

## INDEPENDENT AUDITORS' REPORT

To The Board of Directors and Shareholders of Hop-on.com, Inc. and subsidiaries

We have audited the accompanying consolidated balance sheet of Hop-on.com, Inc. and subsidiaries (a development stage company) as of December 31, 2002, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years ended December 31, 2002 and 2001, and for the period from inception March 16, 1993 to December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hop-on.com, Inc. and subsidiaries as of December 31, 2002, and the results of its operations and its cash flows for the years ended December 31, 2002 and 2001, and for the period from Inception March 16, 1993 to December 31, 2002, in conformity with accounting principles generally accepted in the United States.

Spector & Wong, LLP  
Pasadena, California  
July 17, 2003

**HOP-ON.COM, INC. AND SUBSIDIARIES**  
**(A Development Stage Company)**

**CONSOLIDATED BALANCE SHEET**  
**December 31, 2002**

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**ASSETS**

Current Assets,	
Cash	\$ 130,065
Accounts receivable	4,283
Inventory	533,361
Prepaid expenses	84,904
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	752,612
Property and equipment, less accumulated depreciation of \$23,892	21,924
Goodwill and other intangible assets, net	5,530,000
Other assets	37,052
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<b>TOTAL ASSETS</b>	<b>\$ 6,341,587</b>

**LIABILITIES AND STOCKHOLDERS' DEFICIT**

Current Liabilities	
Accounts payable	\$ 768,057
Other accrued expenses	5,312,015
Accrued interest	304,327
Litigation settlement reserve	183,511
Notes payable to third parties, current	191,250
Net current liabilities of discontinued operations	49,620
Total Current Liabilities	<hr/>
	6,808,780
Long-term Liabilities,	
Notes payable to third parties	511,821
Notes payable to related parties	1,107,630
	<hr/>
	1,619,451
Total Liabilities	<hr/>
	8,428,231
Stockholders' Deficit	
Common stock, \$0.001 par value; authorized 200,000,000 shares; issued and outstanding 98,633,587	98,634
Common stock - reserved	52,596
Additional paid-in capital	10,286,243
Paid-in capital for stock warrants	30,000
Deficit accumulated in the development stage	(12,554,117)
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	(2,086,644)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 6,341,587</b>

See notes to consolidated financial statements

**HOP-ON.COM, INC. AND SUBSIDIARIES**  
**(A Development Stage Company)**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

	For Years ended December 31,		Mar.16,1993 (Inception) to Dec.31,2002
	2002	2001	
Sales - products	\$ 4,283	\$ 0	\$ 4,283
Cost and expenses:			
Cost of products	29,576	0	29,576
Selling, Administrative and General Expenses	3,015,649	3,252,955	6,998,206
Research and Development	1,342,063	256,835	1,598,898
	<u>4,387,289</u>	<u>3,509,790</u>	<u>8,626,681</u>
<b>Operating (loss)</b>	<u>(4,383,006)</u>	<u>(3,509,790)</u>	<u>(8,622,398)</u>
Other Income(Expenses)			
Interest income	224	74	307
Interest expense	(166,814)	(182,182)	(525,999)
	<u>(166,590)</u>	<u>(182,107)</u>	<u>(525,692)</u>
<b>(Loss) from continuing operations</b>	<u>(4,549,596)</u>	<u>(3,691,897)</u>	<u>(9,148,090)</u>
Income (Loss) from discontinuing operations, net of applicable tax benefits of \$0	<u>0</u>	<u>246,164</u>	<u>(3,406,027)</u>
<b>Net (loss)</b>	<u>\$ (4,549,596)</u>	<u>\$ (3,445,734)</u>	<u>\$ (12,554,117)</u>
Per share of common stock:			
(Loss) from continuing operations	\$ (0.06)	\$ (0.07)	
Income (Loss) from discontinued operations	-	0.00	
Net (loss) - basic and diluted	<u>\$ (0.06)</u>	<u>\$ (0.07)</u>	
Weighted average number of shares	71,441,666	52,418,972	

See notes to consolidated financial statements

**HOP-ON.COM, INC. AND SUBSIDIARIES**  
**(A Development Stage Company)**

**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**For period from March 16, 1993 to December 31, 2002**

	Common Stock		Common Stock Reserved	Paid-in Capital	Paid-in Capital for Stock Warrants	Paid-in Capital for Stock Subscription	Accumulated Deficit	Total
	Shares	Amount						
Balance at March 16, 1993 (Inception)	0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Issued stock for cash on April 7, 1993	1,860	1,860					0	0
Stock split 1000:1 on July 14, 1998	1,858,140	0					0	0
Net (loss) for the year							(1,860)	0
Balance at December 31, 1993, retroactively restated	1,860,000	1,860	0	0	0	0	(1,860)	0
Net loss for the year							0	0
Balance at December 31, 1994	1,860,000	1,860	0	0	0	0	(1,860)	0
Net loss for the year							0	0
Balance at December 31, 1995	1,860,000	1,860	0	0	0	0	(1,860)	0
Net loss for the year							0	0
Balance at December 31, 1996	1,860,000	1,860	0	0	0	0	(1,860)	0
Net loss for the year							0	0
Balance at December 31, 1997	1,860,000	1,860	0	0	0	0	(1,860)	0
Common stock issued to acquire assets	16,740,000	16,740		483,260			0	500,000
Net (loss) for the year							(26,538)	(26,538)
Balance at December 31, 1998	18,600,000	18,600	0	483,260	0	0	(28,398)	473,462
Reserved stock to acquire assets			65,314	1,894,094				1,959,408
Issued stock for:								
Cash	505,000	505		54,495				55,000
Reserve	12,752,288	12,752	(12,752)					0
Services and expenses	1,341,500	1,342		334,033				335,375
Net (loss) for the year							(3,874,985)	(3,874,985)
Balance at December 31, 1999	33,198,788	33,199	52,562	2,765,882	0	0	(3,903,383)	(1,051,740)
Issued stock for:								
Cash	450,000	450		74,550				75,000
Services and expenses	1,001,000	1,001		111,034				112,035
Notes payable	1,435,000	1,435		218,565				220,000
Interest expense	195,000	195		39,230				39,425
Property and equipment	100,000	100		19,426				19,526
Reserve	6,842,797	6,843	(6,843)					0
Net (loss) for the year							(655,404)	(655,404)
Balance at December 31, 2000	43,222,585	43,223	45,719	3,228,687	0	0	(4,558,787)	(1,241,158)

See notes to consolidated financial statements

**HOP-ON.COM, INC. AND SUBSIDIARIES**  
**(A Development Stage Company)**

**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**For period from March 16, 1993 to December 31, 2002**

	Common Stock		Common Stock	Paid-in	Paid-in Capital	Paid-in Capital	Accumulated	Total
	Shares	Amount	Reserved	Capital	for Stock Warrants	for Stock Subscription	Deficit	
Received cash for stock subscriptions						599,800		599,800
Reserved stock for business acquisition			30,000	470,000				500,000
Issued stock for:								
Cash	4,803,778	4,804		595,341		(153,995)		446,150
Services and expenses	6,627,750	6,627		1,466,601				1,473,228
Notes payable	615,000	615		135,722				136,337
Interest expense	170,000	170		87,380				87,550
Reserve	5,408,524	5,409	(5,409)					0
Net (loss) for the year							(3,445,734)	(3,445,734)
Balance at December 31, 2001	60,847,637	60,848	70,310	5,983,731	0	445,805	(8,004,521)	(1,443,827)
Issued stock for:								
Cash	11,859,650	11,860		2,046,196				2,058,056
Services and expenses	6,888,535	6,889		1,375,807				1,382,695
Notes payable	845,000	845		142,448				143,293
Interest expense	247,000	247		61,887				62,134
Reserve	17,714,096	17,714	(17,714)					0
Stock subscriptions	2,271,669	2,272		443,533		(445,805)		(0)
Reduction of liabilities	900,000	900		209,700				210,600
Prepaid expenses	60,000	60		19,940				20,000
Retirement of common stock	(3,000,000)	(3,000)		3,000				0
Issued stock warrants for services					30,000			30,000
Net (loss) for the year							(4,549,596)	(4,549,596)
Balance at December 31, 2002	98,633,587	\$ 98,634	\$ 52,596	\$10,286,242	\$ 30,000	\$ 0	\$(12,554,117)	\$(2,086,644)

See notes to consolidated financial statements

**HOP-ON.COM, INC. AND SUBSIDIARIES**  
**(A Development Stage Company)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For Years ended December 31,		Mar.16,1993 (Inception) to Dec.31,2002
	2002	2001	
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>			
Net (loss) from continuing operations	\$ (4,549,596)	\$(3,691,897)	\$(9,148,090)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation	8,546	7,700	23,892
Note payable for legal expenses	0	513,700	513,700
Stock for services	1,382,696	1,473,228	2,936,674
Stock for interest payments	62,134	87,550	189,109
Stock warrants for services	30,000	0	30,000
(Increase) in:			
Accounts receivable	(4,283)	0	(4,283)
Inventory	(533,361)	0	(533,361)
Prepaid and other assets	(101,956)	0	(101,956)
Increase in accounts payable and accrued expenses	1,167,471	567,468	1,878,510
Net cash used for operating activities of continuing operations	(2,538,347)	(1,042,251)	(4,215,804)
Net cash used for operating activities of discontinued operations	0	0	(519,062)
<b>Net cash used in operating activities</b>	<b>(2,538,347)</b>	<b>(1,042,251)</b>	<b>(4,734,866)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>			
Purchase of property and equipment-continuing operations	(7,314)	0	(26,289)
Acquisition of intangible assets-continuing operations	(5,030,000)	0	(5,030,000)
Increase in accrued expenses to acquire intangible assets	4,900,000	0	4,900,000
Purchase of property and equipment-discontinued operations	0	0	(11,277)
<b>Net cash used in investing activities</b>	<b>(137,314)</b>	<b>0</b>	<b>(167,566)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>			
Cash Overdraft	0	(702)	0
Proceeds from issuance of stock	2,058,056	446,150	2,636,066
Proceeds from stock subscriptions	0	599,800	599,800
Proceeds from notes payable to third parties	240,000	47,500	697,500
Net repayment on notes payable to third parties	(2,500)	(8,000)	(10,500)
Loan from related party	301,403	166,269	1,109,630
<b>Net cash provided by financing activities</b>	<b>2,596,959</b>	<b>1,251,017</b>	<b>5,032,496</b>
Net Increase (Decrease) in Cash	(78,701)	208,766	130,065
Cash Balance at beginning of Period	208,766	0	0
<b>Cash Balance at end of Period</b>	<b>\$ 130,065</b>	<b>\$ 208,766</b>	<b>\$ 130,065</b>

See notes to consolidated financial statements

**HOP-ON.COM, INC. AND SUBSIDIARIES**  
**(A Development Stage Company)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For Years ended December 31,		Mar. 16, 1993 (Inception) to Dec. 31, 2002
	2002	2001	
<b>Supplemental Cash Flow Information:</b>			
Interest paid	\$ 0	\$ 0	\$ 20,007
<b>Supplemental schedule of noncash investing and financing activities:</b>			
Issuance of stock:			
To acquire intangible assets	\$ 0	\$ 0	\$ 500,000
To acquire property and equipment	\$ 0	\$ 0	\$ 19,426
In reduction of notes payable	\$ 143,293	\$ 134,087	\$ 499,630
In reduction of liabilities	\$ 210,600	\$ 0	\$ 210,600
For prepaid expenses	\$ 20,000	\$ 0	\$ 20,000
Common stock to be issued:			
Intangible assets acquired	\$ 0	\$ 0	\$ 1,959,408
In connection with acquisition	\$ 0	\$ 500,000	\$ 500,000

**HOP-ON.COM, INC. AND SUBSIDIARIES**  
**(A Development Stage Company)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1 – ORGANIZATION AND BUSINESS ACTIVITIES**

Hop-On.com, Inc. and subsidiary ("the Company") was formed under the laws of Nevada on March 16, 1993 under the name of New Discoveries Publishing Corporation and adopted later as NWDP.com, Inc. In June 2000, the Company changed its name to Hop-On.com, Inc. The Company was also qualified to transact business in the State of California on March 24, 1999.

In December 1998, the Company acquired the source code of a "client-server based, on-line gaming software" from Pan Atlantic Holding Company (a Bahamas corporation), which was subject to an exclusive license with World Wide Web Casinos for their use as Net Pirates Casinos and Camelot Casinos. Concurrent with the acquisition the Company actively sought proper regulatory approvals through Australia and Canada for the licensing of its gaming software with G7 countries.

In June 1999 the Company acquired the worldwide software licensing rights for the on-line gaming software. The Company ceased this operation at the year-end of 2000 based upon its inability to acquire regulatory approvals above described.

In 2000 the Company entered into agreements to provide telecommunication services, i.e. Free Internet Access using Digital Subscriber Line (DSL) technology when using the Company's long distance telephone service.

In 2001 the Company shifted emphasis to develop and market wireless phone products. The Company is devoting substantially all of its efforts towards conducting cellular phone development, raising capital, pursuing regulatory approval for products under development, recruiting personnel and building infrastructure. In the course of such activities, the Company has sustained operating losses and expects such losses to continue for the foreseeable future. The Company has not generated any significant revenues or product sales and has not achieved profitable operations or positive cash flow from operations. The Company's deficit accumulated during the development stage aggregated \$12.5 million through December 31, 2002. There is no assurance that profitable operations, if ever achieved, could be sustained on a continuing basis.

The Company plans to continue to finance its operations with a combination of stock issuances and debt issuances and, in the long term, revenues from product sales. There are no assurances, however, that the Company will be successful in obtaining an adequate level of financing needed for the long-term development and commercialization of its planned products.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principal of consolidation The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries, Hop-on.com.Au Pty, Ltd. (formerly known as New Discoveries Publishing Pty, Ltd., an Australia corporation), Hop-on Telecom, Inc. and Hop-on Wireless, Inc., after elimination of all material intercompany accounts and transactions.

Use of Estimate The preparation of the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Revenue Recognition The Company adopted Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). The adoption of SAB 101 did not have a material impact on the Company's operating results or financial positions.

**HOP-ON.COM, INC. AND SUBSIDIARIES**  
**(A Development Stage Company)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Company recognizes revenue when persuasive evidence of a final agreement exists, delivery has occurred, the selling price is fixed or determinable and collectibility is reasonably assured. No provisions were established for estimated product returns and allowances since the sales were minimal.

Deleted: is

Cash and Cash Equivalents For purposes of the statements of cash flows, the Company considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Fair Value of Financial Instruments The carrying amounts of the financial instruments have been estimated by management to approximate fair value.

Accounts Receivable Management of the Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Inventories Inventories are stated at the lower of cost (first-in, first-out) or market.

Property and Equipment Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of assets. Estimated useful lives of 5 years are used for computer equipment and related software and 3 to 7 years for office equipment.

Goodwill and Other Intangible Assets Intangible assets consist of licenses and intellectual property acquired. Goodwill represents the excess acquisition cost over the fair value of tangible and identified intangible net assets acquired.

Income Taxes Income tax expense is based on pretax financial accounting income. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts.

Impairment of Long-Lived Assets Long-lived assets and certain identifiable intangible assets to be held and used are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use is based on the fair value of the asset. Long-lived assets and certain identifiable intangible assets to be disposed of are reported at the lower of carrying amount or fair value costs to sell.

Extinguishments of Liabilities In December 2001, the Company adopted SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," a replacement of SFAS No. 125, which provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. SFAS 140 requires that a liability be derecognized if and only if either (a) the debtor pays the creditor and is relieved of its obligation for the liability or (b) the debtor is legally released from being the primary obligor under the liability either judicially or by the creditor. Therefore, a liability is not considered extinguished by an in-substance defeasance.

Advertising Costs All advertising costs are expensed as incurred. Advertising expenses amounted to \$85,067 and \$5,173 for the years ended December 31, 2002 and 2001, respectively.

**HOP-ON.COM, INC. AND SUBSIDIARIES**  
**(A Development Stage Company)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Research and Development Research and product development costs are expensed as incurred.

Derivatives In June 1998, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138, which was issued in June 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments. The Company currently does not use derivative financial products for hedging or speculative purposes and as a result, does not anticipate any impact on the Company's financial statements.

Stock-based Compensation The Company accounts for equity-based instruments issued or granted to employees using the intrinsic method as prescribed under APB No. 25 Accounting for Stock Issued to Employees. During 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation," which defines a fair value based method of accounting for stock options or similar equity instruments. The Company has elected to adopt the disclosure-only provisions of SFAS No. 123 in accounting for employee stock options. The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123 and the Emerging Issues Task Force (EITF) Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." SFAS No. 123 states that equity instruments that are issued in exchange for the receipt of goods or services should be measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. Under the guidance in Issue 96-18, the measurement date occurs as of the earlier of (a) the date at which a performance commitment is reached or (b) absent a performance commitment, the date at which the performance necessary to earn the equity instruments is complete (that is, the vesting date).

Foreign Currency Translation The functional currency of the Australian subsidiary is U.S. dollar, translation adjustments are recorded in other income (loss).

Computation of Net Loss per Share Basic net income (loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average of common and diluted potential common shares outstanding during the period. Diluted net loss per share is computed using the weighted-average number of common shares and excludes dilutive potential common shares outstanding, as their effective is antidilutive. As of December 31, 2002, the Company had 200,000 stock warrants, which have not been used in the calculation of diluted net loss per share because to do so would be anti-dilutive. The Company has no dilutive items for year 2001.

New Accounting Standards: In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement updates, clarifies and simplifies existing accounting pronouncements. The provisions of this Statement related to the rescission of Statement No. 4 are to be applied for fiscal years beginning after May 15, 2002. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in Opinion No. 30 for classification as an extraordinary item should be reclassified. Provisions of the Statement related to the amendment of Statement No. 13 should be applied for transactions occurring after May 15, 2002, and all other provisions should be applied for financial statements issued on or after May 15, 2002. Management does not anticipate that the adoption of this Statement will have a significant effect on the Company's financial statements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**HOP-ON.COM, INC. AND SUBSIDIARIES**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

In June 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. Previous accounting guidance provided by EITF Issue No. 94-3, "Liability Recognition for Certain employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" is replaced by this Statement. Statement 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. Management does not anticipate that the adoption of this Statement will have a significant effect on the Company's financial statements.

In November 2002, the EITF finalized Issue No. 00-21. "Revenue Arrangements with Multiple Deliverables." EITF 00-21 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. EITF 00-21 also addresses how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. However, it does not address when criteria for revenue recognition are met or provide guidance on the appropriate revenue recognition convention for a given unit of accounting. EITF 00-21 is effective for all revenue arrangements entered into in fiscal periods beginning after June 15, 2003, and early application is permitted. Upon adoption, entities may elect to either apply EITF 00-21 prospectively or report the change in accounting as a cumulative-effect adjustment. The Company has not yet determined the effect the adoption of EITF 00-21 will have on its financial condition or results of operations.

In November 2002, the FASB issued FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a rollforward of the entity's product warranty liabilities. The Company will apply the recognition provisions of FIN 45 prospectively to guarantees issued after December 31, 2002. The Company is currently in the process of evaluating the potential impact that the adoption of FIN 45 will have on its consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and APB Opinion No. 28, "Interim Financial Reporting," to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While SFAS No. 148 does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS No. 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB Opinion 25.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the entity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company has not determined the effect, if any, the adoption of FIN 46 will have on its consolidated financial statements.

**HOP-ON.COM, INC. AND SUBSIDIARIES**  
**(A Development Stage Company)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3 – BUSINESS ACQUISITION**

On April 20, 2001, the Company acquired Hop-on Wireless, Inc. (“Hop-On Wireless”) from the Company’s former President. The primary asset of Hop-On Wireless at the time of acquisition was the research and development conducted for a prepaid wireless business model. The acquisition is expected to position the Company to enter into telecommunications industry by leveraging Wireless’s existing knowledge and technology in wireless phone development. Under the terms of the acquisition, the Company agreed to issue 30 million restricted shares of the Company’s common stock valued at \$500,000 using an average market price of \$0.07 per share, discounted 76% to \$0.017 per share. The average market price was based on the average closing price for a range of trading days around the announcement date of the acquisition. As of December 31, 2002, the 30 million shares were reserved but had not been issued.

The total purchase price of the acquisition is summarized as follows:

Value of common stock issued	\$500,000
Total purchase price	<u>\$500,000</u>

The allocation of total purchase price was as follows:

Goodwill	\$500,000
Total purchase price	<u>\$500,000</u>

The acquisition was accounted for as a purchase transaction in accordance with SFAS No. 141. No tangible assets were acquired and no liabilities were assumed from the acquisition. The results of operations have been included in the Company’s financial statements subsequent to the date of acquisition. Pro forma of operations have not been presented because the effect of the acquisition was not material.

Goodwill, which represents the excess of the purchase price over the fair value of tangible and identified assets acquired, is not being amortized but will be reviewed annually for impairment or more frequently if impairment indicators arise, in accordance with SFAS No. 142. Goodwill is expected to be deductible for tax purposes over 15 years under Internal Revenue Code 197.

**NOTE 4 – BALANCE SHEET DETAILS**

Inventories

The components of inventories were as follows:

	2002	2001
Raw Materials and Purchased Parts	\$ 533,361	\$ -
Work-in Process	-	-
Finished Goods	-	-
	<u>\$ 533,361</u>	<u>\$ -</u>

**HOP-ON.COM, INC. AND SUBSIDIARIES**  
**(A Development Stage Company)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 – BALANCE SHEET DETAILS (Continued)**

Property and Equipment, net

The components of property and equipment were as follows:

	2002	2001
Office Equipment	\$ 22,109	\$ 18,975
Computer Equipment	23,707	19,526
Less: Accumulated Depreciation	(23,892)	(15,346)
	<u>\$ 21,924</u>	<u>\$ 23,156</u>

Goodwill and Other Intangible Assets, net

The components of goodwill and other intangible assets were as follows:

	2002	2001
Goodwill	\$ 500,000	\$ 500,000
Licenses and other intellectual property	5,030,000	-
	<u>5,530,000</u>	<u>500,000</u>
Less: Accumulated Amortization	0	0
	<u>\$ 5,530,000</u>	<u>\$ 500,000</u>

Accrued Expenses

The components of accrued expenses were as follows:

	2002	2001
License fees payable	\$ 4,950,000	\$ -
Accrued payroll and taxes	212,015	76,722
Other	150,000	210,600
	<u>\$ 5,312,015</u>	<u>\$ 287,322</u>

**NOTE 5 – NOTES PAYABLE TO THIRD PARTIES**

In August 2001, the Company entered into an Executive Forbearance Agreement with an attorney to settle a claim of \$548,700. The Company agreed to pay \$35,000 in cash and issue 300,000 free trading shares of the Company's common stock to the attorney. Up to 100,000 shares per month may be traded, in the attorney's sole and absolute discretion. If all 300,000 shares are sold and the balance of \$513,700 is not fully satisfied, the Company will transfer 240,000 free trading shares per fiscal quarter until the judgment is fully satisfied, including accrued interest at the legal rate beginning on August 3, 2001, which is at 12%. During the years ended December 31, 2002 and 2001, 720,000 and 540,000 shares had been issued in the sum of \$107,793 and \$134,087, net of interest charges of \$37,434 and \$24,550, respectively.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 – NOTES PAYABLE TO THIRD PARTIES (Continued)**

The balance of notes payable to third parties consist of the following:

	December 31,	
	2002	2001
a.) Note payable shareholder - Interest accrued at 10% per annum; due 12/26/99. Personal guaranty of the CEO	\$ 25,000	\$ 25,000
b.) Note payable shareholder - Interest accrued at 10% per annum; due 3/6/01. Personal guaranty of the CEO	1,250	37,250
c.) Note payable shareholder - Interest accrued at 2% per month; due 1/14/00. Personal guaranty of the CEO	165,000	165,000
d.) Note payable attorney - Interest accrued at 12% per annum. Paid 240,000 shares quarterly and sold up to 100,000 shares per month	271,821	379,613
e.) Note payable shareholder - Interest accrued at 7% per annum; due on demand. Unsecured.	240,000	-
	<u>\$ 703,071</u>	<u>\$ 606,863</u>
Less: current portion	<u>(191,250)</u>	<u>(227,250)</u>
Notes payable to third parties, net	<u>\$ 511,821</u>	<u>\$ 379,613</u>

**NOTE 6 – PROVISION FOR INCOME TAXES**

No provision for income taxes was provided in the accompanying statement of operations. Due to net operating losses and the uncertainty of realization, no tax benefit has been recognized for operating losses.

The deferred net tax assets consist of the following at December 31:

	2001	2000
Net Operating Loss Carryforward	\$ 4,319,916	\$ 2,686,839
Amortization of Goodwill	(18,889)	(7,555)
Valuation Allowance	(4,301,027)	(2,679,284)
Net Deferred Tax Asset	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2002, net federal operating losses of approximately \$12.5 million are available for carryforward against future years' taxable income and expire through 2022. The Company's ability to utilize its federal net operating loss carryforwards is uncertain and thus a valuation reserve has been provided against the Company's net deferred tax assets.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 7 – DISCONTINUED OPERATIONS**

On April 23, 1999, the Company formed a foreign subsidiary in Australia under the name of New Discoveries Publishing Pty Ltd. and later adopted as Hop-On.Com.Au Pty, Ltd. (“NDP”) to license its online casino games business. In December 2000, the Company ceased NDP’s operations.

Pursuant to SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” the accompanying consolidated financial statements have been reclassified to reflect the discontinued business. Accordingly, the revenues, costs and expenses, assets and liabilities, and cash flows of the discontinued business have been segregated in the consolidated statements of operations, consolidated balance sheet and consolidated cash flows. The net operating results, net assets and net cash flows of this business have been reported as “Discontinued Operations.”

Following is summarized financial information for the discontinued operations:

	For years ended December 31,	
	2002	2001
Revenues <sup>a</sup>	\$ -	\$ 246,164
Cost and expenses	-	-
Income from discontinued operations <sup>b</sup>	\$ -	\$ 246,164
<b>NET LIABILITIES OF DISCONTINUED OPERATIONS</b>		
	December 31,	
	2002	2001
Assets	\$ -	\$ -
Liabilities - Accrued payroll taxes	(49,620)	(49,620)
Net (liabilities) of discontinued operations	\$ (49,620)	\$ (49,620)

(a) Revenue for year ended December 31, 2001 consists of gain on extinguishments of liabilities of \$246,164.

(b) There was no gain or loss on disposal of assets for the years ended December 31, 2002 and 2001.

Net cash used for operating activities of discontinued operations is as follows:

	For years ended December 31,	
	2002	2001
Net income from discontinued operations	\$ -	\$ 246,164
Adjustments to reconcile net income from discontinued operations to net cash provided by discontinued operations:		
Extinguishments of liabilities	-	(246,164)
Net cash provided by operating activities of discontinued operations	\$ -	\$ -

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 8 – NONCASH EXPENSES**

For year ended December 31, 2002

In 2002, the Company issued 1,092,000 shares of the Company's common stock to reduce notes payable in the amount of \$143,293 plus interest expense of \$62,134. The Company also issued 900,000 shares of common stock to retire a liability of \$210,600. In addition, the Company issued 6,888,535 shares of common stock for services rendered by nonemployees. The total cost of \$1,382,695 was charged to operations.

For year ended December 31, 2001

During 2001, the Company issued 615,000 shares of the Company's common stock to reduce notes payable in the amount of \$136,337 plus interest expense of \$24,550. The Company also issued 170,000 shares of common stock as interest payments on other short-term notes. The total amount of \$63,000 was charged to operations. In addition, the Company issued 6,627,750 shares of common stock for services rendered by nonemployees. The total cost of \$1,473,228 was charged to operations.

**NOTE 9 – COMMON STOCK-RESERVED**

In June 1999, the Company estimated and reserved 65,314,000 shares of common stock to facilitate the ready acquisition of the worldwide licensing rights to the gaming software that was valued at \$1,959,408. As of December 31, 2002, 42,717,705 shares had been issued, and the balance of 22,596,295 shares remained reserved.

As discussed in Note 3, the Company reserved 30,000,000 shares of common stock in 2001 to acquire a subsidiary. As of December 31, 2002, the shares had not been issued but remained reserved.

The balance of reserve common stock were as follows (in shares):

	2002	2001
Common stock reserved for		
Intangible assets acquired	22,596,295	40,310,391
Subsidiary acquired	30,000,000	30,000,000
	<u>52,596,295</u>	<u>70,310,391</u>

**NOTE 10 – NET LOSS PER SHARE**

The following table sets forth the computation of basic and diluted net loss per share:

For years ended December 31,	2002	2001
<u>Numerator:</u>		
Net (loss) from continuing operations	\$ (4,549,596)	\$ (3,691,897)
Net income from discontinued operations	-	246,164
Net (Loss)	<u>\$ (4,549,596)</u>	<u>\$ (3,445,734)</u>
 <u>Denominator:</u>		
Weighted Average of Common Shares	<u>71,441,666</u>	<u>52,418,972</u>
 Per share of common stock:		
Net (loss) from continuing operations	\$ (0.06)	\$ (0.07)
Net (loss) from discontinued operations	-	0.00
Net Loss per Share-basic and diluted	<u>\$ (0.06)</u>	<u>\$ (0.07)</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 11 – STOCK WARRANTS**

In 2002, the Company granted stock warrants to purchase 200,000 shares of common stock at the par value of \$0.001 per share in exchange for financial consulting services. These services were valued at \$30,000 and the entire amount was charged to operations in 2002. The warrants will expire in May 2005.

**NOTE 12 – AUTHORIZED SHARES**

On November 25, 2002, the Board of Directors amended its articles of incorporation to increase the authorized common stock to 200,000,000 shares and maintain the par value at \$0.001 per share.

**NOTE 13 – SEGMENT INFORMATION**

The Company is currently managed and operated as one business. The entire business is managed by a single management team that reports to the Company's President. The Company does not operate separate lines of business or separate business entities with respect to any of its product candidates. Accordingly, the Company does not prepare discrete financial information with respect to separate product areas or by location and does not have separately reportable segments as defined by SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information".

**NOTE 14 – RELATED PARTY TRANSACTIONS**

An affiliated company has advanced loans which are payable on demand with no due date. Interest is accrued at 7% per annum. The balance of these loans at December 31, 2002 and 2001 was \$1,107,630 and \$808,227, respectively. As of those dates, accrued interest amounted to \$157,164 and \$108,364, respectively.

The Company subleased office space from the affiliated company for \$6,424 per month from August 1998 to October 2002. Total lease payments to the affiliated company for the years ended December 31, 2002 and 2001 were \$64,240 and \$77,088, respectively.

**NOTE 15 – COMMITMENTS AND CONTINGENCIES**

Lease Commitments

On November 1, 2002, the Company relocated its operating facility under an operating lease with a term of 38 months and lease payments are \$9,862 per month. In February 2003, the Company leased another facility in Dallas, Texas for \$2,083 per month for 36 months. Including the lease payments paid prior to November 1, 2002 (as described in Note 14), the Company's total lease payments for the years ending December 31, 2002 and 2001 were \$89,227 and \$77,238, respectively.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**NOTE 15 – COMMITMENTS AND CONTINGENCIES (Continued)**

Future minimum payments under the lease for the years subsequent to December 31, 2002, are as follows:

<u>Year ending December 31,</u>	
2003	\$ 142,243
2004	150,575
2005	155,868
2006	<u>2,143</u>
	<u>\$ 450,829</u>

License Agreements

In August 2002, the Company entered into a Patent License Agreement with STX Corporation for the rights to certain patents relating to the sale of disposable phones. In October 2002, the Company entered into a Subscriber Unit License Agreement with Qualcomm, which granted the Company the right to make, have made, import, use, sell, lease or otherwise dispose of CDMA wireless phones that incorporate Qualcomm's intellectual property. In December 2002, the Company entered into a Patent License Agreement with InterDigital Technology Corporation which granted the Company the right to make, use, import sell and otherwise distribute CDMA and GSM wireless phones that incorporate InterDigital's intellectual property. The Company's obligations under these agreements involve initial payments and on-going royalties based on handset sales, with the actual terms of these agreements being subject to confidentiality agreements signed by the Company. As of December 31, 2002, the Company's accrued royalty obligation due to sales amounted to \$635.

Legal Proceedings

On or about June 22, 2001, before the Labor Commissioner of the State of California in the County of Orange and City of Santa Ana, the Company was ordered to pay a previous nonemployee a total sum of \$168,102.78, including \$148,584.72 for unpaid wages; \$8,305.56 for interest on wages pursuant to CA Labor Code sec. 98.1; and \$11,215.50 for waiting time penalties pursuant to CA Labor Code sec. 203. On April 28, 2003, the Company and the nonemployee entered into a Settlement Agreement and mutual release providing that the Company issue 600,000 free trading shares of the Company's common stock and issue 2 million (2,000,000) Rule 144 restricted trading shares to the nonemployee. As a result, the parties' obligations were mutually released. The total claim amount of \$168,102.78 was accrued in 2001.

In addition, as of December 31, 2001, the Company accrued a potential liability of \$15,408 based on its pending litigation.

The Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, management does not express that the ultimate costs to resolve these matters will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

**NOTE 16 – SUBSEQUENT EVENTS**

CEO's Resignation: On April 21, 2003, the Chairman of the Board, who was also the CEO and the President of the Company, resigned his positions as CEO and President of the Company. The current President of the Handset Division was elected to be the interim President of the Company.

**HOP-ON.COM, INC. AND SUBSIDIARIES**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 16 – SUBSEQUENT EVENTS (Continued)**

Termination of Qualcomm License: On April 21, 2003, Qualcomm informed the Company that its Subscriber Unit License Agreement had been terminated as a result of the Company's failure to comply with the initial payment obligation. Qualcomm has reserved its rights to legal action for any breach of the Subscriber Unit License Agreement, including the payment in full of the initial license fee. Unless and until the Qualcomm license is reinstated, the Company will need to have its CDMA phones manufactured by a third party manufacturer that is already licensed by Qualcomm.

Legal Proceedings: In 2003, the Company was named as a party in the following legal proceedings where the Company's potential exposure exceeds \$5,000:

- a) A consultant of the Company's subsidiary, NDP Australia, filed suit against the Company alleging that the Company was responsible for an alleged breach by NDP on its contract for services rendered and failed to pay licensing fees for year of 2001. The Plaintiff seeks damages in the amount of \$40,300 plus interest and attorney's fees. The Company believes that it has meritorious defenses to this action and is vigorously defending it.
- b) Arrow Electronics has filed litigation with a claim of \$244,890 for unpaid phone components provided to the Company. The claim was accrued as of December 31, 2002. The Company is seeking to settle this matter.