is less than $4.00. On April 5, 2000, CSA merged with the Company's wholly-owned subsidiary, Travelbyus-Cruise Shoppes Inc. ("Cruise Shoppes"). CSA is nationwide cruise and leisure sales organization with over 350 associate travel agencies. See "Business of the Company – The travelbyus.com Business Model – Product Offerings – Cruise Packages".

Concurrent with the execution of the Cruise Shoppes Agreement, the Company and Gary P. Brown, a principal of CSA entered into an employment agreement dated April 4, 2000 whereby Gary P. Brown agreed to be employed as President of CSA for an initial term of two years.

## RECENT DEVELOPMENTS

Pursuant to a letter of intent dated February 24, 2000, as amended on March 16, 2000, April 18, 2000 and April 25, 2000, between the Company and Aviation Group, Inc. ("Aviation Group"), the Company and Aviation Group agreed to a proposed business combination of the two companies (the "Travelbyus Merger Transaction") and certain other pre-merger transactions. The proposed terms of the business combination contemplate a three stage structure which includes a bridge financing, a business combination of Aviation Group and Global Leisure Travel, Inc. ("Global Leisure") and finally the Travelbyus Merger Transaction. The letter of intent provides for the completion of the transactions on or before July 31, 2000 subject to receipt of all necessary approvals. The following is a description of the structure of the proposed business combinations. The Companies are presently considering an amended structure to complete the business combinations on a tax effective basis to shareholders.

*Bridge Financing*

Prior to the Travelbyus Merger Transaction, the Company will purchase for cash from Aviation Group shares of Aviation Group's Series B preferred stock with an initial aggregate liquidation preference of not less than approximately US$4.0 million and up to US$10.5 million. Contemporaneously with the purchase by the Company of Aviation Group's Series B preferred stock, Aviation Group shall use substantially all of the proceeds of the sale of Aviation Group's Series B preferred stock to purchase shares of Global's preferred stock. The proceeds of the initial sale of Global's preferred stock will be used by Global to repay certain matured indebtedness and for working capital.

Additionally, Doerge Capital Management has agreed to use its commercial best efforts to sell up to US$20 million of Aviation Group's Series B preferred stock, US$2 million of Aviation Group common stock and US$3 million of Common Shares of the Company to finance the combinations (the "Bridge Financing"). To the extent the amount of new cash proceeds from the Bridge Financing exceeds the aggregate liquidation preference of any of Aviation Group's Series B preferred stock held by the Company, such excess shall be used to purchase outstanding Aviation Group Series B preferred stock held by Travelbyus in lieu of issuing new shares of Aviation Group Series B preferred stock.

*Business Combination of Aviation Group and Global*

Prior to the completion of the Travelbyus Merger Transaction, Aviation Group and Global Leisure will complete a reverse triangular merger (the "Global Merger Transaction") whereby a newly formed subsidiary of Aviation Group will merge with and into Global. The Global Merger Transaction will be conditional upon completion of the Bridge Financing. In connection with and as a condition to the Global Merger Transaction, Aviation Group will issue to certain holders of Global's outstanding corporate indebtedness (approximately US$16.2 million) and the holders of all of Global's common stock in exchange for transfer of such indebtedness to Aviation Group and the cancellation of such Global common stock: (a) shares of Aviation Group's Series A convertible preferred stock with an initial aggregate liquidation preference equal to the principal amount of such indebtedness; and (b) warrants to purchase 750,000 shares of Aviation Group's common stock. Additionally, Aviation Group will issue to the holders of all of Global's outstanding rights to purchase common stock, warrants to purchase 3.5 million shares of Aviation Group common stock. The right to exercise such warrants will be subject to Aviation Group stockholder approval of the issuance of the warrants and the amendment of Aviation Group's articles of incorporation to increase its authorized capital stock.

*Business Combination of Aviation Group and Travelbyus*

The Travelbyus Merger Transaction contemplates a reverse triangular merger of a Canadian subsidiary of Aviation Group ("Subco") with and into the Company. The Travelbyus Merger Transaction is conditional upon the prior occurrence of the Global Merger Transaction. Pursuant to the Travelbyus Merger Transaction, Subco will issue to the holders of the Company's Common Shares one share of common stock of Subco ("Exchangeable Stock") for each outstanding Common Share of the Company. Each share of Exchangeable Stock will be exchangeable at the holder's election into one share of Aviation Group common stock. Holders of the Exchangeable Stock will be entitled to substantially the same rights with respect to voting, dividends, etc. as the holders of Aviation Group's common stock. Further, all outstanding options and warrants of the Company will be assumed by Aviation Group and converted into a like number of options or warrants to purchase Aviation Group's common stock on the same terms.

## USE OF PROCEEDS

The aggregate gross proceeds of the issue and sale of 8,000,000 Special Warrants were $20,000,000 and an aggregate fee of $1,400,000 was paid to the Agent in connection with such issue and sale. The aggregate net proceeds of $18,250,000 derived from the issue and sale of 8,000,000 Special Warrants after payment of the Agent's commission of $1,400,000 and the estimated expenses of the Special Warrant Offering of $350,000 will be used by the Company: (i) as to approximately $7,250,000 for the acquisition of Cheap Seats, Inc.; (ii) as to approximately $2,793,000 for the acquisition of the travel operations of Bell Travel Systems; (iii) as to approximately $2,646,000 for the acquisition of Cruise Shoppes America, Ltd.; (iv) as to approximately $1,800,000 to fund further enhancements to the *travelbyus.com* Web site; (v) as to approximately $3,000,000 to fund strategic investments; and (v) as to the balance for working capital and for general corporate purposes.

Assuming the exercise of all outstanding Debenture Warrants, the aggregate gross proceeds derived or to be derived from the issuance of 9,560,000 Debenture Warrants are $6,500,800 and have been or will be used by the Company: (i) as to approximately $4,500,000 to fund strategic investments; and (ii) as to the balance for working capital and for general corporate purposes.

Pending utilization of the net proceeds derived from the sale of the Special Warrants and derived or to be derived from the exercise of the Debenture Warrants, the Company has invested or will invest the unutilized funds in short-term, interest bearing obligations. The actual use of the net proceeds will vary depending on the Company's operating and capital needs from time to time and will be subject to the discretion of management of the Company. While the Company has not entered into any binding agreement with respect to any new acquisitions, it is currently in various stages of discussions concerning acquisition opportunities.

## MANAGEMENT

### Directors and Officers

As at the date hereof, the names, municipalities of residence, positions with the Company, and principal occupations of the directors and senior officers of the Company are as follows:

| Name and Municipality of Residence | Position | Principal Occupation for the Past Five Years |
|---|---|---|
| Michael A. Farrugia[(1) (2)]<br>Bermuda | Director and Chairman of the Board | Chairman and President of MB Capital Investments Ltd. |
| William Kerby<br>White Rock, British Columbia | Director, Vice-Chairman and Chief Executive Officer | Vice-Chairman and Chief Executive Officer of the Company |
| John Fenyes<br>Sparks, Nevada | Director, Executive Vice-President and Chief Operating Officer | Executive Vice-President and Chief Operating Officer of the Company and Express Vacations, Inc. |
| John H. Craig[(1) (2)]<br>Toronto, Ontario | Director and Secretary | Partner with the law firm of Cassels Brock & Blackwell LLP |
| Alan Thompson[(1) (2)]<br>Vancouver, British Columbia | Director | President of Millbank Marketing |
| Jon Snyder<br>Reno, Nevada | President | President of the Company and President of Express Vacations |
| Grant Kuramoto<br>Richmond, British Columbia | Chief Financial Officer | Chief Financial Officer of the Company |
| Joanne Smith<br>Reno, Nevada | Senior Vice-President, Marketing | Senior Vice-President, Marketing of the Company |
| John Whyte<br>Toronto, Ontario | Senior Vice-President, Commerce | Senior Vice-President, Commerce of the Company and President and Chief Executive Officer of Legacy |

Notes:
(1) Member of the Audit Committee
(2) Member of the Compensation Committee

Each of the foregoing individuals has been engaged in the principal occupation set forth opposite his name during the past five years except as set forth below:

**Michael A. Farrugia** – *Director and Chairman of the Board.* Mr. Farrugia is the Chairman and President of MB Capital Investments Ltd., a merchant bank. Prior thereto, Mr. Farrugia was Chairman and President of MB Capital Corp., a securities dealer and merchant bank.

**William Kerby** – *Director, Vice Chairman and Chief Executive Officer.* Mr. Kerby has been Vice Chairman and Chief Executive Officer of the Company since April 1999. Prior to joining the Company, Mr. Kerby was the founder, President and Chief Executive Officer of Leisure Canada Inc., a publicly traded company in the travel industry. Leisure Canada Inc. specializes in the development of four and five star hotel and resort properties in Cuba. During his tenure with Leisure Canada Inc., Mr. Kerby engineered the development of the company's travel division assets. These assets included TravelPlus (formerly Goliger's Travel and Travel Trade International with over 200 agencies across Canada, Altracs Publishing & Multimedia, producing *Leisure Canada Magazine* and *Canadian Traveller,* Bluebird Holidays/Tour Division in Great Britain and South Africa, Skyhigh Holidays and Cook Island Holidays in Canada.

**John Fenyes** – *Director, Executive Vice President and Chief Operating Officer.* Mr. Fenyes has been Executive Vice President and Chief Operating Officer of the Company and Express Vacations since October, 1999. Mr. Fenyes has been involved in the travel industry for over 25 years, holding key positions, including Vice President, Product Development with American Airlines FlyAAway Vacations. During his tenure with American Airways FlyAAway Vacations, Mr. Fenyes developed one of the first in-house vacation package programs. Most recently, Mr. Fenyes was Director of Marketing Programs for ITT, Sheraton and General Manager of "Vacations by Sheraton", now part of the Starwood Group.

**John H. Craig –** *Director and Secretary.* Mr. Craig is a partner in the law firm Cassels Brock & Blackwell LLP specializing in securities law.

**Alan Thompson** – *Director.* Mr. Thompson has been involved in the tour and travel business for over 40 years, operating in all aspects of the industry including airlines, wholesale and retail. Mr. Thompson founded a wholesale and charter operation in Canada in 1964 which operated a fleet of five 747's with weekly tours to the United Kingdom and Europe. In 1993, the operations were sold. In 1995, Mr. Thompson started a telecommunications company that was a forerunner in the de-regulated local dial tone business in British Columbia. Mr. Thompson sold the company to Texas Metronet Inc. in 1998. Mr. Thompson is currently President of the Millbank Group of Companies which deals in financing, mortgages and venture capital and operates a diversified group of companies.

**Jon Snyder –** *President.* Mr. Snyder has been President of the Company and Express Vacations since November 1999. Mr. Snyder has been involved in the travel industry for over 30 years and was one of the principals involved in the creation of American Airlines FlyAAway Vacations program. During his tenure with American Airlines FlyAAway Vacations, Mr. Snyder served as President.

**Grant Kuramoto –** *Chief Financial Officer.* Mr. Kuramoto has been Chief Financial Officer of the Company since May 1999. Previously, Mr. Kuramoto served as corporate controller for Manex Services, a company providing management services to publicly traded junior resource companies. Prior to joining Manex Services, Mr. Kuramoto was a business assurance manager with Coopers and Lybrand (now PricewaterhouseCoopers LLP).

**Joanne Smith** – *Senior Vice President, Marketing.* Ms. Smith has been Senior Vice President, Marketing of the Company since November 1999 and has over 20 years of marketing expertise. Ms. Smith has held the positions of Vice President, American Eagle; Senior Vice President, Midway Airlines; and most recently, Senior Vice President, Marketing, Reno Air.

**John Whyte** – *Senior Vice President, Commerce.* Mr. Whyte has been Senior Vice President, Commerce of the Company and President and Chief Executive Officer of Legacy since April 1999. Mr. Whyte was co-founder and lead product architect of Rogue Technologies Inc. Previously, Mr. Whyte owned and operated Ontario Taxi Equipment, which was instrumental in introducing the first electronic taximeter in the world. Additionally, Mr. Whyte has had many technical articles and storage-related papers published in technical journals and magazines.

## EXECUTIVE COMPENSATION

**Statement of Executive Compensation**

***Summary Compensation Table***

The following table contains information about the compensation paid to or earned by the Company's Vice Chairman and Chief Executive Officer (the "Named Executive Officer") for the nine-month period ended September 30, 1999. During the nine month period ended September 30, 1999 the Company had no other "Named Executive Officer" pursuant to Ontario Regulation 638/93 made under the *Securities Act* (Ontario) because as at September 30, 1999 no executive officer earned more than $100,000 in total salary and bonus. Specific aspects of the compensation of the Named Executive Officer are dealt with in further detail in subsequent tables.

**Summary Compensation Table**

| | | Annual Compensation | | | Long Term Compensation | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Grants | | Pay-outs | |
| **Name and principal position** | **Fiscal Year** | **Salary ($)** | **Bonus ($)** | **Other Annual Remun-eration ($)** | **Securities Under Option/SARs Granted (#)** | **Restricted Shares or Restricted Share Units ($)** | **LTIP Pay-outs ($)** | **Other Compen-sation ($)** |
| William Kerby[(1)] Chief Executive Officer | 1999[(2)] | Nil | Nil | 81,000[(3)] | 500,000 | Nil | Nil | Nil |

Notes:
(1) Mr. Kerby joined the Company in April, 1999.
(2) The Company changed its year end to September 30 and as such year end information for 1999 represents a nine-month period.
(3) Paid to 151156 Canada Ltd. as a consulting fee for the consulting services of Mr. Kerby.

***Option Grants in Nine Month Period Ended September 30, 1999***

The following table provides details on stock options granted to the Named Executive Officer during the nine-month period ended September 30, 1999 under the terms of the Company's stock option plan.

**Options Granted During the Nine Month Period Ended September 30, 1999**

| Name | Common Shares under options granted | % of Total Options Granted in Fiscal Year | Exercise Price ($/sh.) | Market Value of Securities Underlying Options on Date of Grant ($/sh.) | Expiration Date |
|---|---|---|---|---|---|
| William Kerby | 250,000<br>250,000 | 9.1%<br>9.1% | $0.46<br>$1.00 | $0.35[(1)]<br>$0.73[(2)] | April 20, 2004<br>June 03, 2004 |

Notes:
(1) Based on the closing price of the Common Shares on the TSE on April 20, 1999.
(2) Based on the closing price of the Common Shares on the TSE on June 3, 1999.

***Options Exercised and Value of Unexercised Option***

The following table provides detailed information regarding options exercised by the Named Executive Officer during the nine month period ended September 30, 1999. In addition, details on remaining options held are provided.

**Aggregated Option Exercises in the Nine Month Period Ended September 30, 1999 and Year End Option Values**

| **Name** | **Securities acquired on Exercise (#)** | **Aggregate value realized ($)** | **Unexercised options at Financial Year End Exercisable/ Unexercisable (#)** | | **Value of Unexercised in-the-money options at Financial Year End Exercisable/ Unexercisable ($)** | |
|---|---|---|---|---|---|---|
| | | | **Exercis-able** | **Unexer-cisable** | **Exercis-able** | **Unexer-cisable** |
| William Kerby | 100,000<br>150,000 | 24,000[(1)]<br>46,500[(2)] | 250,000 | Nil | $287,500[(2)] | Nil |

Notes:
(1) Based on the closing price of the Common Shares on the TSE on August 23, 1999 of $0.70.
(2) Based on the closing price of the Common Shares on the TSE on August 24, 1999 of $0.77.
(3) Based on the closing price of the Common Shares on the TSE on September 30, 1999 of $2.15.

***Other Compensation Matters***

There were no long-term incentive awards made to the Named Executive Officer during the nine month period ended September 30, 1999. There are no pension plan benefits in place for the Named Executive Officer.

***Indebtedness of Directors, Executive Officers and Senior Officers***

During the nine month period ended September 30, 1999, no loans were made by the Company to any senior officer or director or any key employee of the Company or any of their other respective associates for any reason whatsoever.

***Compensation of Directors***

None of the directors of the Company were compensated in their capacity as a director by the Company during the nine month period ended September 30, 1999 pursuant to any arrangement or in lieu of any standard arrangement save and except through the granting of stock options.

During the nine month period ended September 30, 1999, options to purchase 1,450,000 Common Shares of the Company were granted to directors of the Company.

***Employment Contracts***

There are no employment contracts between the Company and the Named Executive Officer and no compensatory plan or arrangement that results or will result from the resignation, retirement or any other termination of employment of such officer's employment with the Company, from a change of control of the Company or a change in the Named Executive Officer's responsibilities following a change-in-control.

## STOCK OPTION PLAN

The Company's stock option plan (the "Stock Option Plan") provides that the Board of Directors of the Company may from time to time, in its discretion, grant to directors, officers, employees and consultants of the Company, or any subsidiary of the Company (the "Optionees"), the option to purchase Common Shares, provided that the number of Common Shares reserved for issuance under the Stock Option Plan shall not exceed 6,500,000 Common Shares or such greater number as may be approved from time to time by the shareholders of the Company. In addition, the number of Common Shares reserved for issuance to any one person shall not exceed 5% of the issued and outstanding Common Shares on a non-diluted basis at the time of such grant. All options currently held by directors, officers and employees of the Company have been granted pursuant to the Stock Option Plan or its predecessor. The Stock Option Plan provides that the terms of the option and the option price shall be fixed by the directors of the Company subject to the price restrictions imposed by the TSE. The Stock Option Plan also provides that no option shall be granted to any person except upon recommendation of the directors of the Company and only Optionees may receive stock options. Stock options granted under the Stock Option Plan may not be for a period of less than one year or longer than ten years and the exercise price must be paid in full upon exercise of the option. Options under the Stock Option Plan are non-assignable. If prior to the exercise of an option, the holder ceases to be an Optionee as a result of his or her resignation or discharge, all options granted to the Optionee under the Stock Option Plan are terminated and are of no further force or effect. If prior to the exercise of an option, the holder ceases to be an Optionee for reasons other than his or her resignation or discharge, the option of the holder shall be limited to the number of shares purchasable by him immediately prior to the time of his cessation of office or employment and he shall have no right to purchase any other shares. Options must be exercised within eighteen months of termination of employment or cessation of position with the Company, provided that if the cessation of office, directorship, consulting arrangement or employment was by reason of death, the option must be exercised within 12 months after such death, subject to the expiry date of such option. As at the date of this prospectus, the Company has outstanding the following options under the Stock Option Plan:

| Name | Number of Common Shares Under Option | Exercise Price Per Common Share | Date of Grant | Market Value of Common Shares Under Option on Date of Grant | Expiry Date |
|---|---|---|---|---|---|
| Six executive officers | 262,500 | $0.46 | Apr. 20/99 | $0.35 | Apr. 20/04 |
| as a group | 250,000 | $1.00 | Jun. 30/99 | $0.50 | Jun. 30/04 |
| | 675,000 | $1.65 | Nov. 03/99 | $1.65 | Nov. 03/04 |
| Three directors who are | 300,000 | $0.12 | Mar. 09/98 | $0.11 | Mar. 09/03 |
| not executive officers as | 600,000 | $0.79 | Jun. 03/99 | $0.73 | Jun. 03/04 |
| a group | 250,000 | $1.00 | Jun. 30/99 | $0.50 | Jun. 30/04 |
| | 100,000 | $3.90 | Jan. 13/00 | $3.90 | Jan. 13/05 |
| Employees who are not | 425,000 | $0.46 | Apr. 20/99 | $0.35 | Apr. 20/04 |
| executive officers or | 1,470,500 | $4.28 | Dec. 23/99 | $4.28 | Dec. 23/02 |
| directors as a group | 63,000 | $3.80-$4.90 | Jan. 03-27/00 | $3.80-$4.90 | Jan. 03-27/03 |
| | 90,000 | $4.50 | Mar. 06/00 | $4.50 | Mar. 06/03 |
| Consultants as a group | 89,000 | $0.55 | Jul. 04/99 | $0.48 | Jul. 04/04 |
| | 250,000 | $3.30 | Dec. 06/99 | $3.30 | Dec. 06/04 |
| | 200,000 | $3.20 | Feb. 09/00 | $3.05 | Feb. 03/02 |
| | 50,000 | $3.75 | Jan. 28/00 | $3.75 | Jan. 28/01 |

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULT AND FINANCIAL CONDITION

*The following discussion and analysis should be read in conjunction with the consolidated financial statements and the related notes thereto which appear elsewhere in this prospectus. All figures are in Canadian dollars unless otherwise noted.*

### Overview

Prior to 1999, the Company was a precious metals exploration company with a focus on Latin America and Mexico. As the past few years have been very difficult for junior exploration companies, the Company began looking at opportunities in the non-resource sector with the objective of creating shareholder value.

In April 1999, the Company shifted its business to the travel sector. Through acquisitions, the Company is currently creating a major alliance of uniquely positioned travel and technology companies, that, when combined with the Company's *travelbyus.com* Web site, will form a fully integrated Internet travel organization.

The Company changed its fiscal year-end to September 30 to synchronize the fiscal periods of the Company and its new acquisitions. During the nine month period ended September 30, 1999, the Company started the process of creating the Company's new future in the travel sector. On September 9, 1999, the Company successfully completed a 12.5% debenture financing (the "Debenture Financing") which resulted in gross proceeds of $11,950,000. The gross proceeds were used for the Company's initial acquisitions in the travel sector and for operating working capital. As part of the Debenture Financing, the Company also issued Common Share purchase warrants (the "Debenture Warrants") to purchase 9,560,000 Common Shares (the "Debenture Warrants Shares") at a price of $0.68 per share. Assuming the exercise of all Debenture Warrants, the Company will receive gross proceeds of $6,500,800.

The Company's first acquisition was the acquisition of all of the outstanding shares of each of Mr. Cheaps Travel, Ltd. and Gotham Media Group, Ltd. on October 4, 1999. Subsequent to such acquisition, the Company acquired shares and/or assets of International Tours, Inc. Galaxsea Cruises and Tours, Inc., Express Vacations, LLC, the Travel Magazine TV show, Legacy Storage Systems Corp., the 1-800-i-Travel Marketing Program, and Cheap Seats, Inc. to complete the Company's business model. Additional capital to complete the acquisitions was obtained by private placement financings in December, 1999.

In November 1999 the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board issued a discussion paper EITF 99-19, Reporting Revenue Gross Versus Net which has not yet been finalized, and in December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 - Revenue Recognition in Financial Statements, both of which covered and included guidelines for determining the appropriateness of gross versus net revenue reporting practices specifically in the e-commerce and travel sectors. The guidelines contained therein focus on determining whether the company in substance acts as principal, agent or broker in a transaction, whether it takes title to the products, and whether it assumes the risks and rewards of ownership. The company has considered these very recent developments in determining its revenue recognition and reporting policies and believes its current policies are conservative and consistent with this guidance, however it is possible that these evolving standards may allow or require the company to amend its practices for the recognition and reporting of revenue.

### Results of Operations

#### *Four-Month Period Ended January 31, 2000 Compared to Four-Month Period Ended January 31, 1999*

For the four months ended January 31, 2000, the consolidated net loss of the Company was $5,061,684 ($0.09 per share), compared to a loss of $721,616 ($0.03 per share) for the four months ended January 31, 1999. The increased loss reflects management's decision to investigate and develop new business opportunities in the travel sector. Moreover, as certain acquisitions were not completed until the latter part of the period, the Company's new revenue streams were not fully realized during the period. Management of the Company has recently decided to restructure and base its operations from its 1-800 call center in Reno, Nevada. Full integration of operations is expected by the end of May 2000 to aggressively support the *travelbyus.com* Web site.

***Nine-Month Period Ended September 30, 1999 Compared to Year Ended December 31, 1998***

The Company incurred a loss of $1,563,624 ($0.05 per share) during the nine month period ended September 30, 1999 compared to a loss of $1,334,808 ($0.07 per share) for the year ended December 31, 1998. The increased loss reflects management's decision to develop new business opportunities in the Internet travel sector.

General and administrative expenses for the nine month period ended September 30, 1999 were $1,108,370 as compared to $642,275 for the year ended December 31, 1998. The increased expenditures for the nine month period ended September 30, 1999 were due to professional services required to change the Company's business from the resource sector to the travel sector, salaries for the Company's new management team and travel and promotional costs to promote shareholder interest in the Company's new business plan.

Website development costs of $362,434 (1998 - $nil) were incurred during the nine month period ended September 30, 1999 to construct the Company's *travelbyus.com* Web site. The official launch date of the *travelbyus.com* Web site was January 21, 2000.

Financing of the expenditures during the nine month period ended September 30, 1999 was primarily from the Debenture Financing which resulted in gross proceeds of $11,950,000. In addition, the Company raised $1,385,000 by way of private placement and through the exercise of stock options.

***Year Ended December 31, 1998 Compared to Year Ended December 31, 1997***

The Company incurred a loss of $1,334,808 for the year ended December 31, 1998, compared to a loss of $8,224,080 for the year ended December 31, 1997. In both fiscal periods, the Company wrote-down its mineral properties to a nominal amount and the reduced loss in 1998 reflects significantly lower exploration costs and general administrative costs. During the latter part of 1997 and 1998, the Company focused on minimizing costs.

Mineral exploration expenditures during 1998 totalled $635,396. Such expenditures were incurred evaluating properties in Mexico. During 1997, $3,195,482 was spent on acquisition and exploration, primarily in Colombia.

The Company did not have plans for additional exploration work on the Mexican properties and accordingly wrote off all 1998 expenditures of $635,396 in the consolidated statements of operations and deficit for the year ended December 31, 1998.

General administrative expenses for the year ended December 31, 1998 were $642,275 compared to $1,324,537 during the prior year. The major components of these costs were salaries and wages, shareholder communications expenses, costs associated with the Toronto office, and travel costs. The lower costs in 1998 are the result of staff reductions and the significant reduction in exploration activity.

Funding of expenditures in 1998 and 1997 was primarily from private placements of Common Shares. During the year ended December 31, 1998, 4,000,000 Common Shares were issued under a private placement for net proceeds of $464,634 (1997 – 3,100,000 Common Shares for net proceeds of $4,683,663). In addition, 500,000 Common Shares were issued as part of the acquisition of certain Mexican properties.

**Liquidity and Capital Resources**

Marketable securities shown on the consolidated balance sheet as at September 30, 1999 consist of 639,912 common shares of Scorpion Minerals Inc. ("Scorpion") carried at a cost of $230,984. The market value of the Scorpion common shares as at September 30, 1999 was $326,355.

During the nine month period ended September 30, 1999, the Company completed a private placement of 20,000,000 common shares at a price of $0.06 per share for gross proceeds of $1,200,000. Stock options to acquire 550,000 common shares were exercised to raise an additional $185,000. Subsequent to September 30, 1999, the Company received approximately $4,811,827 from the exercise of stock options and warrants.

On September 9, 1999, the Company raised $11,950,000 from the Debenture Financing. The proceeds from the Debenture Financing were used primarily to complete the Company's travel acquisitions subsequent to September 30, 1999.

On December 15, 1999, the Company completed a private placement (the "Unit Placement") of 4,000,000 units (the "Units") at a price of $2.50 per Unit. Each Unit is comprised of one Common Share and one-half of one Common Share purchase warrant (a "Unit Warrant"). Each whole Unit Warrant entitles the holder thereof to purchase one Common Share at a price of $3.50 per share at any time on or before March 15, 2001. The Unit Placement resulted in gross proceeds of $10,000,000. On December 21, 1999, the Company completed the Special Warrant Offering for gross proceeds to the Company of $20,000,000.

## CONSOLIDATED CAPITALIZATION

The consolidated capitalization of the Company as at the dates indicated is as follows:

| **Authorized** | **Outstanding as at September 30, 1999** (audited) | **Outstanding as at March 31, 2000** (unaudited) | **Outstanding as at March 31, 2000 after giving effect to the exercise of the Special Warrants** [2] (unaudited) | **Outstanding as at March 31, 2000 after giving effect to the exercise of the Special Warrants and assuming the exercise of all Debenture Warrants** (unaudited) |
|---|---|---|---|---|
| Common Shares[1] (Unlimited) | $13,455,268 (41,539,178 shares) | $56,268,913 (70,284,308 shares) | $76,268,913 (78,204,308 shares) | $79,442,813 (82,871,808 shares) |
| Special Warrants | NIL | $20,000,000 (8,000,000 sp. wts.) | NIL | NIL |
| Debentures | ($11,950,000) | ($9,460,000) | ($9,460,000) | ($9,460,000) |
| Deficit [3] | ($13,459,259) | ($13,459,259) | ($13,459,259) | ($13,459,259) |
| Total Capitalization | ($11,953,991) | $53,349,654 | $53,349,654 | $56,523,554 |

Notes:

(1) As of the date hereof, an additional 17,272,520 Common Shares have been allotted and reserved for issuance for the purposes and in the amounts set forth below:

- (i) 4,567,500 Common Shares issuable upon exercise of the outstanding Debenture Warrants. See "Prior Sales" and "Debenture Financing";
- (ii) 700,270 Common Shares issuable upon exercise of the outstanding Debenture Compensation Warrants. See "Prior Sales" and "Debenture Financing";
- (iii) 1,818,250 Common Shares issuable upon exercise of the outstanding Unit Warrants. See "Prior Sales";
- (iv) 185,000 Common Shares issuable upon exercise of the outstanding Unit Options. See "Prior Sales";
- (v) 50,000 Common Shares issuable upon exercise of the 1-800 Warrants. See "Recent Acquisitions - 1-800-i-Travel".
- (vi) 5,271,500 Common Shares issuable upon exercise of stock options granted or to be granted under the Stock Option Plan. See "Stock Option Plan";
- (vii) 3,880,000 Common Shares issuable upon exercise of the Purchase Warrants issuable upon exercise of the Special Warrants See "Plan of Distribution"; and
- (viii) 800,000 Common Shares issuable upon exercise of the Compensation Options. See "Plan of Distribution".

(2) After giving effect to the issuance of 8,000,000 Common Shares upon exercise of the Special Warrants but prior to giving effect to the exercise of any Purchase Warrants.

(3) As at September 30, 1999.

## DESCRIPTION OF SHARE CAPITAL

The authorized capital of the Company consists of an unlimited number of Common Shares of which 74,031,366 Common Shares are issued and outstanding as of the date hereof. The following is a summary of the principal attributes of the Common Shares.

### Common Shares

#### *Voting Rights*

The holders of the Common Shares are entitled to receive notice of, attend and vote at any meeting of shareholders of the Company, except those meetings where only the holders of another class or series of shares are entitled to vote separately as a class or series. The Common Shares carry one vote per share.

#### *Dividends*

The holders of Common Shares are entitled to receive on a pro-rata basis such dividends as may be declared by the Board of Directors of the Company, out of funds legally available therefor, subject to the preferential rights of any shares ranking prior to the Common Shares.

#### *Rights of Dissolution*

In the event of the liquidation, dissolution or winding-up of the Company, the holders of the Common Shares will be entitled to receive on a pro-rata basis all the assets of the Company remaining after payment of all of the Company's liabilities, subject to the preferential rights of any shares ranking prior to the Common Shares.

#### *Pre-emptive and Conversion Rights*

No pre-emptive or conversion rights attach to the Common Shares and the Common Shares, when fully paid, will not be liable to further call or assessment. No other class of voting shares may be created without the approval of the holders of the Common Shares voting separately as a class.

## DIVIDEND RECORD AND POLICY

The Company has no fixed dividend policy and has not paid dividends since its incorporation. The payment of dividends in the future will depend upon, among other factors, the Company's earnings, capital requirements and financial condition.

## PRIOR SALES

The following table contains details of the prior sales of securities of the Company for the 12-month period prior to the date hereof:

| Date of Issue | Number of Common Shares | Aggregate Proceeds |
|---|---|---|
| April 1999(1) | 20,000,000 | $1,200,000 |
| January 1999 to April 2000(2) | 961,000 | $391,800 |
| September 1999 to April 2000(3) | 4,992,500 | $3,394,900 |
| October 4, 1999(4) | 2,000,000 | US$2,000,000 |
| October 4, 1999(5) | 150,000 | US$150,000 |
| October 13, 1999(6) | 1,000,000 | US$1,000,000 |
| November 1, 1999(7) | 3,462,000 | $5,885,400 |
| November 1, 1999(8) | 150,000 | $255,000 |
| November 15, 1999(9) | 2,855,883 | $4,997,795 |
| December 1, 1999(10) | 5,000,000 | US$5,000,000 |
| December 1, 1999(11) | 3,028,000 | $2,198,304 |
| December 7, 1999(12) | 350,000 | $1,211,000 |
| December 15, 1999(13) | 4,000,000 | $10,000,000 |
| January 26, 2000 (14) | 1,146,497 | $1,777,070 |
| January, 2000 to April 2000(15) | 181,750 | $636,125 |
| February 2000 to April 2000(16) | 215,000 | $537,500 |
| April 3, 2000(17) | 690,558 | $2,762,232 |
| April 4, 2000(18) | 2,619,000 | $10,476,000 |

Notes:

(1) In April 1999, the Company issued and sold on a private placement basis, 20,000,000 Common Shares at a price of $0.06 per Common Share.

(2) Issued upon exercise of stock options.

(3) Issued upon exercise of Debenture Warrants. See Debenture Financing".

(4) Issued pursuant to the Gotham/Mr. Cheaps Share Purchase Agreement. See "Recent Acquisitions - Gotham Media Group, Ltd. and Mr. Cheaps Travel, Ltd.".

(5) Issued as a finders fee pursuant to the Gotham/Mr. Cheaps Share Purchase Agreement. See "Recent Acquisitions - Gotham Media Group, Ltd. and Mr. Cheaps Travel, Ltd.".

(6) Issued pursuant to the IT Agreement. See "Recent Acquisitions – International Tours, Inc., Galaxsea Cruises and Tours, Inc. and I.T. Cruise, Inc.".

(7) Issued pursuant to the Express Vacations Unit Purchase Agreement. See "Recent Acquisitions – Express Vacations, LLC".

(8) Issued as a finders fee pursuant to the Express Vacations Unit Purchase Agreement. See "Recent Acquisitions – Express Vacations, LLC".

(9) Issued pursuant to the 1999 Travel Magazine Agreement. See "Recent Acquisitions – Travel Magazine".

(10) Issued pursuant to the Cheap Seats Share Purchase Agreement. See "Recent Acquisitions – Cheap Seats, Inc.".

(11) Issued pursuant to the Legacy Share Purchase Agreement. See "Recent Acquisitions - Legacy Storage Systems Corp.".

(12) Issued pursuant to the 1-800 Agreement. See "Recent Acquisitions 1-800-i-Travel".

(13) On December 15, 1999, the Company completed a private placement (the "Unit Placement") of 4,000,000 units (the "Units") at a price of $2.50 per Unit. Each Unit is comprised of one Common Share and one-half of one Common Share purchase warrant (a "Unit Warrant"). Each whole Unit Warrant entitles the holder thereof to purchase one Common Share at a price of $3.50 per share at any time on or before March 15, 2001. Pursuant to the Unit Placement, the Company issued 400,000 compensation options (the "Unit Options") to the agent, each Unit Option is exercisable into one Common Share at an exercise price of $2.50 per share at any time on or before 4:30 p.m. (Toronto time) on March 15, 2001.

(14) Issued pursuant to the 2000 Travel Magazine Agreement. See "Recent Acquisitions – Travel Magazine".

(15) Issued upon exercise of Unit Warrants.

(16) Issued upon exercise of Unit Options.

(17) Issued pursuant to the BTS Agreement. See "Recent Acquisitions – Bell Travel Systems".

(18) Issued pursuant to the Cruise Shoppes Agreement. See "Recent Acquisitions – Cruise Shoppes America, Ltd.".

## PRICE RANGE AND TRADING VOLUME

The Common Shares are listed and posted for trading on the TSE under the symbol "TBU" and on the Winnipeg Stock Exchange and the Frankfurt Stock Exchange.

The following table sets forth information relating to the trading of the Common Shares on the TSE for the periods indicated:

| | High | Low | Volume |
|---|---|---|---|
| **1998** | | | |
| Second Quarter .......... | $0.15 | $0.12 | 1,024,500 |
| Third Quarter ............. | $0.15 | $0.07 | 1,467,600 |
| Fourth Quarter ........... | $0.09 | $0.07 | 5,266,400 |
| **1999** | | | |
| First Quarter............... | $0.34 | $0.06 | 4,710,100 |
| Second Quarter .......... | $0.73 | $0.22 | 26,599,500 |
| Third Quarter ............. | $2.24 | $0.48 | 30,600,000 |
| Fourth Quarter ........... | $2.16 | $1.35 | 32,896,000 |
| **2000** | | | |
| January ..................... | $4.20 | $3.60 | 8,662,100 |
| February..................... | $5.00 | $3.70 | 8,472,000 |
| March ....................... | $4.99 | $3.60 | 8,311,600 |
| April (to April 27)...... | $3.95 | $2.01 | 3,552,800 |

On September 8, 1999, the trading day prior to the issue of the Debenture Warrants, the closing price of the Common Shares on the TSE was $1.59 per share, on December 20, 1999, the trading day prior to the issue and sale of the Special Warrants, the closing price of the Common Shares on the TSE was $4.52 per share and on April 27, 2000, the trading day prior to the date of this prospectus, the closing price of the Common Shares on the TSE was $2.38 per share.

## PRINCIPAL SHAREHOLDERS

To the knowledge of the Company, as at the date hereof, no person or company beneficially owns, directly or indirectly, more than 10% of the issued and outstanding Common Shares.

As at the date hereof, the directors and officers of the Company, as a group, beneficially own, directly or indirectly, 10,949,534 Common Shares representing 14% of the issued and outstanding Common Shares. After giving effect to the exercise of the Special Warrants, the directors and officers of the Company, as a group, will beneficially own, directly or indirectly, 10,949,534 Common Shares representing 13% of the issued and outstanding Common Shares. After giving effect to the exercise of the Special Warrants and assuming the exercise of all outstanding Debenture Warrants, the directors and officers of the Company, as a group, will beneficially own, directly or indirectly, 10,949,534 Common Shares representing 12% of the issued and outstanding Common Shares.

## DEBENTURE FINANCING

Pursuant to an agency agreement (the "Debenture Agency Agreement") dated as of July 20, 1999 between the Company and the Agent, the Company issued and sold 12.5% senior redeemable debentures (the "Debentures") for gross proceeds of $11,950,000. The Debentures earn interest at 12.5% per annum, payable semi-annually and mature on September 9, 2001. Attached to each $1,000 principal amount of Debenture are Common Share purchase warrants (the "Debenture Warrants") entitling the holder thereof to purchase 800 Common Shares (the "Debenture Warrant Shares").

The Debentures were issued pursuant to the terms of a trust indenture (the "Trust Indenture") dated September 9, 1999 between the Company and Montreal Trust Company of Canada, as Trustee. Pursuant to the Trust Indenture, the Company has retained the right to repay the Debentures in full at any time. A senior fixed and floating charge on all the assets of the Company has been granted as security. On March 9, 2000 the Company repaid $2,490,000 of the Debentures.

9,560,000 Debentures Warrants were issued pursuant to an indenture (the "Debenture Warrant Indenture") dated September 9, 1999 between the Company and Montreal Trust Company of Canada, as Warrant Trustee. Each whole Debenture Warrant entitles the holder thereof to purchase one Common Share at a price of $0.68 per share at any time on or before the earlier of 5:00 p.m. (Toronto time) (the "Debenture Warrant Expiry Time") on: (i) September 9, 2001; and (ii) the date which is 10 days following the date on which a holder of the Debenture Warrants receives notice from the Company that the expiry date of the Debenture Warrants has been abridged in accordance with the terms of the Debenture Warrants, after which the Debenture Warrants will expire and will be void and of no value. As of the date hereof, 4,992,500 Debenture Warrants have been exercised. This prospectus is being filed to qualify the distribution of 4,567,500 Debenture Warrants which may be issued upon the exercise of 4,567,500 presently outstanding Debenture Warrants. Pursuant to the Debenture Warrant Indenture, the Company may call for the exercise of the Debenture Warrants if the daily closing price of the Common Shares is greater than $1.36 for 10 consecutive trading days. Subsequent to the issuance of the Debenture Warrants, the daily closing price of the Common Shares has been greater than $1.36 for 10 consecutive trading days. If the Company exercises its right to abridge the expiry date of the Debenture Warrants at any time prior to 5:00 p.m. (Toronto time) on September 9, 2000, the Company must file a prospectus to qualify the Debenture Warrant Shares issuable upon exercise of the Debenture Warrants. This prospectus is being filed to qualify the distribution of the Debenture Warrant Shares issuable upon exercise of the outstanding Debenture Warrants. The Debenture Warrant Indenture contains provisions designed to protect the holders of Debenture Warrants against dilution upon the happening of certain events. No fractional Debenture Warrant Shares will be issued upon the exercise of any Debenture Warrants.

An aggregate fee of $956,000 was paid to the Agent by the Company in connection with the issue and sale of the Debentures. No additional fee was or will be paid to the Agent in connection with the issuance of the Debenture Warrant Shares upon the exercise of the Debenture Warrants.

As additional compensation in connection with the issue and sale of the Debentures, the Company issued to the Agent 700,270 compensation warrants (the "Debenture Compensation Warrants") each entitling the holder to purchase one Common Share at a price of $0.68 per share at any time on or before 5:00 p.m. (Toronto time) on September 9, 2001.

The Debentures were issued pursuant to exemptions from the prospectus requirements of the *Securities Act* (Alberta), the *Securities Act* (British Columbia), The *Securities Act* (Manitoba), the *Securities Act* (Ontario) and the *Securities Act* (Saskatchewan).

## PLAN OF DISTRIBUTION

Pursuant to an agency agreement (the "Agency Agreement") dated as of November 9, 1999 between the Company and the Agent, the Company issued and sold 8,000,000 Special Warrants at a price of $2.50 per Special Warrant to purchasers resident in Alberta, British Columbia, Manitoba, Ontario and Saskatchewan. The Special Warrants were issued pursuant to the terms of a special warrant indenture (the "Special Warrant Indenture") dated December 21, 1999 between the Company and Montreal Trust Company of Canada, as warrant trustee (the "Warrant Trustee"). Each Special Warrant entitles the holder thereof to receive, without payment of additional consideration, one Common Share and one-half of one Purchase Warrant, subject to adjustment, as provided for in the Special Warrant Indenture.

The Purchase Warrants will be issued pursuant to an indenture (the "Purchase Warrant Indenture") dated December 21, 1999 between the Company and the Warrant Trustee, as trustee thereunder. Each whole Purchase Warrant will entitle the holder thereof to purchase one Common Share at a price of $3.50 per share at any time on or before 4:30 p.m. (Toronto time) on March 21, 2001, after which the Purchase Warrants will expire and will be void and of no value. The Purchase Warrant Indenture contains provisions designed to protect the holders of Purchase Warrants against dilution upon the happening of certain events. No fractional Common Shares will be issued upon the exercise of any Purchase Warrants.

The Special Warrants are exercisable at any time prior to 4:30 p.m. (Toronto time) (the "Expiry Time") on the earlier of: (a) the date which is six business days after a receipt is issued by the securities regulatory authority in the Province of Canada in which a purchaser is resident for a (final) prospectus qualifying the Common Shares and Purchase Warrants to be issued upon exercise of the Special Warrants; and (b) December 21, 2000. Special Warrants which have not been exercised by the Expiry Time will be exercised by the Warrant Trustee on behalf of the holders thereof immediately prior thereto without any further action on the part of the holders. As of the date hereof, 240,000 Special Warrants have been exercised. This prospectus is being filed to qualify 7,760,000 Common Shares and 3,880,000 Purchase Warrants which will be issued upon the exercise of 7,760,000 presently outstanding Special Warrants.

An aggregate fee of $1,400,000 was paid to the Agent by the Company in connection with the issue and sale of the Special Warrants. No additional fee was or will be paid to the Agent in connection with the issuance of the Common Shares and Purchase Warrants upon the exercise of the Special Warrants.

As additional compensation in connection with the issue and sale of the Special Warrants, the Company issued to the Agent and members of its selling group, compensation warrants (the "Compensation Warrants") exercisable without payment of additional consideration into 800,000 compensation options (the "Compensation Options") each entitling the holder to purchase one Common Share at a price of $2.50 per share at any time on or before 4:30 p.m. (Toronto time) on March 21, 2001. This prospectus qualifies for distribution the Compensation Options issuable upon the exercise of the Compensation Warrants.

Pursuant to the Agency Agreement, the Company has agreed, among other things, to prepare and file a preliminary prospectus, to use its reasonable best efforts to resolve any regulatory matters and satisfy any regulatory deficiencies in respect of the preliminary prospectus and, as soon as reasonably practicable after such comments or deficiencies have been resolved or satisfied, to use its commercially reasonable efforts to obtain a receipt for a (final) prospectus qualifying the Common Shares and Purchase Warrants issuable upon the exercise of the Special Warrants under the laws of the Provinces of Alberta, British Columbia, Manitoba, Ontario and Saskatchewan.

If a receipt for a (final) prospectus qualifying the distribution of the Common Shares and Purchase Warrants issuable upon exercise of the Special Warrants has not been issued by the securities regulatory authority in the Province of Canada in which a purchaser is resident by 4:30 p.m. (Toronto time) on June 18, 2000, holders of Special Warrants resident in a Province of Canada in which a receipt has not been so issued shall be entitled to receive 1.1 Common Shares and one-half of one Purchase Warrant (in lieu of one Common Share and one-half of one Purchase Warrant) for each Special Warrant exercised thereafter.

The Special Warrants were issued pursuant to exemptions from the prospectus requirements of the *Securities Act* (Alberta), the *Securities Act* (British Columbia), The *Securities Act* (Manitoba), the *Securities Act* (Ontario) and the *Securities Act* (Saskatchewan).

## CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Cassels Brock & Blackwell LLP, counsel to the Company, and Aikins, MacAulay & Thorvaldson, counsel to the Agent, the following summary fairly describes the principal Canadian federal income tax considerations generally applicable to original holders of Special Warrants and Debenture Warrants who acquire Common Shares and Purchase Warrants pursuant to this prospectus. This summary applies to holders who, for the purposes of the Income Tax Act (Canada) (the "Tax Act"): (i) are resident in Canada; (ii) deal at arm's length and are not affiliated with the Company; (iii) are not "financial institutions" for purposes of the mark-to-market rules; and (iv) hold their Special Warrants, Debenture Warrants, Common Shares and Purchase Warrants as capital property. Such securities will generally be "capital property" to a holder unless they are held in the course of carrying on a business of trading or dealing in securities or have been acquired in a transaction or transactions considered to be an adventure in the nature of trade. For purposes of this summary, references to Purchase Warrants shall include Debenture Warrants.

This summary is based on the current provisions of the Tax Act and the regulations thereunder (the "Regulations"), all specific proposals (the "Proposed Amendments") to amend the Tax Act or the Regulations publicly announced by the Ministry of Finance prior to the date hereof, and the published administrative practice of the Canada Customs and Revenue Agency ("Revenue Canada"). No assurance can be given that the Proposed Amendments will be enacted in their currently proposed form or at all. Except for the foregoing, this summary does not take into account or anticipate any other changes in law, whether by legislative, governmental or judicial decision or action or changes in administrative practices of Revenue Canada, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from the Canadian federal income tax considerations.

This summary is of a general nature only, is not exhaustive of all Canadian federal income tax considerations and is not intended to be, nor should it be construed to be, legal or tax advice to any particular investor. Therefore, investors should consult their own tax advisers with respect to their particular circumstances.

**Exercise of Special Warrants**

Holders of Special Warrants will realize no gain or loss on the exercise thereof. The cost to a holder of a Special Warrant must be allocated on a reasonable basis between the Common Share and the one-half of one Purchase Warrant issued on exercise of a Special Warrant to determine the cost of each for purposes of the Tax Act. For its purposes, the Company intends to allocate the entire $3.50 issue price of each Special Warrant as consideration for the issue of each Common Share and none of the issue price of each Special Warrant for the issue of each one-half of one Purchase Warrant. Although the Company believes that its allocation is reasonable, such allocation is not binding on Revenue Canada.

**Exercise or Expiry of Purchase Warrants**

No gain or loss will be realized by a holder upon the exercise of a Purchase Warrant to acquire a Common Share. When a Purchase Warrant is exercised, the holder's cost of the Common Share acquired thereby will be the aggregate of the holder's adjusted cost base of such Purchase Warrant and the exercise price paid for the Common Share. The holder's adjusted cost base of the Common Share so acquired will be determined by averaging such cost with the adjusted cost base to the holder of all identical shares owned by the holder immediately prior to such acquisition. In the event of the expiry of an unexercised Purchase Warrant, the holder will realize a capital loss equal to the holder's adjusted cost base of such Purchase Warrant.

**Dividends**

Dividends received on the Common Shares will be included in computing the holder's income. In the case of an individual holder such dividends will be subject to the gross-up and tax credit rules normally applicable in respect of taxable dividends paid by taxable Canadian corporations.

A dividend received by a corporate shareholder will generally be deductible in computing the corporation's taxable income. Private corporations, as defined in the Tax Act, and certain other corporations controlled by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) will generally be subject to a refundable tax pursuant to Part IV of the Tax Act at a rate of 33 1/3% on the dividend, to the extent such dividend is deductible in computing taxable income.

**Capital Gains and Capital Losses**

Upon a disposition (or a deemed disposition) of a Common Share or Purchase Warrant (other than on the exercise thereof), a holder generally will realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of such security, as applicable, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such security, as applicable, to the holder. Under the Proposed Amendments two-thirds of any capital gain will be included in income as a taxable capital gain and two-thirds of a capital loss may normally be deducted against taxable capital gains realized in the year of disposition, the three preceding taxation years or any subsequent taxation year, subject to the provisions of the Tax Act and the Proposed Amendments in that regard.

The amount of any capital loss realized on the disposition of Common Shares by a holder that is a corporation may be reduced by the amount of dividends received or deemed to have been received by it on such shares or shares substituted for such shares to the extent and in the circumstance prescribed by the Tax Act. Similar rules may apply where a holder that is a corporation is a member of a partnership or beneficiary of a trust that owns such shares.

Individuals may be subject to the alternative minimum tax in respect of realized capital gains.

A holder that is throughout the relevant taxation year a "Canadian-controlled private corporation" (as defined in the Tax Act) also may be liable to pay an additional refundable tax of 6 2/3% on its "aggregate investment income" for the year which will include taxable capital gains.

**Qualified Investments and Foreign Property**

As of the date hereof, the Common Shares and Purchase Warrants are a qualified investment under the Tax Act for trusts governed by registered retirement savings plans, deferred profit sharing plans and registered retirement income funds and are not foreign property for such trusts under the Tax Act. As of the date hereof, the Common Shares are, and under the Proposed Amendments the Purchase Warrants will be, qualified investments for trusts governed by registered education savings plans.

## RISK FACTORS

In evaluating the securities qualified hereunder, prospective investors should carefully consider the following risk factors:

**No Operating History; Accumulated Deficit; Anticipated Losses**

The *travelbyus.com* Web site was launched on January 21, 2000 and therefore is in the early stages of operation. Accordingly, the Company has no operating history upon which an evaluation of the Company can be based. The Company anticipates incurring significant additional costs to fund increased marketing initiatives, additional strategic alliances, enhancements to the *travelbyus.com* Web site and technological and hardware improvements. Although the Company anticipates generating revenues, significant operating losses are anticipated for at least the foreseeable future. To the extent that such expenses do not result in appropriate revenue increases, the Company's business may be materially adversely affected.

**Competition**

Both the e-Commerce market and travel industry are highly competitive. Since the introduction of e-Commerce to the Internet, the number of e-Commerce Web sites competing for customers' attention has increased rapidly. The Company expects future competition to intensify given the relative ease with which new Web sites can be developed. The Company believes that the primary competitive factors in e-Commerce are brand recognition, Web site content, ease of use, price, fulfillment speed, customer support and reliability. Other factors that will affect the Company's success include market acceptance of the Company's products, the Company's continued ability to attract experienced marketing, technology, operations and management talent and the success of the Company's marketing programs.

**Risks of the Internet as a Medium for Commerce**

Use of the Internet by consumers is at a relatively early stage of development, and market acceptance of the Internet as a medium for commerce is subject to a high level of uncertainty. The Company's future success will depend on its ability to significantly increase revenues, which will require the development and widespread acceptance of the Internet as a medium for commerce. There can be no assurance that the Internet will be a successful channel. The Internet may not prove to be a viable commercial marketplace because of inadequate development for commerce of the necessary infrastructure, such as reliable network backbones, or complimentary services, such as high speed modems and security procedures for financial transactions. The viability of the Internet or its viability for commerce may prove uncertain due to delays in the development and adoption of new standards and protocols to handle increased levels of Internet activity or due to increased government regulation or taxation. If use of the Internet does not continue to grow, or if the necessary Internet structure or complimentary services are not developed to effectively support growth that may occur, the Company's business could be materially adversely affected. In addition, the nature of the Internet as an electronic marketplace may render it inherently more competitive than conventional commerce formats.

**Travel Supplier Commissions**

A substantial portion of the Company's revenue will come from the commissions paid by travel suppliers, such as hotel chains and airlines, for bookings made through its online travel service. Consistent with industry practices, these travel suppliers are not obligated to pay any specified commission rates for bookings made through it or to pay commissions at all. Over the last several years, travel suppliers have reduced commission rates substantially. Such events could have a negative impact on the operating results of the Company.

**Rapid Technological Change**

To remain competitive, the Company must continue to enhance and improve the responsiveness and functionality of its *travelbyus.com* Web site, software and systems architecture and technology. The Internet and the e-Commerce industry are characterized by rapid technological change, changes in user and customer requirements and preferences, frequent new product and service introductions embodying new technologies and the emergence of new industry standards and practices that could render the Company's existing Web site and proprietary technology and systems obsolete. The Company's success will depend, in part, on its ability to license leading technologies useful in its business, enhance its existing services, develop new services and technology that address the increasingly sophisticated and varied needs of its existing and prospective customers and respond to technological advances in emerging industry standards and practices on a cost effective and timely basis. The development of Web site and other proprietary technologies entails significant technical, financial and business risks. There can be no assurance that the Company will successfully implement new technologies or adapt its Web site, proprietary technology and transaction processing systems to customer requirements or emerging industry standards. If the Company is unable, for technical, legal, financial or other reasons, to adapt in a timely manner and respond to changing market conditions or customer requirements, the Company's business could be materially adversely affected.

**Software Licensing**

The Company incorporates software that it licenses from third party developers for incorporation into its products. The Company will continue to seek to further increase the capabilities of its products by licensing additional applications from third parties. A significant interruption in the availability of any of this licensed software could adversely affect sales, unless and until the Company can replace this software with other software that performs similar functions. Because the Company's products incorporate software developed and maintained by third parties, the Company depends on these third parties' abilities to deliver and support reliable products, enhance their current products, develop new products on a timely and cost-effective basis, and respond to emerging industry standards and other technological changes. If third party software offered now or in the future in conjunction with the Company's products becomes obsolete or incompatible with future versions of the Company's products, the Company may not be able to continue to offer some of the features it presently includes in its products unless the Company can license alternative software or develop the features itself.

**Security Risks**

Despite the implementation of network security measures by the Company, it is potentially vulnerable to computer break-ins and similar disruptive problems caused by its customers or others. Consumer concern over Internet security has been, and could continue to be, a barrier to commercial activities requiring consumers to send their credit card information over the Internet. Computer viruses, break-ins or other security problems could lead to misappropriation of proprietary information and interruptions, delays or cessation in service to the Company's customers. Moreover, until more comprehensive security technologies are developed, the security and privacy concerns of existing and potential customers may inhibit the growth of the Internet as a medium for commerce.

**Risk of System Failure or Inadequacy**

The Company's operations are dependent on its ability to maintain its computer and telecommunications equipment in effective working order and to protect its systems against damage from fire, natural disaster, power loss, telecommunications failure, employee error or similar events. In addition, the growth of the Company's customer base may strain or exceed the capacity of its computer and telecommunications systems and lead to degradations in performance or systems failure. While the Company continually reviews and seeks to upgrade its technical infrastructure and provides for certain system redundancies and back-up power to limit the likelihood of systems overload or failure, any damage, failure or delay that causes interruptions in the Company's operations could have a material adverse affect on the Company's business.

**Risks Associated with Domain Names**

The Company currently holds certain web domain names relating to its brand, including the *www.travelbyus.com* domain name. The acquisition and maintenance of domain names generally is regulated by governmental agencies and their designees. For example, in the United States, the National Science Foundation has appointed Network Solutions, Inc. as the currently exclusive registrar for the ".com", ".net" and ".org" generic top level domains. The regulation of domain names in the United States and in foreign countries is expected to change in the near future. Such changes in the United States are expected to include a transition from the current system to a system which is controlled by a non-profit corporation and the creation of additional top level domains. Requirements for holding domain names will also be affected. As a result, there can be no assurance that the Company will be able to acquire or maintain relevant domain names in all countries in which it conducts business. Furthermore, the relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights is unclear. The Company, therefore, may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon or otherwise decrease the value of its trademarks and other proprietary rights. Any such inability can have a material adverse affect on the Company's business.

**Government Regulation and Legal Uncertainties**

e-Commerce is new and rapidly changing and federal and provincial regulation relating to the Internet and e-Commerce is evolving. Currently, there are few laws or regulations directly applicable to access to or e-Commerce on the Internet. Due to the increasing popularity of the Internet, it is possible that laws and regulations may be enacted with respect to the Internet, covering issues such as user privacy, pricing, taxation, content and quality of products and services. The adoption of such laws or regulations could reduce the rate of growth of the Internet, which could potentially decrease the usage of the Company's Web site or could otherwise have a material adverse affect on the Company's business.

**Broad Discretion and Use of Proceeds**

Although the Company has generally provided for the use of proceeds from its financing activities, the Company cannot specify with certainty the amount of the net proceeds from its financing activities which will be allocated for each purpose. Accordingly, the Company’s management will have broad discretion in the application of such proceeds.

**Market for the Company's Product**

Market demand for the services of the Company are partly dependent upon the adoption of the Internet network for commerce. The adoption of the Internet for commerce and communications, particularly by those individuals and enterprises which have historically relied upon alternative means of commerce and communication, generally requires the acceptance of a new way of conducting business and exchanging information. Because the market for the services of the Company is new and evolving, it is difficult to predict the future growth rate, if any, and size of this market. There can be no assurance that the market for the services of the Company on the Internet will develop, that its services will be adopted or that individual personal computer users in business or at home will use the Internet for commerce and communication. If the market fails to develop or develops more slowly than expected or becomes saturated with competitors, the Company's business, operating results and financial condition will be materially adversely affected.

**Intellectual Property**

The success of the Company will depend, in part, on its ability to maintain trade secret protection and operate without infringing the proprietary rights of third parties. The Company enters into confidentiality agreements with its suppliers, strategic partners, key employees and consultants, and generally controls access to and distribution of proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use this proprietary information without authorization. In addition, effective copyright and trade secret protection may be unavailable or limited in certain foreign countries and may be unenforceable under the laws of certain jurisdictions. There can be no assurance that the steps taken by the Company will prevent misappropriation of their technology. In addition, litigation may be necessary in the future to protect the Company's trade secrets. Such litigation could result in substantial costs and diversion of resources and could have a material adverse affect on the Company’s business, operating results or financial condition. Infringement claims, even if not true, could result in significant legal and other costs and may be a distraction to management. If any of these claims were to prevail, the Company could be forced to pay damages, comply with injunctions or stop providing certain of its services. Any of these events could have a negative impact on the operating results of the Company.

**Interruptions in Third Party Service Providers**

If the Company is unable to maintain or expand its relationships with travel suppliers, its ability to offer and expand travel service offerings or lower-priced travel inventory could be reduced. Travel suppliers may not make their services and products available to the Company on satisfactory terms or at all. They may choose to provide their products and services only to competitors of the Company. In addition, the Company’s travel suppliers may not continue to sell services and products through global distribution systems on terms satisfactory to the Company. Any discontinuance or deterioration in the services provided by third parties, such as global distribution systems providers, could prevent customers from accessing or purchasing particular travel services of the Company.

**Dependence on Key Personnel**

Although the Company has experienced senior management and personnel, the Company is substantially dependent upon the services of a few key personnel. The loss of the services of any of these individuals could have a material adverse effect on the business of the Company.

The Company does not have key man insurance on the lives of any of these individuals. Competition for qualified personnel in the computer software and Internet markets is intense and the Company may be unable to attract or retain highly qualified personnel in the future.

**Additional Financing**

The Company may require additional financing in order to, without limitation, support further expansion, develop new or enhanced services or products, respond to competitive pressures, acquire complementary businesses or technologies or take advantage of unanticipated opportunities. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions, as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. If additional financing is raised by the issuance of shares from treasury of the Company, control of the Company may change and shareholders may suffer additional dilution. If adequate funds are not available, or are not available on acceptable terms, the Company may not be able to take advantage of opportunities or otherwise respond to competitive pressures and remain in business.

**Management of Business Growth**

The Company may be subject to growth-related risks, including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage its growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth could have a material adverse affect on its business, operations and prospects.

**Acquisitions**

As part of the Company's business strategy, the Company seeks to grow by acquiring businesses, products, technologies or establishing joint ventures that it believes will complement its current or future business. The Company may not effectively select acquisition candidates or negotiate or finance acquisitions or integrate the acquired businesses and their personnel or acquire products or technologies into its business. The Company cannot assure that it can complete any acquisition it pursues on favourable terms, or that any acquisitions completed will ultimately benefit the Company's business.

**Market**

There is currently no market for the Purchase Warrants underlying the Special Warrants. The offering price per Special Warrant was determined by negotiation between the Company and the Agent and the Special Warrants will be subject to statutory hold periods.

**Conflicts of Interest**

Certain of the directors of the Company also serve as directors of other companies involved in the computer and/or travel industries and consequently there exists the possibility for such directors to be in a position of conflict. Any decision made by such directors involving the Company will be made in accordance with the duties and obligations of directors to deal fairly and in good faith with the Company and such other companies. In addition, such directors must declare, and refrain from voting on, any matter in which such directors may have a conflict of interest.

**Dividends**

The Company does not anticipate paying any dividends on its Common Shares in the foreseeable future.

## DILUTION

The following table sets forth the dilution for each Common Share issuable upon the exercise of a Special Warrant based upon the consolidated net tangible book value attributable to each Common Share as at January 31, 2000, after giving effect to the issuance of 8,000,000 Common Shares upon the exercise of 8,000,000 Special Warrants outstanding on January 31, 2000 and the issuance of 5,122,500 Debenture Warrant Shares upon the exercise of 5,122,500 Debenture Warrants outstanding on January 31, 2000, but before giving effect to the exercise of 4,000,000 Purchase Warrants outstanding on January 31, 2000:

| | | Per Common Share |
|---|---|---|
| Offering price | | $2.50 |
| Consolidated net tangible book value before this offering | $0.01 | |
| Increase in consolidated net tangible book value attributable to this offering | $0.26 | |
| Consolidated net tangible book value after this offering | | $0.27 |
| Dilution to subscribers | | $2.23 |
| Percentage dilution in relation to the offering price | | 89% |

The following table sets forth the dilution for each Debenture Warrant Share issuable upon the exercise of a Debenture Warrant based upon the consolidated net tangible book value attributable to each Debenture Warrant Share as at January 31, 2000, after giving effect to the issuance of 8,000,000 Common Shares upon the exercise of 8,000,000 Special Warrants outstanding on January 31, 2000 and the issuance of 5,122,500 Debenture Warrant Shares upon the exercise of 5,122,500 Debenture Warrants outstanding on January 31, 2000, but before giving effect to the exercise of 4,000,000 Purchase Warrants outstanding on January 31, 2000:

| | | Per Common Share |
|---|---|---|
| Offering price | | $0.68 |
| Consolidated net tangible book value before this offering | $0.01 | |
| Increase in consolidated net tangible book value attributable to this offering | $0.26 | |
| Consolidated net tangible book value after this offering | | $0.27 |
| Dilution to subscribers | | $0.41 |
| Percentage dilution in relation to the offering price | | 60% |

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director or senior officer of the Company or any shareholder holding of record or beneficially, directly or indirectly, more than 10% of the issued Common Shares of the Company, or any of their respective associates or affiliates, had any material interest, directly or indirectly, in any transaction with the Company, or in any proposed transaction, within the past three years, except as set out in this prospectus or noted below:

In April 1999, the Company completed a private placement of 20,000,000 Common Shares at an issue price of $0.06. William Kerby, the Vice Chairman and Chief Executive Officer of the Company subscribed for 6,083,334 of such Common Shares for gross proceeds to the Company of $365,000.

## LEGAL PROCEEDINGS

On January 14, 2000, a complaint was filed against the Company in the United States District Court for the Southern District of New York (the "Complaint") on behalf of Now Voyager Freelance Couriers, Inc. ("Now Voyager") alleging that the Company breached an agreement to acquire the assets of Now Voyager in exchange for

$150,000 or 100,000 Common Shares valued at $300,000 at the time the Complaint was filed. Now Voyager seeks relief in the form of specific performance, along with consequential and incidental damages. An Answer to the Complaint has been filed with the court together with a counterclaim which seeks the recovery of the benefits conferred by the Company upon Now Voyager during the period that the acquisition was under consideration.

The Company is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact of this matter and therefore cannot determine whether this action will have a material adverse impact on the consolidated financial position or results of operations of the Company. The parties are currently involved in settlement negotiations.

## MATERIAL CONTRACTS

The only material contracts entered into by the Company in the preceding two years other than in the ordinary course of business, are as follows:

1. the Debenture Agency Agreement referred to under "Debenture Financing";
2. the Trust Indenture referred to under "Debenture Financing";
3. the Debenture Warrant Indenture referred to under "Debenture Financing";
4. the Agency Agreement referred to under "Plan of Distribution";
5. the Special Warrant Indenture referred to under "Plan of Distribution"; and
6. the Purchase Warrant Indenture referred to under "Plan of Distribution".

Copies of the foregoing agreements may be examined during normal business hours at 204-3237 King George Hwy, South Surrey, British Columbia, V4P 1B7 and at Scotia Plaza, Suite 2100, 40 King Street West, Toronto, Ontario, M5H 3C2 during the course of distribution of the securities qualified hereunder and for 30 days thereafter.

## LEGAL MATTERS

Certain legal matters relating to the distribution of the securities qualified hereby will be passed upon on behalf of the Company by Cassels Brock & Blackwell LLP and on behalf of the Agent by Aikins, MacAulay & Thorvaldson.

## AUDITORS, REGISTRAR AND TRANSFER AGENT

The auditors of the Company are PricewaterhouseCoopers LLP, Chartered Accountants, Vancouver, British Columbia.

The registrar and transfer agent for the Common Shares is Montreal Trust Company of Canada at its principal offices in the city of Toronto, Ontario.

## CONTRACTUAL RIGHT OF ACTION FOR RESCISSION

In the event that a holder of a Special Warrant who acquires Common Shares and Purchase Warrants of the Company upon the exercise of a Special Warrant, 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 of its Special Warrants, but also of the private placement transaction pursuant to which the Special Warrants were initially acquired, and shall be entitled in connection with such rescission to a full refund of all consideration paid to the Company on the acquisition of the Special Warrants. In the event such holder is a permitted assignee of the interest of the original Special Warrant subscriber, such permitted assignee shall be entitled to exercise the rights of rescission and refund granted hereunder as if such permitted assignee was the original subscriber. The foregoing are in addition to any other right or remedy available to a holder of Special Warrants under section 130 of the *Securities*

*Act* (Ontario) or, the corresponding provisions of other securities legislation or otherwise at law and are subject to the defences, limitations and other provisions of such legislation.

**PURCHASERS' STATUTORY RIGHTS**

Securities legislation in several of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories of Canada securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus or 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 applicable province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the applicable province or territory in which the purchaser resides for the particulars of these rights or consult with a legal advisor.

# AUDITORS' REPORT

**Auditors' Report**

**To the Directors of**
**travelbyus.com ltd.**

We have audited the consolidated balance sheet of **travelbyus.com ltd.** (formerly LatinGold Inc.) as at September 30, 1999 and the consolidated statements of operations and deficit and cash flows for the period from January 1, 1999 to September 30, 1999. 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 Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at September 30, 1999 and the results of its operations and its cash flows for the period from January 1, 1999 to September 30, 1999 in accordance with Canadian generally accepted accounting principles.

**Chartered Accountants**

December 2, 1999
(except as to note 19, which is as of [____________])

# AUDITORS' REPORT

To the Directors of
**travelbyus.com ltd.**
[formerly LatinGold Inc.]

We have audited the consolidated balance sheet of **travelbyus.com ltd**. [formerly LatinGold Inc.] as at December 31, 1998 and the consolidated statements of operations and deficit and cash flows for the years ended December 31, 1998 and 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 December 31, 1998 and the results of its operations and its cash flows for the years ended December 31, 1998 and 1997 in accordance with accounting principles generally accepted in Canada.

Toronto, Canada,
April 21, 1999.

Chartered Accountants

**travelbyus.com ltd.**
Consolidated Balance Sheets
(expressed in Canadian Funds)

**CONSOLIDATED FINANCIAL STATEMENTS OF TRAVELBYUS.COM LTD.**

| | **January 31, 2000 $** (Unaudited) | **September 30, 1999 $** | **December 31, 1998 $** |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 21,592,479 | 3,256,021 | 45,741 |
| Marketable securities | 230,984 | 230,984 | 179,175 |
| Accounts receivable and prepaid expenses | 2,169,419 | 50,504 | 9,534 |
| Inventory | 1,014,674 | - | - |
| Media and travel credits | 1,724,414 | - | - |
| | 26,731,970 | 3,537,509 | 234,450 |
| **Cash deposits for acquisitions** (note 19) | 36,500 | 436,354 | - |
| **Cash in trust** (note 6) | 250,041 | 7,200,000 | - |
| **Restricted cash** (note 7) | 785,741 | - | - |
| **Deferred financing costs** (note 10) | 1,040,247 | 1,254,686 | - |
| **Deferred mineral property costs** (note 8) | - | - | 1 |
| **Deferred acquisition costs** | - | 194,281 | - |
| **Capital assets** (note 9) | 9,156,590 | 78,638 | 19,178 |
| **License and contract rights -** net of accumulated amortization of $45,836 | 4,227,408 | - | - |
| **Goodwill** | 30,476,081 | - | - |
| | 72,704,578 | 12,701,468 | 253,629 |

**travelbyus.com ltd.**

Consolidated Balance Sheets . . . *continued*

(expressed in Canadian Dollars)

| | January 31, 2000 $ (Unaudited) | September 30, 1999 $ | December 31, 1998 $ |
|---|---|---|---|
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Bank indebtedness (note 3) | 537,800 | - | - |
| Accounts payable and accrued liabilities | 2,997,438 | 300,673 | 51,028 |
| Due to related parties (note 16) | 330,042 | 218,684 | 2,968 |
| Customer deposits | 1,451,513 | - | - |
| Notes payable | 725,600 | - | - |
| | 6,042,393 | 519,357 | 53,996 |
| **Debentures** (note 10) | 11,950,000 | 11,950,000 | - |
| | 17,992,393 | 12,469,357 | 53,996 |
| **Shareholders' Equity** | | | |
| **Capital stock** (note 11) | | | |
| Authorized | | | |
| Unlimited number of common shares without par value | | | |
| Issued or allotted | | | |
| 69,544,058 common shares (September 30, 1999 - 41,539,178; December 31, 1998 - 20,989,178) | 55,297,587 | 13,455,268 | 12,070,268 |
| Share capital to be issued | - | - | - |
| Special warrants (note 11(g)) | 20,000,000 | - | - |
| Warrants issued in connection with debenture financing (note 10) | 147,102 | 236,102 | - |
| | 75,444,689 | 13,691,370 | 12,070,268 |
| **Deficit** | (20,732,504) | (13,459,259) | (11,870,635) |
| | 54,712,185 | 232,111 | 199,633 |
| | 72,704,578 | 12,701,468 | 253,629 |

**Nature of operations** (note 1)

**Commitments and contingencies** (note 14)

**Subsequent events** (note 19)

**Approved by the Board of Directors**

(Signed) Michael A. Farrugia, Director

(Signed) Bill Kerby, Director

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

**travelbyus.com ltd.**

Consolidated Statement of Operations and Deficit

(expressed in Canadian Dollars)

| | Four-month periods ended January 31, 2000 $ (Unaudited) | 1999 $ (Unaudited) | Period from January 1, 1999 to September 30, 1999 $ | Years ended December 31, 1998 $ | 1997 $ |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Travel sales | 3,816,661 | - | - | - | - |
| Associate marketing program revenues | 134,199 | - | - | - | - |
| Advertising | 230,278 | - | - | - | - |
| Technology sales | 377,246 | - | - | - | - |
| Interest and other income | 152,584 | 2,620 | 6,972 | 18,556 | 91,449 |
| | 4,710,968 | 2,620 | 6,972 | 18,556 | 91,449 |
| **Direct costs** | | | | | |
| Cost of travel sales | 1,274,366 | - | - | - | - |
| Cost of advertising | 210,675 | - | - | - | - |
| Cost of technology sales | 288,180 | - | - | - | - |
| Other | 23,827 | - | - | - | - |
| | 1,797,048 | - | - | - | - |
| **Expenses** | | | | | |
| General and administration | 5,365,470 | 88,890 | 1,108,370 | 642,275 | 1,324,537 |
| Website development costs | 327,920 | - | 362,434 | - | - |
| Amortization of deferred financing costs (note 10) | 214,440 | - | 38,975 | - | - |
| Write-off of capital assets | - | - | 14,229 | - | - |
| Amortization of capital assets and intangible assets | 796,683 | 1,005 | 6,928 | 13,739 | 44,731 |
| Loss (gain) on marketable securities | - | - | (51,809) | 51,809 | (21,667) |
| Loss on sale of capital assets | - | - | 1,654 | - | - |
| Interest | 535,786 | - | 92,137 | - | - |
| Foreign exchange loss (gain) | 117,385 | (1,055) | (2,323) | 10,145 | 42,558 |
| Property evaluation costs | - | - | - | - | 504,278 |
| Provision for loss on sale of Colombian subsidiaries (note 12) | - | - | - | - | 326,969 |
| Write-off of deferred mineral property costs (note 8) | - | 635,396 | 1 | 635,396 | 6,094,123 |
| | 7,357,684 | 727,236 | 1,570,595 | 1,353,364 | 8,315,529 |
| **Provision for restructuring costs** | (600,000) | - | - | - | - |
| **Income tax expense** | (17,920) | - | - | - | - |
| **Loss for the period** | (5,061,684) | (721,616) | (1,563,624) | (1,334,808) | (8,224,080) |
| **Deficit - Beginning of period** | (13,459,259) | (11,173,535) | (11,870,635) | (10,520,461) | (86,732,092) |
| **Reduction of stated capital** (note 11(a)) | - | - | - | - | 84,805,048 |
| **Share issue costs** | (2,211,561) | (935) | (25,000) | (15,366) | (369,337) |
| **Deficit - End of period** | 20,732,504 | 11,896,086 | 13,459,259 | 11,870,635 | 10,520,461 |
| **Basic loss per share** | (0.09) | (0.03) | (0.05) | (0.07) | (0.53) |
| **Weighted average number of common shares outstanding** | 54,838,043 | 20,989,178 | 31,781,090 | 19,400,822 | 15,588,904 |
| **Supplemental financial data (unaudited)** (note 3) | | | | | |
| Gross bookings | 10,292,671 | - | - | - | - |

# travelbyus.com ltd.

## Consolidated Statements of Cash Flows

(expressed in Canadian Dollars)

| | Four-month periods ended January 31, | | Period from January 1, 1999 to September 30, | Years ended December 31, | |
|---|---|---|---|---|---|
| | 2000 | 1999 | 1999 | 1998 | 1997 |
| | $ | $ | $ | $ | $ |
| | (Unaudited) | (Unaudited) | | | |
| **Cash flows from operating activities** | | | | | |
| Loss for the period | (5,061,684) | (721,616) | (1,563,624) | (1,334,808) | (8,224,080) |
| Items not affecting cash | | | | | |
| Amortization of deferred financing costs | 214,440 | | 38,975 | - | - |
| Write-off of capital assets | | | 14,229 | - | - |
| Amortization of capital assets and intangible assets | 796,683 | 1,005 | 6,928 | 13,739 | 44,731 |
| Loss (gain) on marketable securities | | | (51,809) | 51,809 | (21,667) |
| Loss on sale of capital assets | | | 1,654 | - | - |
| Provision for loss on sale of Colombian subsidiaries | | | - | - | 326,969 |
| Write-off of deferred mineral property costs | - | 635,396 | 1 | 635,396 | 6,094,123 |
| Provision for restructuring costs | 600,000 | - | | | |
| | (3,450,561) | (85,215) | (1,553,646) | (633,864) | (1,779,924) |
| Net change in non-cash working capital items | 861,599 | 28,552 | 424,391 | (22,741) | (198,039) |
| | (2,588,962) | (56,663) | (1,129,255) | (656,605) | (1,977,963) |
| **Cash flows from investing activities** | | | | | |
| Cash deposits for acquisitions | - | - | (436,354) | - | - |
| Cash in trust for acquisitions | - | - | (7,200,000) | - | - |
| Cash and deposits paid for acquisitions - net of cash received | (10,186,571) | - | - | - | - |
| Restricted cash | (612,603) | - | - | - | - |
| Mineral properties expenditures | - | (309) | - | (562,896) | (3,025,902) |
| Acquisition of mineral properties | - | - | - | - | (169,580) |
| Purchase of capital assets | (173,395) | - | (82,771) | - | (131,216) |
| Proceeds on sale of capital assets | - | - | 500 | - | - |
| Purchase of marketable securities | - | - | - | - | (46,289) |
| Proceeds on sale of marketable securities | - | - | - | - | 91,667 |
| Deferred acquisition costs | - | - | (194,281) | - | - |
| | (10,972,569) | (309) | (7,912,906) | (562,896) | (3,281,320) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issuance of debentures | - | - | 11,950,000 | - | - |
| Deferred financing costs | - | - | (1,057,559) | - | - |
| Issuance of common shares | - | - | 1,385,000 | 480,000 | 5,053,000 |
| Share issue costs | (2,211,561) | (935) | (25,000) | (15,366) | (369,337) |
| Decrease in other liabilities | - | - | - | (171,600) | (403,800) |
| Issue of special warrants | 20,000,000 | - | - | - | - |
| Private placement | 10,000,000 | - | - | - | - |
| Exercises of options and warrants | 3,571,750 | - | - | - | - |
| | 31,360,189 | (935) | 12,252,441 | 293,034 | 4,279,863 |
| **Increase (decrease) in cash and cash equivalents** | 17,798,658 | (57,907) | 3,210,280 | (926,467) | (979,420) |
| **Cash and cash equivalents - net of bank indebtedness - Beginning of period** | 3,256,021 | 76,817 | 45,741 | 972,208 | 1,951,628 |
| **Cash and cash equivalents - net of bank indebtedness - End of period** | 21,054,679 | 18,910 | 3,256,021 | 45,741 | 972,208 |

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

**travelbyus.com ltd.**

Consolidated Statements of Cash Flows

Supplemental Disclosure of Interest and Non-Cash Investing and Financing Activities

(expressed in Canadian Dollars)

| | **Period from September 30, 1999 to January 31, 2000** | **Period from January 1, 1999 to September 30, 1999** | **Years ended December 31,** | |
|---|---|---|---|---|
| | | | **1998** | **1997** |
| | **$** | **$** | **$** | **$** |
| | (Unaudited) | | | |
| **Supplemental Information** | | | | |
| Interest Paid | 23,786 | 2,137 | - | - |
| Interest Received | 148,915 | 4,402 | - | - |
| **Non-cash investing activities** | | | | |
| Mineral property expenditures paid by issuing common shares | - | - | (72,500) | - |
| Acquisition of subsidiaries for common shares | (28,181,569) | - | - | - |
| **Non-cash financing activities** | | | | |
| Common shares issued for mineral properties | - | - | 72,500 | - |
| Warrants issued in connection with debenture financing (note 10) | - | 236,102 | - | - |
| Acquisition of subsidiaries by issuing common shares (note11) | 28,181,569 | - | - | - |

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

**travelbyus.com ltd.**
Notes to Consolidated Financial Statements
**(Unaudited) January 31, 2000**

(expressed in Canadian Dollars)

**1. Nature of operations**

**travelbyus.com ltd.** (the “company”) was incorporated on July 21, 1986 under the Business Corporations Act (Ontario). Until recently, the company was a precious metals exploration company with a focus on Latin America and Mexico. In April 1999, to react to changing market conditions, the company decided to undertake business in the travel sector. The company is pursuing this business primarily through the acquisition and integration of several travel and technology companies, to form an integrated Internet travel organization. To reflect the change in business, the name of the company was changed to **travelbyus.com ltd.** The company also changed its year-end to September 30 to synchronize the fiscal periods of the company and its new subsidiaries (note 5).

During the period ended September 30, 1999, the company raised $11.95 million from a debenture financing. During the four-month period ended January 31, 2000, the company also raised $30 million from an equity financing. These funds were used to finance several acquisitions (note 5).

These financial statements have been prepared on a going concern basis, which assumes that the company will realize its assets in the normal course and continue to meet current and committed obligations as they come due. The company has incurred losses since undertaking its business in the travel sector and has assumed significant debt with a repayment date of September 9, 2001 (note 10). The ability of the company to realize its assets is dependent on the achievement of profitable operations. Its ability to meet its current and committed obligations as they come due is dependent on achieving positive cash flows from operations or on obtaining financing from other sources as required. The company believes its acquisition and business strategy will result in the achievement of profitable operations and plans to raise financing from outside sources; however, there is no assurance that these objectives will be attained.

**2. Summary of significant accounting policies**

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. A summary of the significant accounting policies is set out below:

**Basis of consolidation**

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries.

**Business combinations**

Business combinations have been accounted for under the purchase method of accounting and therefore include the results of operations of the acquired business from the date of acquisition. Assets acquired and liabilities assumed are recorded at their fair values at the date of their acquisition.

**Use of estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.

**travelbyus.com ltd.**
Notes to Consolidated Financial Statements
**(Unaudited) January 31, 2000**

(expressed in Canadian Dollars)

**Cash and cash equivalents**

Cash and cash equivalents consist of balances with banks and investments in money market instruments with original maturities of less than 90 days.

**Media and travel credits**

Media and travel credits may be exchanged for airline tickets and hotel rooms to be sold for cash to third parties.

These media and travel credits have been reflected in the balance sheet at the lower of out-of-pocket cost or net recoverable value.

Management's estimates of net recoverable values may be affected by changes in consumer demand, government regulations and competitive industry forces, all of which are outside of the control of the company's management. It is possible that management's estimates of net recoverable values could change in the near term, and the changes may be material.

**Revenue recognition**

In November 1999 the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board issued a discussion paper EITF 99-19, Reporting Revenue Gross Versus Net which has not yet been finalized, and in December 1999, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 - Revenue Recognition in Financial Statements,both of which covered and included guidelines for determining the appropriateness of gross versus net revenue reporting practices specifically in the e-commerce and travel sectors. The guidelines contained therein focus on determining whether the company in substance acts as principal, agent or broker in a transaction, whether it takes title to the products, and whether it assumes the risks and rewards of ownership. The company has considered these very recent developments in determining its revenue recognition and reporting policies and believes its current policies are conservative and consistent with this guidance, however it is possible that these evolving standards may allow or require the company to amend its practices for the recognition and reporting of revenue.

Commissions or mark-ups earned for air travel, hotel rooms and car rentals are recognized when the travel services are ticketed to third parties. Revenues from vacation packages are recognized on the date of departure. Volume bonus and override commissions from suppliers are recognized at the end of each monthly or quarterly measurement period if the specified target has been achieved and when collectibility is reasonably assured. All revenues are recorded net of provision for cancellations and returns. Actual results for cancellation and returns may vary from estimates and these variations may be material.

The company provides retail travel agencies with access to certain airline, hotel, cruise and car rental suppliers under negotiated preferred supplier agreements. Under these associate marketing programs, the member agencies are charged an annual license fee. The full amount of the license fee is recognized on a straight-line basis over the license period and when collectibility is reasonably assured.

Revenue from technology sales is recognized at the time of delivery of hardware when collectibility is reasonably assured.

(expressed in Canadian Dollars)

**Capital assets**

Capital assets are stated at cost less accumulated amortization. Amortization is recorded on a straight-line basis to amortize the cost of the capital assets over their estimated useful lives. Amortization rates are as follows:

| | |
|---|---|
| Automobiles | 5 years |
| Office and computer equipment and furniture | 5 - 7 years |
| Production equipment | 7 years |
| Television productions | 7 years |
| Leasehold improvements | over term of lease |
| 800-i-TRAVEL Cooperative Marketing Program | 3 years |

**License and contract rights**

License and contract rights are stated at cost less accumulated amortization. Amortization is recorded on a straight-line basis to amortize the cost of the license and contract rights over their estimated useful lives.

**Website development costs**

Website development costs include expenses incurred by the company to develop, enhance, manage, monitor and operate the company's website. Development costs are expensed in the period in which they are incurred.

**Goodwill**

Goodwill represents the excess of costs over amounts assigned to the net identifiable assets of acquired entities. The excess is amortized on a straight-line basis over fifteen years.

The company periodically evaluates whether changes have occurred that would require revision of the remaining estimated useful life of the goodwill. If such circumstances arise, the company would use an estimate of the undiscounted value of the expected future operating cash flows and residual to determine whether the net carrying amount of the goodwill exceeds the estimated net recoverable amount.

**Foreign currency translation**

Integrated foreign operations and other account balances denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the consolidated balance sheet dates for monetary items, at exchange rates prevailing at the respective transaction dates for non-monetary items and at the average exchange rates prevailing during the year for revenue and expenses, except for depletion and amortization which are translated at the same rate as the respective asset. Exchange gains or losses are included in income.

**travelbyus.com ltd.**
Notes to Consolidated Financial Statements
**(Unaudited) January 31, 2000**

(expressed in Canadian Dollars)

**1. Loss per share**

Basic and diluted loss per share is computed using the weighted average number of common and common equivalent shares outstanding during the period. Common equivalent shares, comprising the incremental shares issuable upon the exercise of stock options and warrants have not been included as such shares are anti-dilutive.

**2. Supplemental financial data (unaudited)**

Gross bookings represent the total purchase price of all travel services booked in the period. This information does not affect the company's operating results. Disclosure of gross bookings is not required by generally accepted accounting principles. Gross bookings are not included in revenues or operating results, and should not be considered in isolation or as a substitute for other information prepared in accordance with generally accepted accounting principles.

**3 Bank indebtedness**

A subsidiary of the company has an operating line of credit available of $650,000, bearing interest at the bank's prime lending rate plus 2.5%. Bank indebtedness drawn against this line of credit is payable on demand and is secured by a general security agreement covering all of the subsidiary's assets other than real property, a postponement of claim by **travelbyus.com ltd.** and Export Development Corp. insurance coverage on certain accounts receivable.

**4 Marketable securities**

Marketable securities are carried at the lower of cost and market value. At January 31, 2000, the company held 639,912 (September 30, 1999 - 639,912; December 31, 1998 - 639,912) common shares of Scorpion Minerals Inc. ("Scorpion"), a company related by virtue of a director in common, having a market value of approximately $1,535,789 (September 30, 1999 - $326,355; December 31, 1998 - $179,175). This amount does not necessarily represent the value of these holdings which may be more or less than that indicated by market quotations.

**5 Acquisitions**

(a) Mr. Cheaps Travel Ltd. ("Mr. Cheaps") and Gotham Media Group Ltd. ("Gotham Group")

On October 4, 1999, the company acquired all of the outstanding shares of Mr. Cheaps and Gotham Group for U.S. $3 million in cash and two million common shares at U.S. $1.00 per share. A finder's fee of 150,000 common shares at U.S. $1.00 per share was paid to an officer of the company. The company acquired $2,270,000 of assets and assumed $370,000 of liabilities.

Mr. Cheaps is a travel agency specializing in discount and last minute airfares. Gotham Group is an advertising agency which places outdoor billboards, radio, internet, television and print advertising for its airline and hotel clients. Both of the companies are based near Portland, Oregon.

(b) International Tours Inc., IT Cruise Inc. and GalaxSea Cruises and Tours, Inc.

On October 13, 1999, the company acquired the travel marketing operations of International Tours, Inc., the cruise-only marketing operations of GalaxSea Cruises and Tours, Inc. and all of the shares of IT Cruise Inc. for a total of U.S. $2 million in cash and one million common shares at U.S. $1.00 per share. Assets acquired include approximately $4,450,000 of license and contract rights, which are being amortized over a period of fifteen years. All of the companies are based in Dallas, Texas.

**travelbyus.com ltd.**
Notes to Consolidated Financial Statements
**(Unaudited) January 31, 2000**

(expressed in Canadian Dollars)

(c) Express Vacations, LLC (“Express Vacations”)

On November 1, 1999, the company acquired Express Vacations, a vacation package wholesaler in Reno, Nevada, for U.S. $2 million in cash (U.S. $1 million due on closing and U.S. $1 million due within 12 months) and 3,462,000 common shares at Cdn. $1.70 per share. A finder’s fee of 150,000 common shares at Cdn. $1.70 per share was paid to a third party. The company acquired $2,163,000 of assets and assumed $2,010,000 of liabilities.

Express Vacations has a call center with 80 call stations. The company plans to center its operations at the Express Vacations’ offices in Reno.

(d) Travel Magazine

On November 15, 1999, the company acquired 120 episodes of the television program “The Travel Magazine” for 2,855,883 common shares at $1.75 per share.

Pursuant to an agreement dated October 1, 1999 as amended on January 21, 2000, the company purchased 130 new episodes of “Travel Magazine” to be produced over the next 24 months for a total purchase price of U.S. $7,500,000. U.S. $1,200,000 has been paid by the issuance of 1,146,497 common shares on closing with the remaining balance to be paid in cash over a 24 month period. Upon receipt of 40 new episodes, the company has the right to terminate the arrangement and not pay US$4,500,000 cash in respect of the remaining 90 episodes.

(e) Legacy Storage Systems Corp. (“Legacy”)

On December 1, 1999, the company acquired all of the outstanding common shares of Legacy for consideration of 3,028,000 common shares at $0.73 per share and $140,000 in cash. The company acquired $930,000 of assets and assumed $349,000 of liabilities. Legacy is based in Markham, Ontario, designs and manufactures data storage systems, and is controlled by an officer of the company. A division of Legacy, Rogue Technologies, is responsible for developing the company’s website.

(f) 800-i-TRAVEL Cooperative Marketing Program

On December 7, 1999, the company acquired the 800-i-TRAVEL Cooperative Marketing Program, a system which utilizes a telephone switching technology that will route customers’ calls to their closest member travel agency or to the company’s call center. The vendor, a U.S. partnership which includes an officer of the company, was paid 350,000 common shares at $3.46 per share. In addition, the vendor will receive a royalty of U.S. $0.10 per call for a period of 48 months and warrants to purchase 50,000 common shares at U.S. $1.00 per share expiring December 7, 2002.

(g) Cheap Seats Inc. (“Cheap Seats”)

Effective December 1, 1999, the company acquired all of the outstanding shares of Cheap Seats Inc., a Los Angeles based airfare consolidator. The company acquired $497,000 of assets and $603,000 of liabilities. The terms of the agreement include payment of U.S. $5 million in cash and 5,000,000 common shares at U.S. $1.00 per share, subject to adjustment based on Cheap Seats results of operations for the 12 month period ended November 30, 1999. The purchase price may also be increased by up to U.S. $4 million based on the increase in certain gross revenues during the period from October 1, 1999 to September 30, 2002, calculated in accordance with the terms of the agreement.

Details of the fair value of net assets acquired and consideration given for the acquisitions, in aggregate, during the period since September 30, 1999 are as follows:

**travelbyus.com ltd.**
Notes to Consolidated Financial Statements
**(Unaudited) January 31, 2000**

(expressed in Canadian Dollars)

| | $ |
|---|---|
| Net non-cash assets acquired - at fair market values | |
| Assets acquired | 18,318,411 |
| Liabilities assumed | (3,331,027) |
| Less: Cash of acquired operations | (242,231) |
| Net non-cash assets acquired | 14,745,153 |
| Excess of cost of net assets over assigned value - goodwill | 31,167,081 |
| | 45,912,234 |
| Cash and notes consideration | 17,972,896 |
| Share capital issued | 28,181,569 |
| Less: Cash of acquired operations | (242,231) |
| | 45,912,234 |

All acquisitions are accounted for using the purchase method and the results of operations of each entity acquired are included from the date of acquisition.

**6 Cash in trust**

As at January 31, 2000, $100,000 was held by the company’s lawyers in trust in connection with payments required for acquisitions.

As at September 30, 1999, $7,200,000 (U.S. $4,800,000) was held by the company’s lawyers in trust for the company’s acquisitions of Mr. Cheaps Travel Ltd., Gotham Media Group Ltd., International Tours Inc., I.T. Cruise Inc. and GalaxSea Cruises and Tours, Inc. (note 5(a) and (b)).

**7 Restricted cash**

As at January 31, 2000, letters of credit totalling $640,000 (U.S. $443,000) have been issued to various hotels. These letters of credit are required as security under certain hotel agreements. During the period ended January 31, 2000, $nil has been drawn against these letters of credit. As at January 31, 2000, $615,309 (U.S. $424,400) has been deposited as security for these letter of credit agreements.

In addition, $170,432 (U.S. $117,442) represents the amount held as security for an irrevocable letter of credit issued to the Airline Reporting Corporation (“ARC”) to comply with the applicable regulations for travel agencies in the United States.

**travelbyus.com ltd.**
Notes to Consolidated Financial Statements
**(Unaudited) January 31, 2000**

(expressed in Canadian Dollars)

**8 Deferred mineral property costs**

| | December 31 1999 $ (Unaudited) | September 30, 1999 $ | December 31, 1998 $ |
|---|---|---|---|
| Mexican Properties | - | - | 1 |

Deferred mineral property costs consist of acquisition costs and exploration expenditures on the company's mineral properties.

a) Effective March 13, 1998, the company entered into an option agreement to acquire up to a 60% interest in the Pozos and Pinquicos properties located near Guanajuato, Mexico. The company could have earned up to a 60% interest in the properties by funding exploration expenditures of U.S. $500,000 prior to March 31, 1999 and by issuing a total of 750,000 common shares to the vendor prior to March 31, 1999.

During 1998, the company funded U.S. $339,000 of exploration expenditures and issued 500,000 common shares to earn a 30% interest in the properties. The company did not have plans to make further expenditures on the properties, therefore the costs were written down to $1 at December 31, 1998.

During the period ended September 30, 1999, the company abandoned the properties and wrote-off the remaining nominal investment.

b) During 1997, the company entered into an option agreement to purchase an 80% interest in the Nueva Esparta property. Under the agreement, the company made a payment of U.S. $122,000 (Cdn. $169,580) and was to make annual payments of U.S. $40,000 through to the year 2001. The vendor's 20% interest is carried through to completion of a feasibility study. Acquisition costs and exploration expenditures totalling $1,097,223 on Nueva Esparta were written off at December 31, 1997 and the property was abandoned during 1998.

**travelbyus.com ltd.**
Notes to Consolidated Financial Statements
**(Unaudited) January 31, 2000**

(expressed in Canadian Dollars)

## 9 Capital assets

Capital assets consist of the following:

| | January 31, 2000 (unaudited) | | | September 30, 1999 | December 31, 1998 |
|---|---|---|---|---|---|
| | **Cost** $ | **Accumulated amortization** $ | **Net** $ | **Net** $ | **Net** $ |
| Automobiles | 74,083 | 12,077 | 62,006 | - | - |
| Office and computer equipment and furniture | 1,493,699 | 544,644 | 949,055 | 78,638 | 19,178 |
| Production equipment | 97,177 | 33,410 | 63,767 | - | - |
| Television productions | 6,797,170 | - | 6,797,170 | - | - |
| Leasehold improvements | 103,447 | 25,725 | 77,722 | - | - |
| 800-i-TRAVEL Cooperative Marketing Program | 1,206,870 | - | 1,206,870 | - | - |
| | 9,772,446 | 615,856 | 9,156,590 | 78,638 | 19,178 |

Television productions and 800-i-TRAVEL Cooperative Marketing Program were not available for use at December 31, 1999 and no amortization has been recorded.

## 10 Debentures and deferred financing costs

During the period ended September 30, 1999, the company raised $11.95 million from a debenture financing. The debentures earn interest at 12.5% per annum, payable semi-annually. The debentures are to be repaid on September 9, 2001, with the company retaining the right to repay the debentures in full at any time. A senior fixed and floating charge on all assets of the company has been granted as security. On March 9, 2000, the company repaid $2.49 million of the debentures.

Attached to each $1,000 debenture are warrants to purchase 800 common shares at $0.68 per common share for a period of two years. The company may call for the exercise of the warrants if the daily closing price of the common shares of the company is greater than $1.36 for 10 consecutive trading days. If the company exercises this right within the first year, the company must issue a prospectus to qualify the common shares issuable on exercise (note 11(g)).

The agents were paid a commission of 8% and were issued share purchase warrants to acquire 700,270 common shares at $0.68 per share for a period of two years.

The company incurred $1,057,559 in financing costs for the issuance of these debentures. These costs are amortized on a straight-line basis over the term of the debt. For the period ended January 31, 2000, $214,440 (September 30, 1999 - $38,975) was included in the consolidated statement of operations as amortization expense. Additionally, the fair value of the warrants issued in connection with this financing of $236,102 has been separately disclosed as a component of shareholders’ equity with the corresponding amount added to deferred finance costs.

**travelbyus.com ltd.**
Notes to Consolidated Financial Statements
**(Unaudited) January 31, 2000**

(expressed in Canadian Dollars)

## 11 Capital stock

Authorized
Unlimited number of common shares without par value

Issued
Common shares

| | Number of Shares | Amount $ |
|---|---|---|
| Balance - December 31, 1996 | 13,389,178 | 91,269,816 |
| Reduction of stated capital (a) | - | (84,805,048) |
| Private placement (b) | 3,100,000 | 5,053,000 |
| Balance - December 31, 1997 | 16,489,178 | 11,517,768 |
| Private placement (c) | 4,000,000 | 480,000 |
| Issued to acquire option on Mexican properties (note 4(a)) | 500,000 | 72,500 |
| Balance - December 31, 1998 | 20,989,178 | 12,070,268 |
| Private placement (d) | 20,000,000 | 1,200,000 |
| Options exercised | 550,000 | 185,000 |
| Balance - September 30, 1999 | 41,539,178 | 13,455,268 |
| Private placement (h) | 4,000,000 | 10,000,000 |
| Options exercised | 312,500 | 160,500 |
| Warrants exercised | 4,550,000 | 3,500,250 |
| Issued to acquire various companies (note 5) | 19,142,380 | 28,181,569 |
| Balance - January 31, 2000 | 69,544,058 | 55,297,587 |

(a) At the April 16, 1997 annual and special meeting of shareholders of the company, a special resolution was adopted to reduce the stated capital account by $84,805,048. As a result, the deficit at December 31, 1996 was reduced and the stated capital account of the common shares at December 31, 1996 was reduced to $6,464,768.

(b) On March 14, 1997 the company completed a private placement of 3,100,000 units at $1.63 per unit for gross proceeds of $5,053,000. Each unit consisted of one common share and one half of a common share purchase warrant to purchase 1,550,000 common shares at $2.05 per share until March 14, 1998. The agents to this placement were issued 155,000 common share purchase warrants exercisable at $2.05 per share until March 14, 1998. All purchase warrants expired unexercised on March 14, 1998.

(c) On May 14, 1998 the company completed a private placement of 4,000,000 common shares at $0.12 per share for gross proceeds of $480,000.

(d) During the period ended September 30, 1999, the company completed a private placement of 20,000,000 common shares at $0.06 per share for gross proceeds of $1,200,000.

(e) The company has a share option plan for officers, directors and employees. At January 31, 2000, the following stock options were outstanding:

**travelbyus.com ltd.**
Notes to Consolidated Financial Statements
**(Unaudited) January 31, 2000**

(expressed in Canadian Dollars)

| Number of shares | Exercise price | Expiry Dates |
|---|---|---|
| 300,000 | $0.12 | March 9, 2003 |
| 175,000 | $0.46 | September 30, 2000 |
| 600,000 | $0.46 | April 20, 2004 |
| 600,000 | $0.79 | June 3, 2004 |
| 500,000 | $1.00 | June 30, 2004 |
| 100,000 | $0.55 | July 12, 2004 |
| 675,000 | $1.65 | November 3, 2004 |
| 250,000 | $3.30 | December 6, 2004 |
| 50,000 | $3.75 | January 28, 2001 |
| 200,000 | $3.20 | February 3, 2002 |
| 3,450,000 | | |

f) The company has issued warrants to purchase a total of 10,260,270 common shares at $0.68 per share for a period of two years in connection with the debenture financing (note 10). As of January 31, 2000, 5,822,770 of the warrants were outstanding.

g) On December 21, 1999, the company completed a private placement of 8,000,000 special warrants at a price of $2.50 per special warrant for gross proceeds of $20 million, each special warrant being exercisable, without additional consideration, into one common share and one half of a share purchase warrant, each whole warrant entitling the holder to purchase an additional common share for a price of $3.50 per share for a period of 15 months. The company intends to file a prospectus qualifying the common shares and share purchase warrants issuable upon exercise of the special warrants offering as soon as practicable. If receipts for a final prospectus qualifying the issuance of the common shares and share purchase warrants have not been issued by applicable regulatory authorities within 180 days of the closing of the special warrant offering, holders of the special warrants will be entitled to receive 1.1 common shares (in lieu of one common share) upon the exercise of each special warrant. The agents will be paid a commission of 7% of the gross proceeds of the special warrant offering together with compensation warrants entitling the agents to purchase that number of common shares equal to 10% of the number of special warrants placed at a price of $2.50 per share for a period of 15 months from the closing of the offering.

h) In addition, the company completed a private placement of 4,000,000 units at a price of $2.50 per unit for gross proceeds of $10 million, each unit consisting of one common share and one-half of a share purchase warrant, each whole warrant entitling the holder to purchase an additional common share at a price of $3.50 for a period of 15 months. The agent will be paid a commission of 7% of gross proceeds together with warrants to purchase that number of common shares equal to 7% of the number of units placed at a price of $2.50 per share for a period of 15 months. As of January 31, 2000, 1,887,500 of the warrants at $3.50 per share and 1,080,000 of the warrants at $2.50 per share were outstanding.

**12 Sale of Colombian subsidiaries**

Effective February 12, 1998, six wholly-owned Colombian subsidiaries were sold with a loss of $326,969, excluding previously recorded write-downs. This transaction was reflected in the consolidated financial statements for the year ended December 31, 1997.

**travelbyus.com ltd.**
Notes to Consolidated Financial Statements
**(Unaudited) January 31, 2000**

(expressed in Canadian Dollars)

**13 Income taxes**

At January 31, 2000, the company has non-capital losses for Canadian income tax purposes of approximately $7,274,000 which are available for carryforward to reduce future years' taxable income. These income tax losses expire as follows:

| | $ |
|---|---|
| 2001 | 181,000 |
| 2002 | - |
| 2003 | 926,000 |
| 2004 | 1,278,000 |
| 2005 | 1,775,000 |
| 2006 | 3,114,000 |
| | 7,274,000 |

In addition, the company has net capital losses of approximately $46.7 million available for application against net taxable capital gains of future years.

At January 31, 2000, the company has non-capital losses for U.S. income tax purposes of approximately $833,000 which are available for carryforward to reduce future years' taxable income of the U.S. companies. The losses will expire in 2020.

Any future benefit of loss carryforwards has not been recognized in these consolidated financial statements.

**14 Commitments and contingencies**

The company has operating leases for the rental of office premises and equipment. Payments required under these leases are as follows:

| | $ |
|---|---|
| 2000 | 586,154 |
| 2001 | 468,196 |
| 2002 | 191,119 |
| 2003 | 73,950 |
| 2004 | 66,363 |
| | 1,385,782 |

**travelbyus.com ltd.**
Notes to Consolidated Financial Statements
**(Unaudited) January 31, 2000**

(expressed in Canadian Dollars)

The company in turn has certain sub-lease agreements related to office premises, expected revenues from which in accordance with contract terms are as follows:

| | $ |
|---|---|
| 2000 | 58,569 |
| 2001 | 77,628 |
| 2002 | 77,628 |
| 2003 | 6,469 |
| | 220,294 |

On July 7, 1999, a subsidiary of the company entered into a two-year agreement with a telephone service provider (the “Provider”). The subsidiary has committed to award the Provider 100% of its long distance telecommunications services in exchange for discounts on these services determined by a specified formula. The discount is contingent upon the subsidiary achieving an agreed upon minimum dollar value of service usage for each Contract Year (“Minimum Annual Commitment”). The Contract Year is defined as each 12-month period commencing upon the implementation of the agreement. If the subsidiary fails to satisfy the Minimum Annual Commitment, in addition to all other applicable charges, the subsidiary must pay the Provider the difference between the Minimum Annual Commitment and the subsidiary’s usage charges calculated prior to the application of any discounts.

The company paid a deposit of U.S. $10,000 in connection with a potential acquisition which was not completed. The vendor has taken action against the company in the amount of U.S. $300,000. The company intends to vigorously defend this action; however, as the proceedings are at a very early stage, the ultimate liability or settlement with respect to this action cannot be determined at this time.

## 15 Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

## 16 Related party transactions

a) During the period ended January 31, 2000, the company paid $249,341 (September 30, 1999 - $120,050) in consulting fees to companies controlled by officers and directors.

b) During the period ended January 31, 2000, the company paid or accrued legal fees totalling $438,285 (September 30, 1999 - $256,166) to a firm in which a director is a partner.

c) As at January 31, 2000, $330,042 (September 30, 1999 - $218,684; 1998 - $2,968) was due to a law firm in which a director is a partner.

**travelbyus.com ltd.**
Notes to Consolidated Financial Statements
**(Unaudited) January 31, 2000**

(expressed in Canadian Dollars)

**17 Fair value of financial instruments**

The fair value of cash and cash equivalents, marketable securities, accounts receivable and prepaid expenses, accounts payable and accrued liabilities and debentures approximate their carrying value due to the relatively short term to maturity of these instruments. The maximum credit risk exposure for all financial assets is the carrying value of those assets.

**18 Segmented information**

The company's operations for the periods presented are considered to be one operating segment and are substantially based in the United States.

**19 Subsequent events**

a) The company approved a binding Letter of Intent on February 24, 2000 (as amended March 16, 2000, April 18, 2000 and April 25, 2000) to merge with Aviation Group Inc., ("Aviation Group") an aviation services company based in Dallas, Texas. The proposed terms of the business combination contemplate a three stage structure which includes a bridge financing, a business combination of Aviation Group and Global Leisure Travel, Inc. ("Global Leisure") and finally the proposed business combination of Aviation Group and the company. Through Aviation Group, the company will acquire 100% of Seattle based Global Leisure, a provider of discount air and land vacation packages. U.S. $16.2 million of 9% preferred shares and 4.25 million warrants will be issued to Global Leisure debt and shareholders. The letter of intent provides for the completion of the transactions on or before July 31, 2000, subject to receipt of all necessary approvals.

b) On April 3, 2000, the company acquired the travel operations of Bell Travel Systems ("BTS Travel"), for consideration of U.S. $1.9 million in cash and 690,558 common shares at Cdn. $4.00 per share. BTS Travel is a travel agency consortium based in Scotts Valley, California.

c) On April 4, 2000, the company acquired all of the outstanding shares of Cruise Shoppes America, Ltd. ("Cruise Shoppes"), a cruise and leisure sales organization based in New Orleans, Louisiana. The terms of the agreement include payment of U.S. $1.8 million in cash and 2,619,000 common shares at Cdn. $4.00 per share, subject to adjustment based on the trading price of the common shares on July 5, 2000.

## AUDITORS' REPORT

November 23, 1999

**Report of PricewaterhouseCoopers LLP Independent Auditors**

**To the Directors of**
**Express Vacations, LLC**

We have audited the balance sheet of **Express Vacations, LLC** as at September 30, 1999 and the statements of earnings, members' equity and cash flows for the period from August 5, 1998 (date of LLC formation) to September 30, 1999. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at September 30, 1999 and the results of operations and cash flows for the period from August 5, 1998 (date of LLC formation) to September 30, 1999 in conformity with accounting principles generally accepted in the United States.

**Chartered Accountants**

**Express Vacations, LLC**
Balance Sheet
**As at September 30, 1999**

(expressed in U.S. dollars)

**FINANCIAL STATEMENTS OF EXPRESS VACATIONS, LLC**

| | $ |
|---|---|
| **Assets** | |
| **Current assets** | |
| Cash and cash equivalents | 1,055,768 |
| Accounts receivable | 841,429 |
| Prepaid expenses | 269,838 |
| | 2,167,035 |
| **Capital assets** (note 3) | 139,285 |
| | 2,306,320 |
| **Liabilities** | |
| **Current liabilities** | |
| Accounts payable and accrued liabilities | 539,414 |
| Customer deposits | 1,443,271 |
| | 1,982,685 |
| **Members' Equity** (note 4) | 323,635 |
| | 2,306,320 |

**Commitments and contingencies** (note 7)

**Subsequent event** (note 9)

**Approved by the Members:**

(Signed) Jon Snyder
Director

(Signed) John Fenyes
Director

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

**Express Vacations, LLC**
Statement of Members' Equity
**For the period from August 5, 1998 (date of LLC formation) to September 30, 1999**

(expressed in U.S. dollars)

| | $ |
|---|---|
| **Balance – Beginning of period** | 1 |
| Net earnings for the period | 2,438,634 |
| | 2,438,635 |
| Less: Members' drawings | 2,115,000 |
| **Balance – End of period** | 323,635 |

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

**Express Vacations, LLC**
Statement of Earnings
**For the period from August 5, 1998 (date of LLC formation) to September 30, 1999**

(expressed in U.S. dollars)

| | $ |
|---|---|
| **Net revenues** | 8,007,443 |
| **Direct selling costs** | 2,573,382 |
| **Gross profit** | 5,434,061 |
| **General and administrative expenses** | 3,048,957 |
| **Amortization** | 47,208 |
| **Earnings from operations** | 2,337,896 |
| **Interest income** | 100,738 |
| **Net earnings for the period** | 2,438,634 |

| | |
|---|---|
| **Supplemental financial data (unaudited)** (note 2) | |
| Gross bookings | 25,711,113 |

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

**Express Vacations, LLC**
Notes to Financial Statements
**September 30, 1999**
**For the period from August 5, 1998 (date of LLC formation)**

(expressed in U.S. dollars)

| | $ |
|---|---|
| **Cash flows from operating activities** | |
| Net earnings for the period | 2,438,634 |
| Item not affecting cash – amortization | 47,208 |
| | 2,485,842 |
| Changes in non-cash working capital | |
| Accounts receivable | (841,429) |
| Prepaid expenses | (269,838) |
| Accounts payable and accrued liabilities | 539,414 |
| Customer deposits | 1,443,271 |
| | 871,418 |
| | 3,357,260 |
| **Cash flows from investing activities** | |
| Purchase of capital assets | (186,493) |
| **Cash flows from financing activities** | |
| Members' drawings | (2,115,000) |
| **Increase in cash and cash equivalents** | 1,055,767 |
| **Cash and cash equivalents – Beginning of period** | 1 |
| **Cash and cash equivalents – End of period** | 1,055,768 |
| **Interest received** | 100,738 |

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

**Express Vacations, LLC**
Notes to Financial Statements
**September 30, 1999**

(expressed in U.S. dollars)

**1 Nature of operations**

Express Vacations, LLC ("Express") is a United States West Coast vacation package wholesaler based in Reno, Nevada. Express was organized pursuant to the provisions of the Nevada Limited Liability Company Act in the State of Nevada, U.S.A. on August 5, 1998.

**2 Summary of significant accounting policies**

**Generally accepted accounting principles**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States which, for the purposes of these financial statements, are substantially the same as accounting principles generally accepted in Canada.

**Income taxes**

Income earned by Express is allocated to its members for tax purposes; therefore, no provision for income taxes has been made in these financial statements.

**Revenue recognition**

Net booking proceeds (gross proceeds less direct airline, hotel, car rental and other product costs) from the sale of vacation packages are recognized as revenue based on the customer's scheduled departure date. Express provides a reserve for cancellations and reservation changes, and provisions for such amounts are reflected in net revenues. Express' estimate for cancellations and reservation changes could vary significantly from actual results.

**Capital assets**

Capital assets are stated at cost less accumulated amortization. Amortization is recorded on a straight-line basis to amortize the cost of the capital assets over their estimated useful lives as follows:

| | |
|---|---|
| Furniture and fixtures | 7 years |
| Computer and office equipment | 5 years |
| Leasehold improvements | over term of lease |

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities at the date of the combined financial statements and revenues and expenses for the period reported. Management believes its estimates to be appropriate; however, actual results could differ from the amounts estimated.

**Express Vacations, LLC**
Notes to Financial Statements
**September 30, 1999**

(expressed in U.S. dollars)

**Cash and cash equivalents**

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with maturities at the date of purchase of three months or less. Interest earned and any market value gains or losses are recognized immediately in the statement of earnings.

**Supplemental financial data (unaudited)**

Gross bookings represent the total purchase price of all travel services booked through Express. This information does not affect the company's operating results. Disclosure of gross bookings is not required by generally accepted accounting principles. Gross bookings are not included in revenues or operating results, and should not be considered in isolation or as a substitute for other information prepared in accordance with generally accepted accounting principles.

## 3 Capital assets

| | Cost<br>$ | Accumulated depreciation<br>$ | Net<br>$ |
|---|---|---|---|
| Furniture and fixtures | 47,553 | 22,685 | 24,868 |
| Computer equipment and office equipment | 122,493 | 22,747 | 99,746 |
| Leasehold improvements | 16,447 | 1,776 | 14,671 |
| | 186,493 | 47,208 | 139,285 |

## 4 Members' Equity

Authorized members' equity consists of an unlimited number of units.

| | $ |
|---|---|
| Members' initial contribution<br>30 units | 1 |

## 5 Direct selling costs

Direct selling costs are comprised primarily of commissions paid to booking agents and include fees totalling $741,666 paid to the company's primary air travel service provider, applicable only to certain bookings made before June 1999.

**Express Vacations, LLC**
Notes to Financial Statements
**September 30, 1999**

(expressed in U.S. dollars)

**6 Financial instruments**

**Fair values of financial instruments**

The carrying values reported on the balance sheet for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and customer deposits approximate their fair values due to the short-term nature of those instruments.

**Concentration of credit risk**

Accounts receivable include approximately $487,000 receivable from one airline. The balance represents receivables relating to the processing of credit card sales and do not represent significant credit risk to Express.

**Foreign exchange risk**

Substantially all of Express's operations are denominated in U.S. dollars.

**7 Commitments and contingencies**

(a) Lease commitments

The company leases a telephone system and office space under long-term agreements. As at September 30, 1999, lease commitments through to expiry are as follows:

| | **$** |
|---|---|
| 2000 | 154,246 |
| 2001 | 146,546 |
| 2002 | 9,666 |

(b) Letters of credit

Letters of credit totalling $443,000 have been issued to various hotels by one of the members on behalf of Express. These letters of credit are required by the hotels as security for block bookings of hotel rooms. During the period ended September 30, 1999, no amounts have been drawn against these letters of credit.

(c) Contingencies

On July 7, 1999, the company entered into a two-year agreement with a telephone service provider ("the Provider"). The company has committed to award the Provider 100% of its long distance telecommunication services in exchange for discounts on these services determined by a specified formula. The discount is contingent upon the company achieving an agreed upon minimum dollar value of service usage for each Contract Year ("Minimum Annual Commitment"). The Contract Year is defined as each 12-month period commencing upon the implementation of the agreement. If the company fails to satisfy the Minimum Annual Commitment, in addition to all other applicable charges, the company must pay the Provider the difference between the Minimum Annual Commitment and the company's usage charges calculated prior to the application of any discounts.

**Express Vacations, LLC**
Notes to Financial Statements
**September 30, 1999**

(expressed in U.S. dollars)

**8 Uncertainty due to the Year 2000 Issue**

The Year 2000 Issue arises because many computerised systems use two digits rather than four to identify a year. Date-sensitive systems may recognise the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

**9 Subsequent event**

On November 2, 1999, Express was acquired by **travelbyus.com ltd.**, a Canadian public company listed on the Toronto, Winnipeg and Frankfurt Stock Exchanges.

## AUDITORS' REPORT

January 28, 2000

**Report of PricewaterhouseCoopers LLP Independent Auditors**

**To the Directors of**
**Cheap Seats Inc.**

We have audited the balance sheets of **Cheap Seats Inc.** as at June 30, 1999 and 1998 and the statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at June 30, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

**Chartered Accountants**

**Cheap Seats Inc.**
Balance Sheets
**As at June 30, 1999 and 1998**

(expressed in U.S. dollars)

**FINANCIAL STATEMENTS OF CHEAP SEATS INC.**

| | 1999 $ | 1998 $ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | 40,721 | 161,491 |
| Accounts receivable (note 7) | 231,566 | 97,076 |
| Income tax recoverable | 82,217 | 20,678 |
| Payroll tax refundable | - | 49,136 |
| Loan to employees | 3,311 | - |
| | 357,815 | 328,381 |
| **ARC bond** | 70,000 | 70,000 |
| **Capital assets** (note 3) | 85,905 | 91,671 |
| | 513,720 | 490,052 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | 496,325 | 381,105 |
| Current portion of long-term debt | 3,786 | 3,145 |
| | 500,111 | 384,250 |
| **Long-term debt** | 3,105 | 6,891 |
| | 503,216 | 391,141 |
| **Shareholders' Equity** | | |
| **Capital stock** | | |
| Authorized | | |
| Unlimited number of common shares without par value | | |
| Issued | | |
| 5,920 shares (1998 - 5,920) | 1,000 | 1,000 |
| **Retained earnings** | 9,504 | 97,911 |
| | 10,504 | 98,911 |
| | 513,720 | 490,052 |

**Commitments** (note 5)

**Approved by the Board of Directors:**

(Signed) Robert Beaudet
Director

(Signed) Thomas Spagnola
Director

**Cheap Seats Inc.**
Statements of Operations and Retained Earnings
**For the years ended June 30, 1999 and 1998**

(expressed in U.S. dollars)

| | 1999<br>$ | 1998<br>$ |
|---|---|---|
| **Net revenues** (note 7) | 4,163,133 | 2,858,490 |
| **General and administrative expenses** | 2,723,621 | 2,354,795 |
| **Officers compensations** | 1,536,239 | 426,831 |
| **Amortization** | 20,644 | 24,759 |
| **(Loss) earnings from operations** | (117,371) | 52,105 |
| **Interest income** – net | 4,141 | 3,193 |
| **(Loss) earnings before income taxes** | (113,230) | 55,298 |
| **Provision for (recovery of) income taxes** | (24,823) | 46,737 |
| **Net (loss) earnings for the year** | (88,407) | 8,561 |
| **Retained earnings - Beginning of year** | 97,911 | 89,350 |
| **Retained earnings - End of year** | 9,504 | 97,911 |
| **Supplemental financial information** (unaudited) (note 2) | | |
| Gross bookings | 25,060,742 | 22,185,734 |

The accompanying notes are an integral part of the financial statements.

**Cheap Seats Inc.**
Statements of Cash Flows
**For the years June 30, 1999 and 1998**

(expressed in U.S. dollars)

| | 1999<br>$ | 1998<br>$ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net (loss) earnings for the year | (88,407) | 8,561 |
| Items not affecting cash | | |
| Amortization | 20,644 | 24,759 |
| Write-off of capital assets | 23,755 | - |
| Net change in non-cash working capital items | (34,984) | (158) |
| | (78,992) | 33,162 |
| **Cash flows from investing activities** | | |
| Purchase of capital assets | (38,633) | (58,770) |
| **Cash flows from financing activities** | | |
| Increase in long term debt | - | 10,036 |
| Repayment of long-term debt | (3,145) | - |
| | (3,145) | 10,036 |
| **Decrease in cash** | (120,770) | (15,572) |
| **Cash – Beginning of year** | 161,491 | 177,063 |
| **Cash - End of year** | 40,721 | 161,491 |
| **Interest paid** | 816 | 1,953 |
| **Income taxes paid** | 36,716 | 57,035 |

The accompanying notes are an integral part of the financial statements.

**Cheap Seats Inc.**
Notes to Financial Statements
**For the years June 30, 1999 and 1998**

(expressed in U.S. dollars)

## 1. Nature of operations

Cheap Seats Inc. (“the company”) is a seller of airline travel tickets and is based in Northridge, California.

## 2. Summary of significant accounting principles

### Generally accepted accounting principles

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States which, for the purposes of these financial statements, are substantially the same as accounting principles generally accepted in Canada.

### Revenue recognition

The company’s revenues include sales of both published and non-published airfares. On sales of published airfares, the company earns a fixed commission on the gross sales price of the ticket. The company records the commission revenue when the tickets are issued to the customer.

For non-published or wholesale airfares, the company has net fare agreements which allow it to purchase tickets at significant discounts to published airfares. The customer is charged the cost of the ticket plus a markup which varies based on the destination and the number days to departure. The company records the markup as revenue when the tickets are issued to the customer.

### Capital assets

Capital assets are stated at cost. Amortization is recorded on a straight-line basis to amortize the cost of the capital assets over their estimated useful lives. Amortization rates are as follows:

| | |
|---|---|
| Computer software | 5 years |
| Furniture and fixtures | 5 years |
| Computer and office equipment | 5 years |
| Automobile | 5 years |

### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities at the date of the combined financial statements and revenues and expenses for the period reported. Management believes its estimates to be appropriate; however, actual results could differ from the amounts estimated.

**Cheap Seats Inc.**
Notes to Financial Statements
**June 30, 1999 and 1998**

(expressed in U.S. dollars)

**Supplemental financial information** (unaudited)

Gross bookings represent the total purchase price of all airline tickets booked through the company. This information does not affect the company's operating results. Disclosure of gross bookings is not required by generally accepted accounting principles. Gross bookings are not included in revenues or operating results, and should not be considered in isolation or as a substitute for other information prepared in accordance with generally accepted accounting principles.

**3. Capital assets**

| | | | **1999** | **1998** |
|---|---|---|---|---|
| | **Cost** $ | **Accumulated amortization** $ | **Net** $ | **Net** $ |
| Computer software | 35,000 | 5,835 | 29,165 | - |
| Furniture and fixtures | 39,393 | 28,939 | 10,454 | 11,477 |
| Computer and office equipment | 47,158 | 42,768 | 4,390 | 6,193 |
| Automobile | 50,056 | 8,160 | 41,896 | 74,001 |
| | 171,607 | 85,702 | 85,905 | 91,671 |

Computer software is related to the company's website reservation system. The company capitalizes certain expenditures on software used in its operation in accordance with Statement of Position 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use".

**4. Financial instruments**

**Fair values of financial instruments**

The carrying values reported on the balance sheet for cash, accounts receivable, income tax recoverable, payroll tax recoverable and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of those instruments.

**Cheap Seats Inc.**
Notes to Financial Statements
**June 30, 1999 and 1998**

(expressed in U.S. dollars)

**5. Commitments**

The company leases an office space under long-term agreements. As at June 30, 1999, annual minimum lease commitments through to expiry are as follows:

| | $ |
|---|---|
| 2000 | 47,000 |
| 2001 | 61,000 |
| 2002 | 63,000 |
| 2003 | 64,000 |

**6. Uncertainty due to the Year 2000 Issue**

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

**7. Related party transactions**

During 1999, the company sold airline tickets to an related company with a gross ticket value of $389,770 (1998 - $nil). The accounts receivable as at June 30, 1999 includes the due from the related company of $59,522 (1998 - $nil). Subsequent to June 30, 1999, Cheap Seats Inc. and the related company became controlled by **travelbyus.com ltd**., a Canadian public company listed on the Toronto, Winnipeg and Frankfurt Stock Exchanges.

## AUDITORS' REPORT

April 12, 2000

**Report of PricewaterhouseCoopers LLP Independent Auditors**

**To the Directors of**
**Cruise Shoppes America, Ltd.**

We have audited the balance sheets of **Cruise Shoppes America, Ltd.** as at June 30, 1999 and 1998 and the statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at June 30, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

**Chartered Accountants**

**Cruise Shoppes America, Ltd.**
Balance Sheet

(expressed in U.S. dollars)

**FINANCIAL STATEMENTS OF CRUISE SHOPPES AMERICA, LTD.**

| | January 31, 2000 $ (Unaudited) | June 30, 1999 $ | June 30, 1998 $ |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 34,793 | 128,833 | 127,082 |
| Marketable securities | 1,089,012 | 1,092,096 | 692,812 |
| Accounts receivable | 916,600 | 372,905 | 361,158 |
| Prepaids and other assets | 49,665 | 11,321 | 12,342 |
| **Total current assets** | 2,090,070 | 1,605,155 | 1,193,394 |
| **Restricted cash** (note 3) | 22,521 | 21,945 | 20,950 |
| **Capital assets** (note 4) | 89,371 | 94,480 | 78,274 |
| | 2,201,962 | 1,721,580 | 1,292,618 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | 265,748 | 115,246 | 214,711 |
| Due to related parties (note 6) | 320,743 | 446,952 | 173,660 |
| Notes payable (note 7) | - | 18,347 | 21,347 |
| Deferred Income Taxes | 266,574 | 145,826 | 66,970 |
| **Total current liabilities** | 853,065 | 726,371 | 476,688 |
| **Shareholders' Equity** | | | |
| **Capital stock** | | | |
| Authorized | | | |
| 1,000 common shares without par value | | | |
| Issued | | | |
| 1,000 shares (1999 - 1,000; 1998 - 1,000) | 120,800 | 120,800 | 105,800 |
| **Retained earnings** | 1,228,097 | 874,409 | 710,130 |
| **Total shareholders' equity** | 1,348,897 | 995,209 | 815,930 |
| | 2,201,962 | 1,721,580 | 1,292,618 |

**Commitments** (note 5)

**Subsequent events** (note 9)

**Approved by the Board of Directors**

(signed) Gary Brown
Director

(signed) Michael J. Wild
Director

The accompanying notes are an integral part of the financial statements.

**Cruise Shoppes America, Ltd.**

Statement of Earnings and Retained Earnings

(expressed in U.S. dollars)

| | Seven months ended January 31, 2000 $ (Unaudited) | Years ended June 30, 1999 $ | 1998 $ |
|---|---|---|---|
| **Net revenues** | 1,333,235 | 2,406,802 | 1,987,465 |
| **General and administrative expenses** | 291,018 | 630,212 | 581,996 |
| **Salaries and commissions** | 524,802 | 1,647,311 | 1,194,985 |
| **Earnings from operations** | 517,415 | 129,279 | 210,484 |
| **Other income (expenses) -** net | (3,979) | 130,367 | 43,040 |
| **Earnings for the period before income taxes** | 513,436 | 259,646 | 253,524 |
| **Provision for income taxes - Current** | 39,000 | 16,511 | 19,325 |
| **- Deferred** | 120,748 | 78,856 | 66,970 |
| **Net earnings for the period** | 353,688 | 164,279 | 167,229 |
| **Retained earnings - Beginning of period** | 874,409 | 710,130 | 542,901 |
| **Retained earnings - End of period** | 1,228,097 | 874,409 | 710,130 |

The accompanying notes are an integral part of the financial statements.

**Cruise Shoppes America, Ltd.**
Statement of Cash Flows

(expressed in U.S. dollars)

| | Seven months ended January 31, 2000 $ (Unaudited) | Years ended June 30, 1999 $ | 1998 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net earnings for the period | 353,688 | 164,279 | 167,229 |
| Item not affecting cash | | | |
| Amortization | 13,775 | 25,132 | 21,493 |
| Deferred Income Taxes | 120,748 | 78,856 | 66,970 |
| Unrealized loss (gain) on marketable securities | 34,081 | (95,586) | (8,636) |
| Net change in non-cash working capital items (note 8) | (576,669) | 178,101 | 412,098 |
| | (54,377) | 350,782 | 659,154 |
| **Cash flows from investing activities** | | | |
| Investment in marketable securities | (30,997) | (303,660) | (531,863) |
| Purchase of capital assets | (8,666) | (41,338) | (25,977) |
| | (39,663) | (344,998) | (557,840) |
| **Cash flows from financing activities** | | | |
| Repayment of notes payable | - | (3,000) | (9,131) |
| Increase in restricted cash | - | (995) | (20,950) |
| | - | (3,995) | (30,081) |
| **(Decrease) increase in cash and cash equivalents** | (94,040) | 1,789 | 71,233 |
| **Cash and cash equivalents - Beginning of period** | 128,833 | 127,082 | 55,773 |
| **Cash and cash equivalents - End of period** | 34,793 | 128,871 | 127,006 |
| **Interest paid** | 1,955 | 9,305 | 2,032 |
| **Non-cash transactions** | | | |
| Settlement of account payable by issuance of shares | - | 15,000 | - |
| Assumption of notes payable by a shareholder | (18,347) | - | - |
| | (18,347) | 15,000 | - |

The accompanying notes are an integral part of the financial statements.

**Cruise Shoppes America, Ltd.**
Notes to Financial Statements
**January 31, 2000** (Unaudited)
**June 30, 1999 and 1998**

(expressed in U.S. dollars)

## 1. Nature of operations

Cruise Shoppes America, Ltd. (the company) is engaged in the marketing of cruise packages to its network of affiliated retail travel agencies based throughout North America and is located in Metairie, Louisiana.

## 2. Summary of significant accounting principles

### Basis of presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The differences between these accounting principles and the accounting principles generally accepted in Canada are described in note 10.

### Revenue recognition

The company's revenue primarily consists of commissions from the sale of vacations on cruise ships. The vacation packages are sold by agents. The company earns its commission from the cruise lines on the scheduled date of departure of the cruise.

The company also earns promotional revenue from the cruise lines based on the advertising space obtained in brochures produced by the company. The revenue is stated net of costs of printing the brochures. Revenue is earned once the brochures are printed.

### Marketable securities

Marketable securities are interest bearing deposits and mutual funds and are carried at market value. Marketable securities are considered as trading securities, accordingly all unrealized gains or losses are recorded in earnings.

### Capital assets

Capital assets are stated at cost. Amortization is recorded on a straight-line basis to amortize the cost of the capital assets over their estimated useful lives. Amortization rates are as follows:

| | |
|---|---|
| Furniture and fixtures | 7 years |
| Computer equipment and software | 3 - 5 years |
| Leasehold improvements | 7 years |

### Income taxes

Income taxes are calculated using the liability method. Temporary differences arise primarily on the calculation of taxable income using the cash basis, and the tax effect of these temporary differences are reflected as deferred income taxes.

**Cruise Shoppes America, Ltd.**
Notes to Financial Statements
**January 31, 2000** (Unaudited)
**June 30, 1999 and 1998**

(expressed in U.S. dollars)

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities at the date of the combined financial statements and revenues and expenses for the period reported. Management believes its estimates to be appropriate; however, actual results could differ from the amounts estimated.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash balances held at the bank that are liquid upon request.

**Financial instruments**

The carrying values reported on the balance sheet for cash, accounts receivable, accounts payable and accrued liabilities amounts due to related parties and notes payable approximate their fair values due to the short-term nature of those instruments. The carrying value of marketable securities approximate their fair value as they are stated at market value.

## 3. Restricted cash

The company is required to maintain a certificate of deposit as security for a letter of credit provided to the Airline Reporting Corporation. These funds are held as restricted cash and earn interest at 4.75% per annum.

## 4. Capital assets

| | **January 31, 2000** (Unaudited) | | |
|---|---|---|---|
| | **Cost** **$** | **Accumulated amortization** **$** | **Net** **$** |
| Furniture and fixtures | 112,027 | 48,253 | 63,774 |
| Computer equipment and software | 49,949 | 26,304 | 23,645 |
| Leasehold improvements | 2,624 | 672 | 1,952 |
| | 164,600 | 75,229 | 89,371 |

**Cruise Shoppes America, Ltd.**
Notes to Financial Statements
**January 31, 2000** (Unaudited)
**June 30, 1999 and 1998**

(expressed in U.S. dollars)

| | **June 30, 1999** | | |
|---|---|---|---|
| | **Cost** $ | **Accumulated amortization** $ | **Net** $ |
| Furniture and fixtures | 113,045 | 46,455 | 66,590 |
| Computer equipment and software | 46,790 | 21,071 | 25,719 |
| Leasehold improvements | 2,624 | 453 | 2,171 |
| | 162,459 | 67,979 | 94,480 |

| | **June 30, 1998** | | |
|---|---|---|---|
| | **Cost** $ | **Accumulated amortization** $ | **Net** $ |
| Furniture and fixtures | 81,557 | 32,613 | 48,944 |
| Computer equipment and software | 36,940 | 10,156 | 26,784 |
| Leasehold improvements | 2,624 | 78 | 2,546 |
| | 121,121 | 42,847 | 78,274 |

## 5. Commitments

### a) Operating leases

The company leases office space and equipment under long-term agreements. As at January 31, 2000, lease commitments through to expiry are as follows:

| | $ |
|---|---|
| 2001 | 39,650 |
| 2002 | 39,650 |
| 2003 | 13,216 |

### b) Management contracts

The company has entered into management contracts with a senior officer and a director for the term of one to three years. At January 31, 2000, these contracts require the company to pay the following amounts:

(expressed in U.S. dollars)

| | **$** |
|---|---|
| 2001 | 167,000 |
| 2002 | 118,000 |
| 2003 | 119,000 |

The contracts also require the company to pay bonuses based on specific criteria and assume certain monetary obligations to the senior officer and director in the event of termination of the contracts by the company without cause. As at January 31, 2000, the minimum obligation to be assumed the company in these circumstances is $18,000.

## 6. Related party balances and transactions

| | **January 31, 2000** **$** (Unaudited) | **June 30, 1999** **$** | **June 30, 1998** **$** |
|---|---|---|---|
| Due (to) from | | | |
| Charles Brown (related to controlling shareholder) | 10,000 | 10,000 | 10,000 |
| Cruise Shoppes Ltd. (controlled by Charles Brown) | (334,333) | (259,513) | (193,482) |
| Gary Brown (controlling shareholder) | 3,590 | (197,439) | 9,822 |
| | (320,743) | (446,952) | (173,660) |

Balances due to the company earn interest at the prime rate of interest. No interest is due on the amounts payable to related parties. The balances have no specific terms of repayment.

The following transactions occurred with Cruise Shoppes Ltd. during the respective periods and are included in the statement of earnings.

| | **January 31, 2000** **$** (Unaudited) | **June 30, 1999** **$** | **June 30, 1998** **$** |
|---|---|---|---|
| Net revenues | - | 33,603 | 156,375 |
| General administrative expenses | - | 200,653 | 38,921 |

The transactions are not necessarily at commercial terms or at normal commercial rates.

## 7. Notes payable

The notes payable bear no interest and are due on demand. At January 31, 2000, a shareholder took on liability for the notes personally.

**Cruise Shoppes America, Ltd.**
Notes to Financial Statements
**January 31, 2000** (Unaudited)
**June 30, 1999 and 1998**

(expressed in U.S. dollars)

**8. Net change in non-cash working capital items**

| | January 31, 2000 $ (Unaudited) | June 30, 1999 $ | June 30, 1998 $ |
|---|---|---|---|
| Accounts receivable | (543,695) | (11,747) | (81,196) |
| Prepaids and other assets | (38,344) | 1,021 | 6,511 |
| Accounts payable and accrued liabilities | 150,502 | (84,465) | 122,704 |
| Due to related parties | (145,132) | 273,292 | 364,079 |
| | (576,669) | 178,101 | 412,098 |

**9. Subsequent events**

Effective March 31, 2000, travelbyus.com ltd. agreed to acquire all of the issued and outstanding shares of the company for a cost of approximately $9 million. This will be paid in cash and shares of travelbyus.com ltd.

Immediately prior to the agreement noted above, Gary Brown personally assumed the liability for the notes payable and all liabilities for amounts due to related parties. These liabilities were credited to shareholders' equity, net of amounts due from Gary Brown.

**10. Reconciliation to accounting principles generally accepted in Canada**

As disclosed in the summary of significant accounting principles, these financial statements are prepared in accordance with accounting principles generally accepted (GAAP) in the United States.

The only significant difference between United States and Canadian GAAP in these financial statements pertains to marketable securities. Under Canadian GAAP, marketable securities should be stated at the lower of cost and market value. The effect of this is as follows:

**Cruise Shoppes America, Ltd.**
Notes to Financial Statements
**January 31, 2000** (Unaudited)
**June 30, 1999 and 1998**

(expressed in U.S. dollars)

| | **January 31, 2000 $** (Unaudited) | **June 30, 1999 $** | **June 30, 1998 $** |
|---|---|---|---|
| Net earnings for the period under United States GAAP | 474,436 | 243,135 | 234,199 |
| Unrealized loss (gain) on marketable securities | 34,081 | (95,624) | (8,636) |
| Net earnings for the period under Canadian GAAP | 508,517 | 147,511 | 225,563 |
| Shareholders' equity under United States GAAP | 1,494,671 | 1,020,235 | 777,100 |
| Cumulative unrealized gain for the period | (70,179) | (104,260) | (8,636) |
| Shareholders' equity under Canadian GAAP | 1,424,492 | 915,975 | 768,464 |

## COMPILATION REPORT

**To the Directors of**
**travelbyus.com ltd.**

We have reviewed, as to compilation only, the accompanying pro forma consolidated balance sheet of **travelbyus.com ltd.** as at January 31, 2000 and the pro forma consolidated statements of operations for the year ended December 31, 1999, and the four-month period ended January 31, 2000 which have been prepared for inclusion in the prospectus filing of **travelbyus.com ltd.** dated April 28, 2000. In our opinion, these pro forma consolidated financial statements have been properly compiled to give effect to the transactions and the assumptions described in the notes thereto.

Vancouver, B.C.
April 28, 2000

**Chartered Accountants**

**travelbyus.com ltd.**

Pro forma Consolidated Balance Sheet
(Unaudited – See Compilation Report)
**As at January 31, 2000**

(expressed in Canadian dollars)

**PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS**

| | **travelbyus.com ltd. January 31, 2000 $** | **Adjustments for the acquisition of Cruise Shoppes America, Ltd. $** (notes 1(a) and 3(a)) | **Pro forma $** |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 21,592,479 | (2,558,200) | 19,034,279 |
| Marketable securities | 230,984 | 1,420,452 | 1,651,436 |
| Accounts receivable and prepaid expenses | 2,169,419 | 1,082,884 | 3,252,303 |
| Inventory | 1,014,674 | - | 1,014,674 |
| Media and travel credits | 1,724,414 | - | 1,724,414 |
| | 26,731,970 | (54,864) | 26,677,106 |
| **Deposits** | 36,500 | 65,321 | 101,821 |
| **Cash in trust** | 250,041 | - | 250,041 |
| **Restricted cash** | 785,741 | 33,409 | 819,150 |
| **Deferred financing costs** | 1,040,247 | - | 1,040,247 |
| **Deferred acquisition costs** | - | - | - |
| **Capital assets** | 9,156,590 | 126,218 | 9,282,808 |
| **License and contract rights** | 4,227,408 | | 4,227,408 |
| **Goodwill** | 30,476,081 | 10,643,191 | 41,119,272 |
| | 72,704,578 | 10,813,275 | 83,517,853 |

The accompanying notes are an integral part of the pro forma consolidated financial statements.

**travelbyus.com ltd.**
Pro forma Consolidated Balance Sheet …*continued*
(Unaudited – See Compilation Report)
**As at January 31, 2000**

(expressed in Canadian dollars)

| | travelbyus.com ltd. January 31, 2000 $ | Adjustments for the acquisition of Cruise Shoppes America, Ltd. $ (notes 1(a) and 3(a)) | Pro forma $ |
|---|---|---|---|
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Bank indebtedness | 537,800 | - | 537,800 |
| Accounts payable and accrued liabilities | 2,997,438 | 337,275 | 3,334,713 |
| Due to related parties | 330,042 | - | 330,042 |
| Customer deposits | 1,451,513 | - | 1,451,513 |
| Notes payable | 725,600 | - | 725,600 |
| | 6,042,393 | 337,275 | 6,379,668 |
| **Debentures** | 11,950,000 | - | 11,950,000 |
| | 17,992,393 | 337,275 | 18,329,668 |
| **Shareholders' Equity** | | | |
| **Capital stock issued or allotted** | 55,297,587 | 10,476,000 | 65,773,587 |
| **Special warrants** | 20,000,000 | - | 20,000,000 |
| **Warrants issued in connection with debenture financing** | 147,102 | - | 147,102 |
| **Deficit** | (20,732,504) | - | (20,732,504) |
| | 54,712,185 | 10,476,000 | 65,188,185 |
| | 72,704,578 | 10,813,275 | 83,517,853 |

The accompanying notes are an integral part of the pro forma consolidated financial statements.

**travelbyus.com ltd.**

Pro forma Consolidated Statement of Operations
(Unaudited – See Compilation Report)

**For the year ended December 31, 1999**

(expressed in Canadian dollars)

| | travelbyus.com ltd. Nine months ended September 30, 1999 $ | travelbyus.com ltd. Three months ended December 31, 1999 $ | Express Vacations, LLC Period from August 5, 1998 (date of inception) to September 30, 1999 $ | Cheap Seats Inc. Year ended June 30, 1999 $ | Cruise Shoppes America, Ltd. Year ended June 30, 1999 $ | Adjustments $ (note 3) | Pro forma $ |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Travel sales | - | 1,897,346 | 7,988,070 | 6,119,806 | 3,537,999 | (500,934) (b) | 19,042,287 |
| Associate marketing program | - | 422,149 | - | - | - | | 422,149 |
| Advertising | - | 126,657 | - | - | - | | 126,657 |
| Technology sales | - | 205,393 | - | - | - | | 205,393 |
| Interest and other income | 6,972 | 58,973 | 148,085 | 6,087 | 191,639 | | 411,756 |
| | 6,972 | 2,710,518 | 8,136,155 | 6,125,893 | 3,729,638 | | 20,208,242 |
| **Direct costs** | | | | | | | |
| Cost of travel sales | - | 781,914 | - | - | - | | 781,914 |
| Cost of advertising | - | 115,533 | - | - | - | | 115,533 |
| Cost of technology sales | - | 146,253 | - | - | - | | 146,253 |
| Other | - | 10,935 | - | - | - | | 10,935 |
| | - | 1,054,635 | - | - | - | | 1,054,635 |
| **Gross profit** | 6,972 | 1,655,883 | 8,136,155 | 6,125,893 | 3,729,638 | | 19,153,607 |
| **Expenses** | | | | | | | |
| General and administration | 1,108,370 | 3,677,829 | 4,481,967 | 4,003,723 | 926,412 | (1,228,494) (b) | 12,969,807 |
| Salaries and commissions | - | - | - | - | 2,421,547 | | 2,421,547 |
| Officers compensation | - | - | - | 2,258,271 | - | | 2,258,271 |
| Website development costs | 362,434 | 246,043 | - | - | - | | 608,477 |
| Amortization of deferred financing costs | 38,975 | 159,504 | - | - | - | | 198,479 |
| Write-off of capital assets | 14,229 | - | - | - | - | | 14,229 |
| Amortization of capital and intangible assets | 6,928 | 592,121 | 69,396 | 30,347 | - | 1,874,295 (b)(d) | 2,573,087 |
| Loss (gain) on marketable securities | (51,809) | - | - | - | - | | (51,809) |
| Loss on sale of capital assets | 1,654 | - | - | - | - | | 1,654 |
| Interest | 92,137 | 420,174 | - | - | - | | 512,311 |
| Foreign exchange (gain) loss | (2,323) | 149,302 | - | - | - | | 146,979 |
| Write-off of deferred mineral property costs | 1 | - | - | - | - | | 1 |
| | 1,570,596 | 5,244,973 | 4,551,363 | 6,292,341 | 3,347,959 | | 21,653,033 |
| **Provision for restructuring costs** | - | (600,000) | - | - | - | | (600,000) |
| **(Loss) earnings before taxes** | (1,563,624) | (4,189,090) | 3,584,792 | (166,448) | 381,679 | | (3,099,426) |
| **Income tax (expense) recovery** | - | 43,279 | - | 36,490 | (140,189) | (1,075,438) (c) | (1,135,858) |
| **Net (loss) earnings for the period** | (1,563,624) | (4,145,811) | 3,584,792 | (129,958) | 241,490 | | (4,235,284) |
| **Loss per share** | (0.05) | (0.08) | | | | | (0.08) |

The accompanying notes are an integral part of the pro forma consolidated financial statements.

**travelbyus.com ltd.**

Pro forma Consolidated Statement of Operations

(Unaudited – See Compilation Report)

**For the four-month period ended January 31, 2000**

(expressed in Canadian dollars)

| | travelbyus.com ltd. Four months ended January 31, 2000 $ | Express Vacations, LLC Four months ended January 31, 2000 $ | Cheap Seats Inc. Four months ended October 31, 1999 $ | Cruise Shoppes America, Ltd. Four months ended October 31, 1999 $ | Adjustments $ (note 3) | Pro forma $ |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Travel sales | 3,816,661 | 711,599 | 2,324,761 | 834,360 | (1,435,723) (b) | 6,251,658 |
| Associate marketing program | 134,199 | - | - | - | | 134,199 |
| Advertising | 230,278 | - | - | - | | 230,278 |
| Technology sales | 377,246 | - | - | - | | 377,246 |
| Interest and other income | 152,584 | 15,891 | - | 13,653 | (4,448) (b) | 177,680 |
| | 4,710,968 | 727,490 | 2,324,761 | 848,013 | | 7,171,061 |
| **Direct costs** | | | | | | |
| Cost of travel sales | 1,274,366 | - | - | - | | 1,274,366 |
| Cost of advertising | 210,675 | - | - | - | | 210,675 |
| Cost of technology sales | 288,180 | - | - | - | | 288,180 |
| Other direct costs | 23,827 | - | - | - | | 23,827 |
| | 1,797,048 | - | - | - | | 1,797,048 |
| **Gross profit** | 2,913,920 | 727,490 | 2,324,761 | 848,013 | | 5,374,013 |
| **Expenses** | | | | | | |
| General and administration | 5,365,470 | 1,486,701 | 1,906,773 | 209,773 | (2,045,291) (b) | 6,923,426 |
| Salaries and commissions | - | - | - | 210,395 | | 210,395 |
| Officers compensation | - | - | 209,210 | - | | 209,210 |
| Website development costs | 327,920 | - | - | - | | 327,920 |
| Amortization of deferred financing costs | 214,440 | - | - | - | | 214,440 |
| Amortization of capital and intangible assets | 796,683 | 20,751 | 11,760 | - | 214,495 (b)(d) | 1,043,689 |
| Interest | 535,786 | - | 325 | - | | 536,111 |
| Foreign exchange (gain) loss | 117,385 | - | - | - | | 117,385 |
| | 7,357,684 | 1,507,452 | 2,128,068 | 420,168 | | 9,582,576 |
| **Provision for restructuring costs** | (600,000) | - | - | - | | (600,000) |
| **(Loss) earnings before taxes** | (5,043,764) | (779,962) | 196,693 | 427,845 | | (4,808,563) |
| **Income tax (expense) recovery** | (17,920) | - | - | - | 47,054 (c) | 29,134 |
| **Net (loss) earnings for the period** | (5,061,684) | (779,962) | 196,693 | 427,845 | | (4,779,429) |
| **Loss per share** | (0.09) | | | | | (0.09) |

The accompanying notes are an integral part of the pro forma consolidated financial statements.

**travelbyus.com ltd.**
Pro forma Consolidated Statement of Operations
(Unaudited – See Compilation Report)
**For the four-month period ended January 31, 2000**

(expressed in Canadian dollars)

**1. Basis of presentation**

The pro forma consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and the pro forma assumptions and adjustments described below.

(a) The pro forma consolidated balance sheet as at January 31, 2000 has been prepared as if the acquisition of Cruise Shoppes America, Ltd. ("Cruise Shoppes") had been completed on January 31, 2000, and has been based on the unaudited consolidated balance sheet of **travelbyus.com ltd.** (the "company") as at January 31, 2000 and the audited balance sheet of Cruise Shoppes as at April 4, 2000, the actual date of acquisition.

(b) The pro forma consolidated statement of operations for the year ended December 31, 1999 has been prepared as if the acquisitions of Express Vacations, LLC ("Express"), Cheap Seats Inc. ("Cheap Seats"), and Cruise Shoppes (actually completed in November 1999, December 1999 and April 2000, respectively) had been completed on January 1, 1999, and are based on the following:

the unaudited consolidated (where applicable) statements of operations as follows:

i) travelbyus.com ltd. - three months ended December 31, 1999 (these unaudited results have been incorporated into this pro forma statement to reflect a full year of results of operations for travelbyus.com ltd. due to the change in year end to September 30, 1999) and have been adjusted to eliminate the partial period results of Express and Cheap Seats included therein

the audited consolidated (where applicable) statements of operations as follows :

ii) travelbyus.com ltd. - nine month period ended September 30, 1999

iii) Express - period from August 5, 1998 (date of inception) to September 30, 1999 on the basis that these results of operations, although covering a period longer than one year, would not be materially different than a period of one year for the purpose of this pro forma presentation

iv) Cheap Seats - year ended June 30, 1999

v) Cruise Shoppes - year ended June 30, 1999

(c) The pro forma consolidated statement of operations for the four month period ended January 31, 2000 has been prepared as if the acquisitions of Express, Cheap Seats and Cruise Shoppes (actually completed in November 1999, December 1999, and April 2000, respectively) had been completed on October 1, 1999, and are based on the unaudited consolidated (where applicable) statements of operations as follows:

i) travelbyus.com ltd. – four month period ended January 31, 2000 adjusted to eliminate the partial period results of Express and Cheap Seats included therein

ii) Express – four month period ended January 31, 2000

iii) Cheap Seats – four month period ended October 31, 1999

**travelbyus.com ltd.**
Pro forma Consolidated Statement of Operations
(Unaudited – See Compilation Report)
**For the four-month period ended January 31, 2000**

(expressed in Canadian dollars)

iv) Cruise Shoppes – four month period ended October 31, 1999

The loss per share amounts have been computed by dividing the loss available to common shareholders by the weighted average shares outstanding for the respective periods.

The United States dollar amounts for the balance sheet of Cruise Shoppes as at April 4, 2000 incorporated into the pro forma balance sheet as at January 31, 2000 and the United States dollar amounts for the results of operations of Cruise Shoppes, Express, and Cheap Seats, incorporated into the pro forma statements of operations have been converted to Canadian dollars using a rate of Cdn.$1.47 to US$1.00 for the periods presented.

The pro forma consolidated financial statements should be read in conjunction with the historical financial statements including notes thereto included elsewhere in this prospectus. All pro forma amounts are presented in Canadian dollars unless otherwise stated.

The operating results in the pro forma consolidated statements of operations for the periods presented are not necessarily indicative of future combined operating results or of operating results that would have been reported had the companies been previously combined.

## 2. PRO FORMA ASSUMPTIONS

These pro forma consolidated financial statements have been prepared using the following assumptions:

(a) No pro forma adjustments have been made to recognize interest income on cash balances.

(b) The company approved a binding Letter of Interest on February 24, 2000 (as amended on March 16, 2000, April 18, 2000 and April 25, 2000) to merge with Aviation Group Inc. and complete certain other transactions in connection with this merger. No pro forma adjustments have been made to recognize these transactions.

(c) The company completed the acquisition of Bell Travel Systems on April 3, 2000. No pro forma adjustments have been made to recognize this acquisition.

**travelbyus.com ltd.**
Pro forma Consolidated Statement of Operations
(Unaudited – See Compilation Report)
**For the four-month period ended January 31, 2000**

(expressed in Canadian dollars)

**3. PRO FORMA ADJUSTMENTS**

(a) Adjustment to record on a pro forma basis the acquisition of Cruise Shoppes accounted for by the purchase method. The acquisition is summarized as follows:

| | $ |
|---|---|
| Net assets acquired at fair market value | |
| Assets acquired | 2,816,084 |
| Liabilities assumed | (337,275) |
| Goodwill | 10,643,191 |
| | 13,122,000 |
| Total consideration | |
| Cash (US $1.8 million) | 2,646,000 |
| 2,619,000 common shares valued at $4.00 per share | 10,476,000 |
| | 13,122,000 |

(b) Adjustment to eliminate the partial period results of operations of Express and Cheap Seats included in the results of operations of the company for the three months ended December 31, 1999 and the four months ended January 31, 2000.

(c) Adjustment to provide for income tax expense/recovery on the earnings/loss from operations of Express, Cheap Seats and Cruise Shoppes as applicable for the periods presented.

(d) Adjustment to record a full period of amortization of goodwill arising on each of the acquisitions of Express, Cheap Seats and Cruise Shoppes based on the straight-line method of amortization over a period of 15 years.

## CERTIFICATE OF THE COMPANY

Dated: April 28, 2000

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 8 of the *Securities Act* (Alberta), Part 9 of the *Securities Act* (British Columbia), Part VII of *The Securities Act* (Manitoba), Part XV of the *Securities Act* (Ontario) and Part IX of *The Securities Act*, *1988* (Saskatchewan) and the respective regulations thereunder.

| | | | |
|---|---|---|---|
| (Signed) | William Kerby<br>Chief Executive Officer | (Signed) | Grant Kuramoto<br>Chief Financial Officer |

On behalf of the Board of Directors

| | | | |
|---|---|---|---|
| (Signed) | John Fenyes<br>Director | (Signed) | Alan Thompson<br>Director |

**CERTIFICATE OF THE AGENT**

Dated: April 28, 2000

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 8 of the *Securities Act* (Alberta), Part 9 of the *Securities Act* (British Columbia), Part VII of *The Securities Act* (Manitoba), Part XV of the *Securities Act* (Ontario) and Part IX of *The Securities Act, 1988* (Saskatchewan) and the respective regulations thereunder.

WELLINGTON WEST CAPITAL INC.

By: (Signed) Kevin Hooke