ORIGINAL

ATTACHMENT III

FINANCIAL STATEMENTS

990114-TI

CONFIDENTIAL

1. Please provide documentation that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

Statement of Financial Capability

Cannect Communications, Inc. has sufficient financial capability to provide the requested telecommunication services, the financial capability to maintain these services, and the financial capability to meet its lease and ownership obligations. Attached are the audited financial statements of Cannect Communications, Inc. as of June 30, 1998.

Some of Cannect Communications, Inc.'s highlights are:

* Current asset ratio of [redacted]
* Cash & cash equivalents of [redacted]
* Property, Plant & Equipment balance of [redacted] which consists of the Company's investment in infrastructure to commence operations.
* Positive equity balance of [redacted]
* Equity cash infusion of [redacted]
* [redacted]
* The company has access to additional equity funding and debt funding if necessary.

Summary

As noted in the analysis documented above, the Company is preparing properly for its venture into the telecommunications business. The Company is positioned to add significant revenue growth while having a majority of its expenses fixed in nature. The Company has sufficient financial capability to provide the requested telecommunication services, sufficient financial capability to meet all lease and ownership obligations, and sufficient financial capability to maintain a large Customer base.

2. Please provide documentation that the applicant has sufficient financial capability to maintain the requested service.

Please see response to question #1.

3. Please provide documentation that the applicant has sufficient financial capability to meet its lease or ownership obligations.

Please see response to question #1.

NOTE: This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.

Independent Auditors' Report and Financial Statements of

CANNECT COMMUNICATIONS INC.

(A development stage company)

June 30, 1998

Deloitte & Touche

Deloitte & Touche

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Independent Auditors' Report

To the Shareholders of
Cannect Communications Inc.

We have audited the balance sheet of Cannect Communications Inc. (a development stage company) as at June 30, 1998 and the statements of loss and deficit and changes in financial position for the period from March 27, 1998, the date of incorporation, to June 30, 1998 (all expressed in Canadian dollars). 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 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 financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 1998 and the results of its operations and the changes in its financial position for the period from the date of incorporation, March 27, 1998, to June 30, 1998 in accordance with accounting principles generally accepted in Canada.

Deloitte & Touche

Chartered Accountants
Vancouver, British Columbia
July 20, 1998

Comments by Auditors for U.S. Readers on Canada - United States Reporting Differences

In the United States, reporting standards for auditors would require the addition of an explanatory paragraph following the opinion paragraph when the financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has operated as a development stage enterprise since its inception by devoting substantially all of its efforts to financial planning, raising capital, research and development and developing markets for its products. Consequently, as shown in the accompanying financial statements, the Company had losses of $811,317 since its inception through to June 30, 1998. The Company's continued existence is dependent upon its ability to obtain additional working capital, to develop and market its products and, ultimately, upon its ability to attain profitable operations. Our report to the shareholders dated July 20, 1998 is expressed in accordance with Canadian reporting standards which do not permit a reference to such uncertainties in the auditors' report when the uncertainties are adequately disclosed in the financial statements.

Deloitte & Touche

Chartered Accountants
Vancouver, British Columbia
July 20, 1998

CANNECT COMMUNICATIONS INC.
(A development stage company)
Balance Sheet
June 30, 1998
(Expressed in Canadian Dollars)

ASSETS	
CURRENT	
Cash	$ [redacted]
Inventory (Note 6)	[redacted]
Prepaid expenses and deposits	[redacted]
	[redacted]
CAPITAL ASSETS, net (Note 3)	[redacted]
	$ [redacted]
LIABILITIES	
CURRENT	
Accounts payable	$ [redacted]
Accrued liabilities	[redacted]
	[redacted]
COMMITMENTS (Note 7)	
SHAREHOLDERS' EQUITY	
Share capital (Note 4)	
Authorized	
100,000,000 common shares with no par value	
Issued	
2,000,000 common shares	[redacted]
[redacted]	[redacted]
	[redacted]
	$ [redacted]

APPROVED BY THE BOARD

....Director

....Director

Deloitte & Touche

CANNECT COMMUNICATIONS INC.

(A development stage company)

Statement of Loss and Deficit

For the period from March 27, 1998, the date of incorporation, to June 30, 1998
(Expressed in Canadian Dollars)

EXPENSES	
General and administrative	
Audit, accounting and legal	$ [redacted]
Depreciation	
Meals and entertainment	
Miscellaneous	
Office	
Rent	
Telephone	
Travel	
	[redacted]
Business development costs	
Consulting	[redacted]
Marketing	
Start-up costs (Note 4)	
	[redacted]
[redacted]	$ [redacted]
[redacted]	$ [redacted]
Weighted average number of shares outstanding	[redacted]

CANNECT COMMUNICATIONS INC.

(A development stage company)

Statement of Cash Flow

For the period from March 27, 1998, the date of incorporation, to June 30, 1998
(Expressed in Canadian Dollars)

OPERATING ACTIVITIES	
Net loss for the period	$ [redacted]
Item not requiring cash	
Depreciation	[redacted]
	[redacted]
Changes in non-cash working capital items	
Inventory	[redacted]
Prepaid expenses and deposits	[redacted]
Accounts payable	[redacted]
Accrued liabilities	[redacted]
	[redacted]
	[redacted]
FINANCING ACTIVITY	
Common shares issued	[redacted]
INVESTING ACTIVITY	
Capital asset expenditures	[redacted]
NET CASH FLOW	[redacted]
CASH, BEGINNING OF PERIOD	-
CASH, END OF PERIOD	$ [redacted]

1. NATURE OF OPERATIONS

The Company, which was incorporated on March 27, 1998 under the Canada Business Corporation Act, is developing its business which will focus on providing telecommunications outsourcing and other connectivity services to customers.

The Company has operated as a development stage enterprise since its inception by devoting substantially all of its efforts to research and development, developing markets for its products, and raising capital to support these efforts.

The ultimate success of the Company is dependent upon its attaining profitable operations and its continuing ability to raise additional financing as required. The Company's financial statements have been prepared using accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the ordinary course of business. The financial statements do not include any adjustments relating to the recoverability and classifications of recorded assets and liabilities that might be necessary should the Company be unable to continue in existence.

2. SIGNIFICANT ACCOUNTING POLICIES

The Company's financial statements are presented in accordance with accounting principles generally accepted in Canada which, for these financial statements, conform in all material respects with those in the United States, except as outlined in Note 9.

(a) Inventory

Inventory, consisting of purchased goods for resale to customers, is recorded at the lower of cost (first-in, first-out basis) or net realizable value.

(b) Capital assets

Capital assets are recorded at cost. Amortization is computed using straight-line methods over the estimated useful lives (generally three to five years) of the assets. The Company makes reviews for the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized if and when estimated future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. No such impairment losses have been identified by the Company for the period ended June 30, 1998.

CANNECT COMMUNICATIONS INC.
(A development stage company)
Notes to the Financial Statements
June 30, 1998
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) 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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ trom those estimates.

(d) Financial instruments

Unless otherwise specified, the Company believes the book value of its financial instruments approximates the fair value.

3. CAPITAL ASSETS

	Cost	Accumulated Depreciation	Net Book Value
Furniture and equipment Computer equipment	$ [redacted]	$ [redacted]	$ [redacted]
	$ [redacted]	$ [redacted]	$ [redacted]

4. SHARE CAPITAL

During the period, the Company issued shares as follows:

	Number of Shares	Amount
Issued for cash on private placement Issued for start-up costs	[redacted]	$ [redacted]
Balance at June 30, 1998	[redacted]	$ [redacted]

The Company entered into an agreement under which it acquired certain rights and interests related to start-up costs incurred in the development of the business concept which is now under further development by the Company. The consideration paid, representing the start-up costs incurred by the vendors, consisted of 261,825 shares at a value of $1 per share.

Deloitte &
Touche

CANNECT COMMUNICATIONS INC.
(A development stage company)
Notes to the Financial Statements
June 30, 1998
(Expressed in Canadian Dollars)

4. SHARE CAPITAL (Continued)

During the period ended June 30, 1998, the Company granted various options and issued warrants to purchase an aggregate of [redacted]hares of its common stock to directors and consultants. The [redacted]warrants each entitle the holder to purchase one common share of the Company at [redacted] share until June 15, 2003. The [redacted]tions each entitle the holder to purchase one common share of the Company at [redacted] share until June 15, 2003.

5. INCOME TAXES

At June 30, 1998, the Company has estimated non-capital losses carryforward of approximately [redacted]which can be applied to reduce future Canadian income taxes otherwise payable and which expire in 2005. No recognition has been given to the potential tax benefit associated with these losses.

6. RELATED PARTY TRANSACTIONS

During the period ended June 30, 1998, the Company purchased finished goods inventory of [redacted] and equipment of [redacted]om a company with directors in common. Included in accounts payable and accrued liabilities at June 30, 1998 is an amount of [redacted]ayable to a company with directors in common.

During the period ended June 30, 1998, the Company paid consulting fees totalling [redacted] directors and individuals related to directors.

7. COMMITMENTS

As at June 30, 1998, the Company has the following contractual commitments:

(a) Payments under operating leased premises including operating costs and equipment leases:

1999	$ [redacted]
2000	
2001	

CANNECT COMMUNICATIONS INC.
(A development stage company)
Notes to the Financial Statements
June 30, 1998
(Expressed in Canadian Dollars)

7. COMMITMENTS (Continued)

(b) Minimum amounts payable under telecommunications service agreements:

1999	$ [redacted]
2000	
2001	
2002	
2003	
2004 and 2005	

Subsequent to the year end, the Company entered into a three year agreement for certain software services and has committed to total payments of $151,000 over the term of the agreement.

8. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Company may experience the effects of the Year 2000 Issue before, on, or after January 1, 2000, and that the effects on operations and financial reporting, if not addressed, may range from minor errors to significant systems failure which could affect the Company'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.

The Company installed vendor upgrades for each of its computer-based applications that will accommodate the millennium change. The Company is, however, in the process of identifying any current suppliers who are not prepared to offer assurances that their systems will be year 2000 compliant. The ultimate outcome of the review is currently not determinable.

CANNECT COMMUNICATIONS INC.
(A development stage company)
Notes to the Financial Statements
June 30, 1998
(Expressed in Canadian Dollars)

9. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") which, in the case of these financial statements, conforms in all material respects with those in the United States ("U.S. GAAP") except as follows:

(a) Adjustments to net loss and loss per common share

Net loss for the period - Canadian GAAP	$ [redacted]
Consulting expense (d)	
Net loss for the period - U.S. GAAP	[redacted]
Loss per common share - U.S. GAAP (f)	$ [redacted]
Weighted average shares outstanding (f)	[redacted]

(b) Adjustments to cash flow

Operating activities - Canadian GAAP	$ [redacted]
Non-cash item - startup costs issued for common shares (e)	
Operating activities - U.S. GAAP	$ [redacted]
Financing activities - Canadian GAAP	$ [redacted]
Non-cash item - startup costs issued for common shares (e)	
Financing activities - U.S. GAAP	$ [redacted]

(c) Adjustments to shareholders' equity

Shareholders' equity - Canadian GAAP	$ [redacted]
Consulting expense (d)	
Shareholders' equity - U.S. GAAP	$ [redacted]

(Expressed in Canadian Dollars)

9. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

(d) Stock based compensation

For U.S. GAAP purposes, the Company accounts for stock-based compensation to employees and directors under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), using the intrinsic value based method whereby compensation cost is recorded for the excess, if any, of the quoted market price over the exercise price, at the date stock options are granted or warrants are issued. As at June 30, 1998, no compensation cost has been recorded for any period under this method.

Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), issued in October 1995, requires the use of the fair value based method of accounting for stock options. Under this method, compensation cost is measured at the grant date based on the fair value of the options granted and is recognized over the exercise period. During the period ended June 30, 1998, the Company issued options and warrants to individuals other than employees and directors which, under SFAS 123, must be recognized as a consulting expense in the period they are issued. For the period ended June 30, 1998, the consulting expense related to the issuance of options and warrants to individuals other than employees is $272,562.

SFAS 123, however, allows the Company to continue to measure the compensation cost of employees and directors in accordance with APB 25. The Company has therefore adopted the disclosure-only provisions of SFAS 123.

Using the fair value method for stock-based compensation, additional costs of $118,607 would have been recorded for the period ended June 30, 1998. This amount is determined using an option pricing model assuming no dividends are to be paid, vesting occurring on the date of grant, a weighted average volatility of the Company's share price of 0% since the Company was a private enterprise during and at the end of the period, and an annual risk free rate of 5.5%.

The following pro forma financial information presents the net loss for the period and the loss per common share had the Company adopted SFAS 123 for all stock options issued to employees and directors:

Net loss for the period - U.S. GAAP	$ [redacted]
Additional stock-based compensation costs	
Pro forma net loss - U.S. GAAP	$ [redacted]
Pro forma loss per share - U.S. GAAP	$ [redacted]

9. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

(e) Statement of cash flows

Under U.S. GAAP, presentation of a statement of cash flow is required which reflects only cash transactions relating to operating, financing, and investing activities. Under Canadian GAAP, non-cash financing and investing activities are required to be presented in addition to cash flows in the statement of changes in financial position. The statement of cash flow under U.S. GAAP would also disclose payments relating to interest and income taxes during each period presented. The Company made no payments relating to interest and income taxes during the period presented.

(f) Loss per share

In February 1997 the Financial Accounting Standards Board issued Statement No. 128, *Earnings Per Share* ("SFAS 128"), which established new standards for computing and presenting earnings per share effective for fiscal years ending after December 15, 1997. With SFAS 128, primary earnings per share is replaced by basic earnings per share, which is computed by dividing income available to common shareholders by the weighted average number of shares outstanding for the period. In addition, SFAS 128 requires the presentation of diluted earnings per share, which includes the potential dilution that could occur if dilutive securities were exercised or converted into common stock. The computation of diluted earnings per share does not assume the conversion or exercise of securities if their effect is anti-dilutive. Under SFAS 128 the weighted average number of shares outstanding for each of the periods presented is not significantly different from that calculated under Canadian GAAP.

Options and warrants to purchase an aggregate of 1,665,500 shares of common stock were not included in the computation of diluted earnings per share because their effect was anti-dilutive.

9. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

(g) Other Financial Accounting Standards Boards Statements

In June 1997, the Financial Accounting Standards Board issued SFAS No. 130, "*Reporting Comprehensive Income*", which is effective for fiscal years beginning after December 15, 1997 and requires that an enterprise report, by major components and as a single total, the change in its net assets during the period from nonowner sources; and SFAS No. 131, "*Disclosures About Segments of an Enterprise and Related Information*", which is effective for fiscal years beginning after December 15, 1997 and establishes annual and interim reporting standards for an enterprise's business segments and related disclosures about its products, services, geographic areas, and major customers. Adoption of these statements will not impact the disclosure of the Company's financial position, results of operations or cash flow.

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "*Accounting for Derivative Instruments and Hedging Activities*", which defines derivatives, requires that all derivatives be carried at fair value, and provides for hedging accounting when certain conditions are met. This statement is effective for fiscal years beginning after June 15, 1999. On a forward-looking basis, although the Company has not fully assessed the implications of this new statement, the Company believes adoption of this statement will not have a material impact on the Company's financial position or results of operations.