

Auditors' Report and Consolidated Financial Statements of

BRIDGES TRANSITIONS INC.

June 30, 2004 and 2003

Deloitte & Touche **Auditors' Report**

To the Shareholders of Bridges Transitions Inc. (formerly Bridges.com Inc.)

We have audited the consolidated balance sheets of Bridges Transitions Inc. (formerly Bridges.com Inc.) as at June 30, 2004 and 2003, and the consolidated statements of operations and deficit and cash flows for the year ended June 30, 2004, and the seven-month period ended June 30, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2004 and 2003, and the results of its operations and its cash flows for the year ended June 30, 2004, and the seven-month period ended June 30, 2003, in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
July 30, 2004

Bridges Transitions Inc.
**Consolidated
Balance Sheets**

	June 30, 2004	June 30, 2003
ASSETS		
Current		
Cash and cash equivalents	\$ 4,250,069	\$ 2,416,227
Accounts receivable	3,549,827	3,641,053
Prepaid expenses and other	501,146	346,535
Deferred costs (Note 13)	647,083	-
	8,948,125	6,403,815
Restricted cash (Note 6)	200,000	200,000
Property and equipment (Note 4)	2,663,385	6,700,471
	\$ 11,811,510	\$ 13,304,286
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 2,613,384	\$ 1,745,376
Accrued restructuring charge (Note 5)	511,012	824,682
Current portion of long-term debt (Note 6)	340,800	216,000
Deferred revenue (Note 13)	7,540,847	5,968,896
	11,006,043	8,754,954
Long-term debt (Note 6)	662,200	864,000
	11,668,243	9,618,954
Commitments (Note 7)		
SHAREHOLDERS' EQUITY		
Common stock (Note 8)	17,690,721	17,857,264
Contributed surplus (Note 8)	85,584	-
Deficit	(17,633,038)	(14,171,932)
	143,267	3,685,332
	\$ 11,811,510	\$ 13,304,286

APPROVED BY THE BOARD



John C. Simmons, Director



Terry M. Holland, Director

See Accompanying Notes to the Consolidated Financial Statements.

Bridges Transitions Inc.

Consolidated Statements of Operations and Deficit

	Year Ended June 30, 2004	Year Ended June 30, 2003	Seven Months Ended June 30, 2003
		(Note 2(m)-Unaudited)	
REVENUE	\$ 13,898,955	\$ 15,946,974	\$ 4,815,682
COSTS OF REVENUE	4,712,689	5,868,160	3,100,601
GROSS MARGIN	9,186,266	10,078,814	1,715,081
EXPENSES			
Sales and marketing	4,973,078	6,435,333	3,261,896
Research and development	212,466	210,618	63,670
General and administrative	1,771,528	2,666,904	1,357,843
	6,957,072	9,312,855	4,683,409
EARNINGS (LOSS) BEFORE RESTRUCTURING CHARGE, IMPAIRMENT OF PROPERTY AND EQUIPMENT AND GOODWILL, AMORTIZATION, FOREIGN CURRENCY EXCHANGE AND OTHER LOSS, AND INCOME TAXES	2,229,194	765,959	(2,968,328)
Restructuring charge and related impairment of property and equipment (Note 5)	(4,034,246)	(3,142,021)	-
Impairment of property and equipment	-	(781,734)	(781,734)
Amortization of property and equipment	(1,628,457)	(1,114,812)	(741,940)
Amortization of intangibles	-	(100,450)	-
Loss on sale of property and equipment	(37,945)	-	-
Foreign currency exchange and other income (loss)	22,913	(301,134)	(392,736)
LOSS BEFORE INCOME TAXES	(3,448,541)	(4,674,192)	(4,884,738)
Income tax expense (recovery) (Note 10)	50,265	2,140,514	(12,349)
LOSS BEFORE IMPAIRMENT OF GOODWILL FOR THE PERIOD	(3,498,806)	(6,814,706)	(4,872,389)
Impairment of goodwill	-	(2,235,114)	-
NET LOSS FOR THE PERIOD	(3,498,806)	(9,049,820)	(4,872,389)
DEFICIT, BEGINNING OF PERIOD	(14,171,932)	(5,121,041)	(9,299,543)
Interest on shareholder loans	37,700	-	-
Excess of purchase cost over carrying value of common shares cancelled	-	(1,071)	-
DEFICIT, END OF PERIOD	\$ (17,633,038)	\$ (14,171,932)	\$ (14,171,932)
Basic loss per share	\$ (0.29)	\$ (0.74)	\$ (0.40)
Weighted average number of shares used to calculate basic loss per share	12,137,423	12,168,273	12,179,303

See Accompanying Notes to the Consolidated Financial Statements.

Bridges Transitions Inc.

Consolidated Statements of Cash Flows

	Year Ended June 30, 2004	Year Ended June 30, 2003	Seven Months Ended June 30, 2003
		(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the period	\$ (3,498,806)	\$ (9,049,820)	\$ (4,872,389)
Items not affecting cash			
Amortization of property and equipment	1,628,457	1,169,980	741,940
Impairment of property and equipment (Notes 4 and 5)	3,289,758	781,734	781,734
Loss on sale of property and equipment	37,945	-	-
Amortization of intangibles	-	45,280	-
Non-cash portion of restructuring charge (Note 5)	31,908	386,050	-
Impairment of goodwill (Note 5)	-	2,235,114	-
Future income tax (Note 10)	-	2,151,032	-
Stock-based compensation	16,381	-	-
	1,505,643	(2,280,630)	(3,348,715)
Changes in operating assets and liabilities:			
Accounts receivable	91,227	(915,750)	345,811
Prepaid expenses and other	(154,612)	252,653	230,919
Deferred costs	(647,083)	-	-
Accounts payable and accrued liabilities	631,904	1,225,667	(608,640)
Deferred revenue	1,571,951	3,150,215	2,376,770
Accrued restructuring charge	(313,670)	(1,220,323)	(1,506,173)
	2,685,360	211,832	(2,510,028)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment, net of related accounts payable	(850,214)	(967,825)	(254,936)
Proceeds on sale of property and equipment	135,336	-	-
	(714,878)	(967,825)	(254,936)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common shares	65	16,530	-
Shares purchased for cancellation	(8,988)	-	-
Shares purchased and cancelled	(88,417)	(35)	-
Interest on shareholder loans	37,700	-	-
Repayment of obligations under capital lease	-	(90,254)	(26,925)
Restricted cash	-	(200,000)	(200,000)
Proceeds from long-term debt	264,000	1,200,000	1,200,000
Repayment of obligations under long-term debt	(341,000)	(120,000)	(120,000)
	(136,640)	806,241	853,075
NET CASH INFLOW (OUTFLOW) DURING THE PERIOD	1,833,842	50,248	(1,911,889)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,416,227	2,365,979	4,328,116
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 4,250,069	\$ 2,416,227	\$ 2,416,227
Supplemental Cash Flow Disclosure:			
Interest earned	\$ 100,434	\$ 91,759	\$ 60,235
Interest paid	\$ 71,391	\$ 76,451	\$ 48,396

See Accompanying Notes to the Consolidated Financial Statements.

Bridges Transitions Inc. (formerly Bridges.com Inc.)

Notes to the Consolidated Financial Statements

June 30, 2004 and 2003

1. NATURE OF OPERATIONS

The principal business activity of Bridges Transitions Inc. (formerly Bridges.com Inc.) ("the Company") is the development, marketing and delivery of career information database products and services through the Internet and on CD-ROM. The Company was incorporated on March 10, 1994, under the Business Corporations Act of Alberta and was registered extraprovincially in British Columbia on Dec. 15, 1994.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

(a) Basis of presentation

These consolidated financial statements include the accounts of the Company and its wholly-owned U.S. subsidiary, Bridges Transitions Co. All significant intercompany balances and transactions are eliminated on consolidation.

(b) Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used, but not limited to, the accounting for doubtful accounts, amortization, determination of net recoverable value of assets, deferred revenue, sales returns, taxes and contingencies.

(c) Foreign currency translation

The functional currency of the Company is the Canadian dollar. Assets and liabilities denominated in currencies other than the Canadian dollar are translated using the rate of exchange prevailing at the balance sheet date. Revenue and expenses are translated using the exchange rate prevailing on the transaction date. Gains or losses on translation are included in operations.

(d) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments that are readily convertible to cash.

(e) Deferred costs

Bridges has entered into various agreements that allow it to incorporate licensed technology into its products for a predetermined fee per licence sold. Deferred costs include these fees and are generally expensed over the life of subscription of the product sold.

(f) Property and equipment

Property and equipment are recorded at cost less accumulated

amortization. The carrying value of property and equipment is reviewed periodically for any impairment in value. Amortization is provided annually using the following methods and rates:

Furniture and equipment	20% declining balance basis
Computer equipment	20% to 100% declining balance basis
Leased computer equipment	3 years straight-line basis
Online network infrastructure costs	20% to 100% declining balance basis
Leasehold improvements	20% straight-line basis

The Company reviews for the impairment of capital assets whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable from expected future cash flows. During the year ended June 30, 2004, the Company decided to abandon its servers and to outsource the delivery of its Internet services to a specialty Internet service centre. As a result, the Company has recorded an impairment charge of \$3,289,758 related to these assets (Note 5).

(g) Goodwill

At the end of the fourth quarter of Fiscal 2002, following the decision to restructure the Company, and due to economic events and circumstances relating to expected growth and changes in the family of products, the Company recognized an impairment of the remaining goodwill amounting to \$2,235,114 (Note 5).

(h) Revenue recognition

The Company generates revenue through two sources: (1) information database product revenues and (2) service revenues as follows:

(1) Information database product revenues are generated from the licensing of the right to use the Company's information database directly to end users.

Revenues from information database products are earned under three types of arrangements: (1) delivery of a CD information database; (2) online subscription services and database access provided over the licence period; and (3) both provision of CD information database and online subscription services.

The Company recognizes revenue from all subscription products on a fully ratable basis over the term of the contract, typically one year. Revenue from non-subscription products are recognized upon delivery of the CD-ROM where persuasive evidence of an arrangement exists, collection is probable, and the fee is fixed or determinable.

(2) Service revenues are generated from consulting services related to the implementation of information database products. Revenues from these services are recognized upon substantial completion of service, provided the fee is fixed or determinable and collection is reasonably assured.

Revenues that have been prepaid or invoiced but do not yet qualify for recognition under the Company's policies are reflected as deferred revenues. The Company has a high rate of resubscription for products licensed annually. Renewal sales are invoiced on receipt of a customer's purchase order or other form of customer commitment. When the invoice predates the subscription renewal date, related invoiced revenue is fully deferred and becomes recognized on a fully ratable basis only once the subscription renewal date is passed.

(i) Research and development

The Company expenses research and development costs as incurred unless they meet certain criteria for deferral and amortization.

(j) Income taxes

Future income taxes relate to the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized.

Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

(k) Loss per common share

Basic loss per common share has been computed by dividing loss applicable to common shareholders by the weighted average number of shares of common stock outstanding during the respective periods.

(l) Stock-based compensation

Prior to July 1, 2003, the Company applied the intrinsic value-based method of accounting for share-based compensation awards granted to employees. Under the intrinsic value-based method, any consideration paid by employees on the exercise of stock options is credited to share capital and no compensation expense is recognized.

The CICA Accounting Standards Board has amended CICA Handbook Section 3870 – Stock-Based Compensation and Other Stock-Based Payments – to require entities to account for employee stock options using the fair value-based method. Under the fair value-based method, compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period. In accordance with the transitional options permitted under amended Section 3870, the Company has prospectively applied the fair value-based method to all employee stock options granted on or after July 1, 2003. Under the prospective method of adoption selected by the Company, stock-based employee compensation is recognized for all employee options granted, modified or settled on or after July 1, 2003, using the fair value-based method. Further information on the Company's stock-based compensation plan is provided in Note 8(f).

(m) Comparative figures and year end

Certain of the prior period's comparative figures have been reclassified to conform with the current period's presentation. Subsequent to Nov. 30, 2002, the Company changed its fiscal reporting period from a fiscal year ended Nov. 30 to a fiscal year ended June 30 to align better with its customer buying patterns. The financial results for the year ended June 30, 2003, are presented for comparative purposes only. The statements of operations and deficit and cash flows and related notes to the financial

statements for the year ended June 30, 2003, have not been audited or reviewed by the Company's external auditors.

3. ACCOUNTS RECEIVABLE

Accounts receivable consists of:

	June 30, 2004	June 30, 2003
Trade accounts receivable	\$ 3,444,835	\$ 3,127,864
Miscellaneous	204,992	216,373
Relocation loans to employees	-	396,816
	3,649,827	3,741,053
Allowance for doubtful accounts	(100,000)	(100,000)
	\$ 3,549,827	\$ 3,641,053

As at June 30, 2004, \$3,134,000 of pre-billed revenue was included in both trade accounts receivable and deferred revenue (June 30, 2003: \$2,079,000).

As at June 30, 2003, the Company was owed \$396,816 by two senior employees. These loans were secured by promissory notes and related to bridge financing for home loans on the relocation of the employees from Ottawa to Kelowna. As at June 30, 2004, these loans have been repaid.

4. PROPERTY AND EQUIPMENT

	June 30, 2004			June 30, 2003
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and equipment	\$ 296,702	\$ 2,344	\$ 294,358	\$ 96,199
Computer equipment	1,468,027	898,388	569,639	556,883
Automobile	28,611	10,336	18,275	26,108
Online network infrastructure costs	2,579,070	1,166,357	1,412,713	5,973,787
Leasehold improvements	368,400	-	368,400	47,494
	\$ 4,740,810	\$ 2,077,425	\$ 2,663,385	\$ 6,700,471

During the year ending June 30, 2004, management decided to abandon its own server infrastructure and to outsource the delivery of its Internet services. As a result, the Company recorded a non-cash impairment loss of \$3,289,758 included in its restructuring charge.

During the seven months ending June 30, 2003, certain hardware and software assets were deemed to be impaired. These assets included selected software and related licensing and maintenance costs. Management determined that certain public domain and self-built software could be used instead of the proprietary software from external suppliers. The book value of the software impaired was \$392,346. The annual licence and maintenance agreement costs for this software, which also had no future value to the Company, amounted to \$79,423 and were charged to operations. Certain internal asset build programs were also determined to have no commercial future value to the Company after a change in product direction. Costs accumulated on these projects amounting to \$269,965 were charged to operations.

5. RESTRUCTURING CHARGES

(a) 2004 Restructuring

During the fourth quarter of 2004, the Company recorded charges of \$4,044,484 in connection with its decision to restructure the sales department and outsource the delivery of its Internet services to a specialty Internet service centre. In the fourth quarter, restructuring of the sales department resulted in new personnel assignments and a new management structure. Additionally, as a result of the decision to outsource, there have been workforce reductions in the IT department. A workforce reduction provision of \$754,726 was accrued and is expected to be paid out through the first six months of Fiscal 2005. As a result of the decision to abandon its servers and to outsource the delivery of its Internet services to a specialty Internet service centre, IT-related assets of \$3,289,758 were impaired. During the year ended June 30, 2004, a restructuring charge of \$4,034,243 was recorded, net of a recovery of \$10,238 relating to the 2002 restructuring.

Restructuring Activities	2004 Restructuring Charge for the year ended, June 30, 2004		D r a w d o w n s		Accrued Restructuring as at June 30, 2004
	Cash		Cash	Non-cash	
Workforce reduction	\$ 754,726	\$ 243,714	\$ -	\$ -	\$ 511,012
Impairment of property and equipment	3,289,758	-	3,289,758	-	-
	\$ 4,044,484	\$ 243,714	\$ 3,289,758	\$ -	\$ 511,012

(b) 2002 Restructuring

During Fiscal 2004, the Company paid \$782,535 in connection with the 2002 restructuring provision that was established to reduce the workforce and close the Ottawa branch office. Of this amount, termination and related costs of \$538,147 were paid to employees and \$244,389 was paid for excess facility costs. During 2004, the Company completed this restructuring and recorded a recovery of \$10,238.

Restructuring Activities	Accrued Restructuring as at June 30, 2003		D r a w d o w n s		Restructuring (Recovery) for the year ended June 30, 2004
	Cash		Cash	Non-cash	
Workforce reduction	\$ 609,911	\$ 538,147	\$ -	\$ -	\$ (71,764)
Excess facility costs/ asset writedowns	214,771	244,389	31,908	61,526	
	\$ 824,682	\$ 782,536	\$ 31,908	\$ -	\$ (10,238)

As a result of the 2002 decision to restructure the Company, and due to economic events and circumstances relating to expected growth and changes in the family of products, the Company recognized an impairment of goodwill amounting to \$2,235,114.

6. LONG-TERM DEBT

On Jan. 7, 2003, the Company negotiated a term line of credit for \$1,200,000 with the Business Development Bank of Canada ("BDC"). This facility bears interest at 75 basis points over the bank's floating base rate

and is secured by a direct charge against online network infrastructure assets of \$1,400,000 and a general security agreement. Funds from this facility will be used for general working capital purposes, with the exception of \$200,000, which is to be kept on deposit with the BDC. This \$200,000 has been disclosed as restricted cash at June 30, 2004 and 2003.

On Nov. 18, 2003, the Company negotiated the financing of tenant leasehold improvement costs with the landlord of the Company's new office building. The landlord has agreed to finance, over the initial terms of the lease, 80 per cent of the leasehold costs at an interest rate of seven per cent.

	June 30, 2004
Term line of credit	\$ 739,000
Tenant improvement loan	264,000
Current portion	(340,800)
	\$ 662,200

The aggregate amount of payments required in each of the next five years ended June 30 on the above indebtedness is as follows:

Year	\$
2005	340,800
2006	340,800
2007	215,800
2008	52,800
2009	52,800
	\$ 1,003,000

7. COMMITMENTS

(a) Operating leases

Minimum future payments under non-cancellable operating leases for computer equipment and office space are as follows:

	June 30, 2004
2005	\$ 312,559
2006	230,526
2007	241,062
2008	251,937
2009	126,875
Total minimum lease payments	\$ 1,162,959

(b) Outsourcing fee and licensing commitments

Bridges has entered into certain outsourcing and third party technology licensing arrangements. As at June 30, 2004, minimum future commitments under these arrangements are as follows:

	June 30, 2004 (\$US)
2005	\$ 910,176
2006	710,176
2007	310,176
	\$ 1,930,528

(c) Credit facilities

On Aug. 12, 2004, the Company negotiated an operating line of credit, subject to meeting certain covenants, with a Canadian commercial bank to borrow up to \$1,000,000, which bears interest at market rates and is secured by a first charge and general security agreement over all assets. As of June 30, 2004, no amounts were outstanding under the facility.

8. SHARE CAPITAL

(a) Authorized

Unlimited common shares without par value
Unlimited preferred shares without par value

(b) Common shares issued and outstanding and share purchase loans

	June 30, 2004		June 30, 2003	
	Shares	Amount	Shares	Amount
Balance, beginning of period	13,054,103	\$ 18,607,164	13,054,103	\$ 18,607,164
Shares repurchased and cancelled	(106,500)	(157,620)	-	-
Stock options exercised	100	65	-	-
	12,947,703	\$ 18,449,609	13,054,103	\$ 18,607,164
Less				
Share purchase loans	(437,400)	(749,900)	(437,400)	(749,900)
Shares repurchased and held in treasury	(7,700)	(8,988)	-	-
	12,502,603	\$ 17,690,721	12,616,703	\$ 17,857,264

(c) Normal course issuer bid

On Aug. 21, 2003, the Company announced its intention to initiate a normal course issuer bid. Under the terms of the bid, the Company may, during the 12-month period beginning Aug. 27, 2003, and ending Aug. 26, 2004, purchase on the Toronto Stock Exchange up to a maximum of 630,840 common shares in total. The actual number of common shares that may be purchased and the timing of any such purchases will be determined by the Company. The Company intends to cancel any common shares acquired under the bid. As at June 30, 2004, 114,200 shares have been purchased, of which 106,500 have been cancelled. The excess of the carrying value of the common shares over the purchase cost, amounting to \$69,203, has been recorded as follows:

	June 30, 2004
Contributed surplus balance, beginning of period	\$ -
Excess of carrying value of common shares cancelled over purchase cost	69,203
Stock based compensation expense	16,381
Contributed surplus balance, end of period	\$ 85,584

(d) Share purchase incentive program

During the year ended Nov. 30, 2001, share purchase loans of \$749,900 were issued for the purpose of purchasing 437,400 common shares of the Company at an average purchase price of \$1.71 per share. The loans have a maximum term of five years and bear interest at a rate of five per cent per annum payable annually on June 30. Security for the loan consists of a pledge of the common shares acquired under the loan plus a promissory note in an amount equal to 50 per cent of the value of the pledged common shares at the time the loan is called. These loans have been classified against share capital. As at June 30, 2004, the market value of these shares was \$612,360.

(e) Stock option plan

Under the Company's stock option plan, the Company may grant options

to acquire common shares to directors, officers, employees and other key personnel of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock on the date of grant. The maximum option term is five years. Options granted under the plan vest one-third a year after the grant date and one-third each subsequent year.

The Company has options outstanding under this plan as follows:

Options	June 30, 2004		June 30, 2003	
	Common Shares	Weighted-Average Exercise Price	Common Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	1,362,650	\$ 2.71	1,348,134	\$ 3.71
Granted	373,400	0.75	432,250	0.69
Exercised	(100)	0.65	-	-
Cancelled	(308,950)	3.59	(417,734)	3.85
Outstanding at end of period	1,427,000	\$ 2.01	1,362,650	\$ 2.71
Exercisable at end of period	548,700	\$ 4.00	713,833	\$ 4.10

The following table summarizes information about stock options outstanding and exercisable at June 30, 2004:

Options Outstanding

Range of Exercise Prices	Weighted Average Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Number Exercisable	Weighted-Average Exercise Price per Exercisable Share
\$0.65-\$1.01	\$0.77	925,100	4.3	50,000	\$1.04
\$2.05-\$2.85	\$2.52	28,500	2.0	25,300	\$2.58
\$3.00-\$3.90	\$3.72	242,400	1.1	242,400	\$3.72
\$4.26-\$4.75	\$4.28	161,000	1.5	161,000	\$4.28
\$7.00	\$7.00	70,000	1.0	70,000	\$7.00
		<u>1,427,000</u>		<u>548,700</u>	

During the first quarter of 2003, the Company undertook an employee share option reset program. Under this program, non-executive employees had the choice of surrendering their options in exchange for new options at the ratio of one new share option per two share options surrendered. In total, 229,100 share options were cancelled under the program. On June 23, 2003, 85,550 share options were issued, exercisable at \$0.65 per common share. Options granted under this program have an option term of five years and vest 20 per cent at the grant date and 20 per cent every six months thereafter.

(f) Stock-based compensation

Effective July 1, 2003, in accordance with the new accounting recommendations for stock-based compensation, the Company elected to adopt the fair value method for stock-based employee compensation on a prospective basis. The Company recorded a stock-based compensation of \$16,381 in the statement of operations and the same amount was recorded as contributed surplus. The following table illustrates the effect on net loss as if the fair value-based method had been applied to all options awarded on or after Dec. 1, 2002:

	Year ended June 30, 2004	Year ended June 30, 2003	Seven months ended June 30, 2003
Net Loss			
As reported	\$ (3,498,806)	\$ (9,049,820)	\$ (4,872,389)
Add:			
Stock-based employee compensation expense included in net loss	16,381	-	-
Deduct:			
Total stock-based employee compensation expense determined under fair value based method for all awards from original effective date of December 1, 2002	(65,259)	(22,167)	(22,167)
Pro forma	\$ (3,547,684)	\$ (9,071,987)	\$ (4,894,556)
Loss per share:			
As reported:			
Basic	\$ (0.28)	\$ (0.74)	\$ (0.40)
Pro forma			
Basic	\$ (0.29)	\$ (0.75)	\$ (0.40)

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	Year ended June 30, 2004	Year ended June 30, 2003	Seven months ended June 30, 2003
Expected Dividends	0%	0%	0%
Expected Volatility	64%	73%	73%
Risk-Free Interest Rate	2.25%	2.25%	2.25%
Expected Option Life in Years	3	3	3

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options. The option pricing models require the input of highly subjective assumptions, including the expected price volatility. Bridges uses expected volatility rates, which are based on historical volatility rates trended into future years. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of Bridges stock options.

9. LOSS PER SHARE

Basic loss per share is calculated based on the weighted average number of shares outstanding during the period of 12,137,423 (June 30, 2003: 12,179,303). Contingently returnable shares, including shares securing share purchase loans, are not considered outstanding for the purpose of calculating the weighted average number of shares for calculating basic loss per share.

	June 30, 2004	June 30, 2003
Common shares outstanding at end of period	12,502,603	12,616,703
Adjustment for weighting	72,220	-
Weighted average number of common shares outstanding	12,574,823	12,616,703
Contingently returnable shares securing shareholder loans	(437,400)	(437,400)
	12,137,423	12,179,303

During the period, options may be exercised or shares may be repurchased and cancelled by the Company, which will result in the number of outstanding shares fluctuating during the period. The weighted average number of shares outstanding at the end of the period takes these fluctuations into account in the calculation of loss per share.

10. INCOME TAXES

The Company's income tax expense for the years ended June 30, 2004 and 2003, and seven-month period ended June 30, 2003, consists of the following:

	Year ended June 30, 2004	Year ended June 30, 2003	Seven months ended June 30, 2003
Current tax expense (recovery)	\$ 50,265	\$ -	\$ (12,349)
Future tax expense	-	2,140,514	-
	\$ 50,265	\$ 2,140,514	\$ (12,349)

The reported income tax expense differs from the amount computed applying Canadian basic statutory rate to the income before income taxes. The reasons for this difference and the related tax effect are as follows:

	Year ended June 30, 2004	Year ended June 30, 2003	Seven months ended June 30, 2003
Canadian basic statutory tax rate	37%	37%	37%
Expected income tax recovery	\$ (1,276,000)	\$ (2,556,000)	\$ (1,807,000)
Non-deductible portion of expenses and goodwill impairment	-	-	-
Capital taxes included in provision	-	-	(12,349)
Benefit of accrued restructuring charge not recognized	557,000	306,000	552,000
Benefit of losses not tax effected	657,265	1,535,000	510,000
Benefit of research and development expenses recognized	-	-	(384,000)
Benefit of temporary differences not recognized	112,000	715,000	1,129,000
Reversal of benefit of previously recognized tax assets and rate reductions	-	2,140,514	-
	\$ 50,265	\$ 2,140,514	\$ (12,349)

Temporary differences and carryforwards which give rise to the following future income tax assets and liabilities as at June 30 are as follows:

	June 30, 2004	June 30, 2003
Future income tax assets		
Tax loss carryforwards	\$ 2,520,000	\$ 1,390,000
Property and equipment	55,000	847,000
Deferred financing fees	9,000	133,000
Intangibles	1,025,000	1,120,000
Accrued restructuring charge	182,000	302,000
Research and development expenses	501,000	550,000
Valuation allowance for future income tax assets	(4,292,000)	(4,342,000)
Net future income tax assets	\$ -	\$ -

As at June 30, 2004, subject to the approval of Canada Revenue Agency, the Company has approximately \$1,500,000 of scientific research and experimental development expenditures available for unlimited carryforward and \$6,500,000 of non-capital losses which expire at various dates between 2005 and 2011, all of which may be used to reduce future Canadian income taxes otherwise payable. In addition, the Company has U.S. net operating loss carryforwards of approximately \$650,000.

11. FINANCIAL INSTRUMENTS

(a) Fair value

The carrying value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities as reflected in the balance sheets approximates their respective fair values as at June 30, 2004 and 2003, because of the demand or short-term maturity of these instruments.

(b) Credit risk

The Company is subject to normal credit risk as it carries significant accounts receivable from many customers. Bad debt experience has not been significant. Cash and cash equivalents are held in high-quality financial instruments to mitigate exposure to credit risk.

(c) Foreign exchange risk

The Company undertakes significant sales in United States dollars and as such is subject to risk due to fluctuations in exchange rates. From time to time, the Company enters into forward exchange contracts to limit its exposure to foreign exchange risk.

As at June 30, 2004, the Company had entered into foreign exchange contracts expiring at various dates between July 1, 2004 and Oct. 29, 2004, to sell US \$1,800,000. The fair value of the contracts at June 30, 2004, was approximately \$2,401,452. The settlement value of the contracts at maturity is \$2,434,930. The difference of \$33,478 has been booked to foreign exchange gain.

12. SEGMENTED INFORMATION

The Company manages its operations in one business segment, the development, marketing and delivery of career information database products and services through the Internet and on CD-ROM. All of the Company's long-lived assets are located in Canada. The Company attributes revenue among geographical areas based on the location of the customers involved.

	Year ended June 30, 2004	Year ended June 30, 2003	Seven months ended June 30, 2003
Canada	10% \$ 1,393,752	10% \$ 1,659,497	11% \$ 532,470
United States	90% \$ 12,505,203	90% \$ 14,287,477	89% \$ 4,283,212
	\$ 13,898,955	\$ 15,946,974	\$ 4,815,682

13. CONTINUITY OF INVOICING AND DEFERRED REVENUE

The Company invoices customers at the outset of the subscription or, for non-subscription products, at the time of shipment. Revenue is recognized based on the nature of the product or service provided. Direct deferred costs related to these products or services are generally expensed over the life of the subscription of the product sold. The following is a continuity schedule reconciling billings to revenue recognized:

	Year ended June 30, 2004	Year ended June 30, 2003	Seven months ended June 30, 2003
\$US Invoicing	\$ 10,123,465	\$ 11,326,505	\$ 4,434,837
Conversion Rate	1.36	1.52	1.45
\$US Invoicing in Canadian \$	13,741,019	17,189,368	6,427,954
\$Canadian Invoicing	1,729,887	1,907,822	764,498
Total Invoicing	15,470,906	19,097,190	7,192,452
Plus: opening deferred revenue	5,968,896	2,818,680	3,592,126
Less: ending deferred revenue	(7,540,847)	(5,968,896)	(5,968,896)
Revenue	\$ 13,898,955	\$ 15,946,974	\$ 4,815,682

14. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2004, the Company paid \$271,108 (seven months ended June 30, 2003: \$132,500) in consulting fees to a company controlled by the CEO who is also a director of Bridges. These fees are paid as compensation for duties performed as CEO and director of Bridges. In addition, during the year ended June 30, 2004, the Company incurred charges of \$80,964 (seven months ended June 30, 2003: \$34,085 related to online network infrastructure costs, consulting of \$32,013, and related expenses of \$2,072) for furniture and consulting expenses from a company related by way of a director in common.