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DIAL THRU INTERNATIONAL CORP  
Form 10QSB  
June 14, 2005

United States  
Securities and Exchange Commission  
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

Quarterly Report Under Section 13 or 15(d) of the Securities  
Exchange Act of 1934

For the quarterly period ended April 30, 2005

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or

Transition Report Under Section 13 or 15(d) of the Exchange Act

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-22636  
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DIAL THRU INTERNATIONAL CORPORATION

-----  
(Exact name of small business issuer as specified in its charter)

Delaware

75-2461665

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer  
Identification No.)

17383 Sunset Boulevard, Suite 350  
Los Angeles, California

90272

-----  
(Address of principal executive offices)

-----  
(Zip Code)

(310) 566-1700

-----  
(Issuer's Telephone number)

N/A

-----  
(Former name, former address and former fiscal year,  
if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by  
Section 13 or 15(d) of the Exchange Act during the past 12 months (or for  
such shorter period that the registrant was required to file such reports),  
and (2) has been subject to such filing requirements for the past 90 days.  
Yes  No

As of June 10, 2005, 23,022,129 shares of common stock, \$.001 par value per  
share, were outstanding.

Transitional Small Business Disclosure Format (Check One): Yes  No

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## DIAL THRU INTERNATIONAL CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

ASSETS -----	April 30, 2005 ----- (unaudited)	October 31, 2004 -----
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 597,361	\$ 586,389
Trade accounts receivable, net of allowance for doubtful accounts of \$98,136 at April 30, 2005 and \$122,291 at October 31, 2004	988,096	841,127
Prepaid expenses and other current assets	217,671	197,968
Total current assets	1,803,128	1,625,484
PROPERTY AND EQUIPMENT, net	594,669	869,957
GOODWILL, net	1,796,917	1,796,917
OTHER ASSETS	70,438	69,050
<b>TOTAL ASSETS</b>	<b>\$ 4,265,152</b>	<b>\$ 4,361,408</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b> -----		
<b>CURRENT LIABILITIES</b>		
Capital lease obligation	\$ 126,196	\$ 126,196
Trade accounts payable	3,425,993	2,791,545
Accrued liabilities	984,101	1,142,829
Accrued interest (including \$833,238 to related parties at April 30, 2005 and \$759,692 at October 31, 2004)	1,309,430	1,129,687
Deferred revenue	372,158	380,444
Deposits and other payables	418,109	428,109
Convertible debenture	490,000	490,000
Notes payable to related parties	1,470,890	1,470,890
Net current liabilities from discontinued operations	1,100,000	1,100,000
Total current liabilities	9,696,877	9,059,700
NOTE PAYABLE	1,250,000	1,250,000
CONVERTIBLE DEBENTURE	574,597	574,597
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' DEFICIT</b>		
Preferred stock, \$.001 par value; 10,000,000 shares authorized; none issued and outstanding	-	-
Common stock, \$.001 par value; 84,169,100 shares authorized; 23,034,151 shares issued at April 30, 2005 and October 31, 2004	23,034	23,034
Additional paid-in capital	40,215,414	40,055,719
Accumulated deficit	(47,439,900)	(46,546,772)
Treasury stock, 12,022 common shares at cost	(54,870)	(54,870)
Total shareholders' deficit	(7,256,322)	(6,522,889)

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TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	\$ 4,265,152	\$ 4,361,408
	=====	=====

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

### DIAL THRU INTERNATIONAL CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2005	2004	2005	2004
REVENUES	\$ 2,864,960	\$ 3,342,892	\$ 5,649,212	\$ 7,687,584
COSTS AND EXPENSES				
Costs of revenues	2,385,165	2,594,185	4,382,579	5,921,246
Sales and marketing	42,919	81,253	97,528	214,331
General and administrative	849,937	824,647	1,600,018	1,676,437
Depreciation and amortization	150,415	153,286	296,649	308,040
Gain on disposal of equipment	-	-	(8,800)	(225,000)
Gain on settlement of liabilities	-	(225,000)	-	-
Total costs and expenses	3,428,436	3,428,371	6,367,974	7,895,054
Operating loss	(563,476)	(85,479)	(718,762)	(207,470)
OTHER INCOME (EXPENSE)				
Interest expense and financing costs	(54,092)	(92,224)	(108,181)	(187,819)
Related party interest expense	(36,772)	(58,710)	(73,544)	(117,420)
Foreign currency exchange gains (losses)	(2,788)	(3,587)	7,359	11,161
Total other expense, net	(93,652)	(154,521)	(174,366)	(294,078)
LOSS FROM CONTINUING OPERATIONS	(657,128)	(240,000)	(893,128)	(501,548)
INCOME FROM DISCONTINUED OPERATIONS, net of income taxes of \$0 for all periods	-	-	-	1,501,147
NET INCOME (LOSS)	\$ (657,128)	\$ (240,000)	\$ (893,128)	\$ 999,599
	=====	=====	=====	=====
NET INCOME (LOSS) PER SHARE:				
Basic and diluted net income (loss) per share				
Continuing operations	(0.03)	(0.01)	(0.04)	(0.03)
Discontinued operations	0.00	0.00	0.00	0.09
	\$ (0.03)	\$ (0.01)	\$ (0.04)	\$ 0.06
	=====	=====	=====	=====
WEIGHTED AVERAGE SHARES USED IN THE CALCULATION OF PER SHARE AMOUNTS:				

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Basic and diluted weighted average common shares	23,022,129 =====	16,189,781 =====	23,022,129 =====	16,189,781 =====
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The accompanying notes are an integral part of these consolidated financial statements.

DIAL THRU INTERNATIONAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

	Six Months Ended April 30,	
	2005	2004
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES OF CONTINUING OPERATIONS		
Net loss from continuing operations	\$ (893,128)	\$ (501,548)
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities:		
Gain from disposal of fixed assets	(8,800)	-
Bad debt expense	(21,000)	-
Non-cash interest expense	-	86,362
Gain on settlement of liabilities	-	(225,000)
Depreciation and amortization	296,649	308,040
Warrants issued for legal services	159,695	-
(Increase) decrease in:		
Trade accounts receivable	(125,969)	162,030
Prepaid expenses and other current assets	(19,703)	8,196
Other assets	(1,388)	(1,500)
Increase (decrease) in:		
Trade accounts payable	634,448	(96,044)
Accrued liabilities	21,015	479,021
Deferred revenue	(8,286)	221
Deposits and other payables	(10,000)	(2,500)
	-----	-----
Net cash provided by operating activities of continuing operations	23,533	217,278
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES OF CONTINUING OPERATIONS		
Purchase of property and equipment	(22,561)	(81,531)
Proceeds from sale of fixed assets	10,000	-
	-----	-----
Net cash used in investing activities of continuing operations	(12,561)	(81,531)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES OF CONTINUING OPERATIONS		
Payments on capital leases	-	(34,397)
	-----	-----
Net cash used in financing activities of continuing operations	-	(34,397)
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,972	101,350
Cash and cash equivalents at beginning of period	586,389	505,256
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Cash and cash equivalents at end of period	\$ 597,361	\$ 606,606	
	=====	=====	
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid for interest	\$ -	\$ -	
 SUPPLEMENTAL DISCLOSURE OF NON CASH INVESTING AND FINANCING ACTIVITIES			
Beneficial conversion feature of convertible debentures recorded as debt discount	\$ -	\$ 104,085	
Note payable exchanged for convertible debenture	-	550,000	
Conversion of accrued interest to debt	-	24,597	

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

### DIAL THRU INTERNATIONAL CORPORATION AND SUBSIDIARIES

#### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

##### NOTE 1 - OPERATIONS AND BASIS OF PRESENTATION

The consolidated financial statements of Dial Thru International Corporation and its subsidiaries, "DTI" or "the Company", included in this Form 10-QSB are unaudited and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position and operating results for the three and six month periods ended April 30, 2005 and 2004 have been included. Operating results for the three and six month periods ended April 30, 2005 are not necessarily indicative of the results that may be expected for the fiscal year ending October 31, 2005. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the fiscal year ended October 31, 2004.

The Company is a full service, facility-based provider of communication products to small and medium size businesses, both domestically and internationally. The Company provides a variety of international and domestic communication services including international dial thru, Internet voice and facsimile services, e-commerce solutions and other value-added communication services, using its Voice over Internet Protocol ("VoIP") Network to effectively deliver these services to the end user.

In addition to helping customers achieve significant savings on long-distance voice and facsimile calls by routing calls over the Internet, the Company also offers new opportunities for existing Internet Service Providers who want to expand into voice services, private corporate networks seeking to lower long-distance costs, and Web-enabled corporate call centers engaged in electronic commerce.

The Company has recently introduced Internet phones to the end user, business or consumer. These phones allow the user to make calls from phone to phone absolutely free and enjoy huge savings using these phones at their home or office and traveling domestically or abroad as their phone and number follow them everywhere. Not only does the customer enjoy huge savings in local, long distance and international calling, they can save by

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not having to pay for taxes and regulatory fees customary with normal phone lines. In addition, bulk minute buying, such as unlimited calling to the U.S. from abroad for a single user has set a new standard for international calling.

### Estimates and Assumptions

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The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### NOTE 2 - GOING CONCERN

The Company is subject to various risks in connection with the operation of its business including, among other things, (i) changes in external competitive market factors, (ii) inability to satisfy anticipated working capital or other cash requirements, (iii) changes in the availability of transmission facilities, (iv) changes in the Company's business strategy or an inability to execute its strategy due to unanticipated changes in the market, (v) various competitive factors that may prevent the Company from competing successfully in the marketplace, and (vi) the Company's lack of liquidity and its ability to raise additional capital. The Company has an accumulated deficit of approximately \$47.4 million as well as a working capital deficit of approximately \$7.9 million as of April 30, 2005. Funding of the Company's working capital deficit, current and future operating losses, and expansion will require continuing capital investment. The Company expects to fund these cash requirements through debt facilities, additional equity financing and potentially through cash generated by operations. The Company currently has no commitments for additional funding or credit facilities.

Although the Company has been able to arrange debt facilities and equity financing to date, there can be no assurance that sufficient debt or equity financing will continue to be available in the future or that it will be available on terms acceptable to the Company. Failure to obtain sufficient capital could materially affect the Company's operations and expansion strategies. As of April 30, 2005, the Company's short-term debt to third parties has matured and is currently due on demand. (See Note 9 Subsequent Event.) The Company will continue to explore external financing opportunities and renegotiation of its short-term debt with its current financing partners in order to extend the terms or retire these obligations. At April 30, 2005, approximately 75% of the short-term debt is due to the senior management of the Company.

As a result of the aforementioned factors and related uncertainties, there is substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments to reflect the possible effects of recoverability and classification of assets or classification of liabilities which may result from the inability of the Company to continue as a going concern.

### NOTE 3 - CONCENTRATION OF CREDIT RISK AND SIGNIFICANT CUSTOMERS

The Company provided wholesale services to two customers, each of which accounted for 13% of the overall revenue of the Company for the three months ended April 30, 2005. No customers accounted for more than 10% of sales during the six months ended April 30, 2005. The Company provided wholesale services to another customer which accounted for 15% of the Company's trade accounts receivable at April 30, 2005.

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The Company provided wholesale services to a customer which accounted for 23% and 21% of the overall revenue of the Company for the three and six months ended April 30, 2004, respectively, and 17% of the Company's trade accounts receivable at April 30, 2004.

### NOTE 4 - STOCK-BASED COMPENSATION

The Company accounts for stock-based employee compensation arrangements in accordance with provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and complies with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure". Under APB Opinion No. 25, compensation expense for employees is based on the excess, if any, on the date of grant, of fair value of the Company's stock over the exercise price. Accordingly, no compensation expense has been recognized for its employee stock options in the financial statements during the three and six months ended April 30, 2005 and 2004 as the fair market value on the grant date approximates the exercise price. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, as amended by SFAS No. 148, the Company's pro forma net loss from continuing operations for the three and six months ended April 30, 2005 and 2004 would have been as follows:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2005	2004	2005	2004
Net loss from continuing operations, as reported	\$ (657,128)	\$ (240,000)	\$ (893,128)	\$ (501,548)
Deduct: Stock based employee compensation expense determined under fair value based method	(3,554)	(34,928)	(7,188)	(73,111)
Pro forma net loss	\$ (660,682)	\$ (274,928)	\$ (900,316)	\$ (574,659)
Net loss per share				
As reported				
Basic and diluted	\$ (0.03)	\$ (0.01)	\$ (0.04)	\$ (0.03)
Proforma				
Basic and diluted	\$ (0.03)	\$ (0.02)	\$ (0.04)	\$ (0.04)

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods. Because options vest over a period of several years and additional awards are generally made each year, the pro forma information presented above is not necessarily indicative of the effects on reported or pro forma net earnings or losses for future periods.

No options were granted during the six months ended April 30, 2005 or 2004.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004) ("Statement

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123(R)"), "Share-Based Payment", which revised SFAS No. 123, "Accounting for Stock-Based Compensation". This statement supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". The revised statement addresses the accounting for share-based payment transactions with employees and other third parties, eliminates the ability to account for share-based compensation transactions using APB 25 and requires that the compensation costs relating to such transactions be recognized in the consolidated statement of operations. The revised statement is effective as of the first interim or annual financial reporting period beginning after December 15, 2005. The Company will adopt the statement on February 1, 2006 as required. The impact of adoption of Statement 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro forma net loss and net loss per share in the table above.

### NOTE 5 - DISCONTINUED OPERATIONS

#### Rapid Link Telecommunications GMBH

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In the fourth quarter of fiscal year 2003, the Company's German Subsidiary, Rapid Link Telecommunications GMBH ("Rapid Link Germany"), filed for insolvency. During the first quarter of fiscal year 2004, the Company determined that it no longer controlled the operations of this subsidiary and that the parent entity had no legal obligation to pay the liabilities of Rapid Link Germany. Accordingly, the Company wrote off the remaining net liability of \$2,251,000 and included the gain in Discontinued Operations during the first quarter of fiscal year 2004.

#### Canmax Retail Systems

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During the first quarter of fiscal year 2004, the Company received final written communications from the State of Texas that it is demanding payment of sales taxes (including penalties and interest) totaling \$1.1 million. The Company had previously accrued an estimated settlement amount of \$350,000. During the first quarter of fiscal year 2004, the Company accrued an additional \$750,000. The sales tax amount due is attributable to audit findings associated with the Company's former parent, Canmax Retail Systems, from the State of Texas for the years 1995 to 1999. These operations were previously classified as discontinued after the Company changed its business model from a focus on domestic prepaid phone cards to international wholesale and retail business, operating as a facilities-based global Internet protocol communications company providing connectivity to international markets. The State of Texas determined that the Company did not properly remit sales tax on certain transactions. The Company's current and former management believes that the amount due has not been properly assessed and will continue to pursue a lesser settlement amount. Since this sales tax liability represents an adjustment to amounts previously reported in Discontinued Operations, the amount was classified as Discontinued Operations. The amount that the State of Texas assessed of \$1.1 million has been accrued as a liability and is included in the Balance Sheet as Discontinued Operations. (See Note 7.)

### NOTE 6 - RESOLUTION OF VENDOR DISPUTE

During the first quarter of fiscal year 2005, the Company recorded a reduction of \$283,138 to Costs of Revenues in its Consolidated Statement of Operations. This amount represents the favorable resolution of a dispute with one of the Company's vendors. This amount had been recorded as Costs



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of Revenues in prior periods.

### NOTE 7 - COMMITMENTS AND CONTINGENCIES

On June 12, 2001, Cygnus Telecommunications Technology, LLC ("Cygnus"), filed a patent infringement suit (case no. 01-6052) in the United States District court, Central District of California, with respect to the Company's "international reorigination" technology. The injunctive relief that Cygnus sought in this suit has been denied, but Cygnus continues to seek a license fee for the use of the technology. The Company believes that no license fee is required as the technology described in the patent is different from the technology used by the Company. As the Company's main focus is now on providing VoIP originated services, the Company believes that this lawsuit should have little bearing on future revenues.

In August 2002, Cygnus filed a motion for a preliminary injunction to prevent the Company from providing "reorigination" services. The Company filed a cross motion for summary judgment of non-infringement. Both motions were denied. On August 22, 2003, the Company re-filed the motion for summary judgment for non-infringement. In response to this filing, during August 2004, the court narrowly defined the issue to relate to a certain reorigination technology which the Company believes it does not now, nor has it ever utilized to provide any of its telecommunications services. The Company intends to continue defending this case vigorously, and though its ultimate legal and financial liability with respect to such legal proceeding is therefore expected to be minimal, it cannot be estimated with any certainty at this time.

The State of Texas ("State") performed a sales tax audit of the Company's former parent, Canmax Retail Systems ("Canmax"), for the years 1995 to 1999. The State determined that the Company did not properly remit sales tax on certain transactions, including asset purchases and software development projects that Canmax performed for specific customers. The Company's current and former management filed exceptions, through its outside sales tax consultant, to the State's audit findings, including the non-taxable nature of certain transactions and the failure of the State to credit the Company's account for sales tax remittances. In correspondence from the State in June 2003, the State agreed to consider certain offsetting remittances received by Canmax during the audit period. The State has refused to consider other potential offsets. Based on this correspondence with the State, management's estimate of the potential liability was originally recorded at \$350,000 during the fiscal year ended October 31, 2003. Based on further correspondence with the State, this estimated liability was increased to \$1.1 million during the first quarter of fiscal year 2004. Since this sales tax liability represents an adjustment to amounts previously reported in discontinued operations, it was classified separately during the first quarter of fiscal year 2004 in discontinued operations, and is included in the April 30, 2005 and October 31, 2004 consolidated balance sheets in "Net current liabilities from discontinued operations". Management believes that Canmax properly remitted an appropriate amount of sales tax to Texas, and management does not believe the State's position reflects the appropriate amount of tax remitted during the audit period mentioned above and will continue to pursue this issue with the State. The Company is also aggressively pursuing the collection of unpaid sales taxes from former customers of Canmax, though there can be no assurance that the Company will be successful with respect to such collections.

On January 12, 2004, the Company filed a suit against Southland Corporation ("Southland") in the 162nd District Court in Dallas, Texas. The Company's suit claims a breach of contract on the part of Southland in failing to

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reimburse it for taxes paid to the State as well as related taxes for which the Company is currently being held responsible by the State. The Company's suit seeks reimbursement for the taxes paid and a determination by the court that Southland is responsible for paying the remaining tax liability to the State. The Company is discussing possible settlement options with Southland, but as of yet, no agreement has been reached.

On July 20, 2004, the Company filed a suit against Q Comm International, Inc. ("Q Comm") in Federal Court in the Central District of Utah. The Company's suit claims damages of \$4 million plus attorney's fees and costs resulting from the breach of a purchase agreement on the part of Q Comm relating to the sale of the Company's internally constructed equipment for the prepaid telecommunications industry. Pursuant to the terms of the purchase agreement, the Company would deliver the source code of certain proprietary software in consideration for an aggregate purchase price of \$4 million, of which \$1 million was due at closing and the remainder was due over three years. Following execution of the agreement, the Company tendered the software source code to Q Comm, however, Q Comm failed to pay the Company the initial amount due under the agreement. The Company believes that Q Comm used this source code in the development of point of sale software and subsequently generated revenues in excess of \$10 million from this software. The Company continues to pursue this matter, and, to date, there have been no settlement discussions with Q Comm.

### NOTE 8 - WARRANTS ISSUED FOR PROFESSIONAL SERVICES

During the quarter ended April 30, 2005, the Company issued, to a provider of legal and investment consulting services, warrants to acquire 1,000,000 shares of common stock at an exercise price of \$0.78, which expire on February 28, 2008. The Company recorded \$159,695, the fair value of the warrants, to general and administrative expense during the quarter ended April 30, 2005.

### NOTE 9 - SUBSEQUENT EVENT

Subsequent to the quarter ended April 30, 2005, the Company amended its note payable with Global Capital Funding Group L.P. and its convertible debentures with GCA Strategic Investment Fund Limited to provide new maturity dates at various times ranging from November 26, 2005 through February 29, 2008.

### NOTE 10 - RECLASSIFICATIONS

Certain reclassifications were made to the 2004 consolidated financial statements to conform to current year presentation.

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

The following discussion and analysis of financial condition and results of operations covers the three and six-month periods ended April 30, 2005 and 2004 and should be read in conjunction with our financial statements and the notes thereto.

### FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-QSB contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to

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expectations concerning matters that are not historical facts. Words such as "projects", "believe", "anticipates", "estimate", "plans", "expect", "intends", and similar words and expressions are intended to identify forward-looking statements. Although we believe that such forward-looking statements are reasonable, we cannot assure you that such expectations will prove to be correct. Factors that could cause actual results to differ materially from such expectations are disclosed in our annual report on Form 10-K for the year ended October 31, 2004 and throughout this report on Form 10-QSB. All of our forward-looking statements are expressly qualified in their entirety by such language and we do not undertake any obligation to update any forward-looking statements.

### General

On November 2, 1999, we acquired substantially all of the business and assets of Dial Thru International Corporation, a California corporation, and, on January 19, 2000, we changed our name from ARDIS Telecom & Technologies, Inc. to "Dial Thru International Corporation." Our common stock currently trades on the OTC Bulletin Board under the symbol "DTIX." In the second quarter of fiscal 2000, we shifted focus toward our global Voice over Internet Protocol, or VoIP, strategy. This strategy allows us to form local partnerships with foreign postal, telephone and telegraph companies (entities that are responsible for providing telecommunications services in foreign markets and which are usually government owned or controlled) and to provide IP enabled services based on the in-country regulatory environment affecting telecommunications and data providers.

On October 12, 2001, we completed the acquisition from Rapid Link, Incorporated ("Rapid Link") of certain assets and executory contracts of Rapid Link, USA, Inc. and 100% of the common stock of Rapid Link Telecommunications, GmbH, a German company. Rapid Link provides integrated data and voice communications services to both wholesale and retail customers around the world. Rapid Link built a large residential retail customer base in Europe and Asia, using Rapid Link's network to make international calls anywhere in the world. Furthermore, Rapid Link developed a VoIP network using Clarent and Cisco technology which we have used to take advantage of wholesale opportunities where rapid deployment and time to market are critical.

On August 1, 2003, our German subsidiary, Rapid Link Telecommunications GmbH, received approval for its insolvency filing and was turned over to a trustee who is responsible for liquidating the operation. We have determined that we no longer control the operations of this subsidiary and that our parent entity has no legal obligation to pay the liabilities of Rapid Link Telecommunications GmbH.

The telecommunications industry continues to evolve towards an increased emphasis on IP related products and services. We have focused our business towards these types of products and services for the last couple of years. Furthermore, we believe the use of the Internet to provide IP related telephony services to the end user customer, either as a stand alone solution or bundled with other IP products, will continue to impact the industry as large companies like Time Warner and AT&T look to capitalize on their existing cable infrastructures, and smaller companies look to provide innovative solutions to attract commercial and residential users to their product offerings.

We will focus on the growth of our VoIP business by adding new products and services that we can offer to end user customers. We are also exploring opportunities to provide current customers, and attract new customers, through the sale of specialized Internet phones to allow customers to connect their phones to their existing Dial-Up or DSL Internet connections.

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These Internet phones will allow the user to originate phone calls over the Internet, thereby bypassing the normal costs associated with originating phone calls over existing land lines. By avoiding these costs, we are able to offer lower priced services to these customers, which we believe will allow us to attract additional users. We also believe there will be considerable demand for this type of product in certain foreign markets, where end users pay a significant premium to their local phone companies to make long distance phone calls. While we expect the growth in our customers and suppliers and the introduction of innovative product offerings to retail users, specifically Internet phones, to have a positive impact on our revenues and earnings, we cannot predict when this will happen, or be certain that it will happen at all. The revenue and costs associated with the Internet phone product offerings will depend on the number of customers and contracts we obtain. In many ways, our ability to maintain operations in the foreseeable future will be dictated by our ability to quickly deploy VoIP products into selected markets and to realize high quality revenues from these products and related telecommunications sources. Any delay in our expansion of VoIP products and services will adversely affect our financial condition and cash flow and could ultimately cause us to greatly reduce or even cease operations.

### Critical Accounting Policies

The consolidated financial statements include accounts of our Company and all of our majority-owned subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related footnotes. In preparing these financial statements, we have made our best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. We do not believe there is a great likelihood that materially different amounts would be reported related to estimates associated with the accounting policies described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

### Revenue Recognition

Our revenues are recognized at the time a customer uses our network to make a phone call. We sell our services to small and medium-sized enterprises ("SMEs") and end-users who utilize our network for international re-origination and dial thru services, and to other wholesale providers of long distance usage who utilize our network to deliver domestic and international termination of minutes to their own customers. At times, we receive payment from our customers in advance of their usage, which we record as deferred revenue, recognizing revenue as calls are made. The Securities and Exchange Commission's Staff Accounting Bulletin No. 104, "Revenue Recognition", provides guidance on the application of generally accepted accounting principles to selected revenue recognition issues. We have concluded that our revenue recognition policy is appropriate and in accordance with generally accepted accounting principles and SAB No. 104.

### Allowance for Uncollectible Accounts Receivable

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. All of our receivables are due from commercial enterprises and residential users in both domestic and international markets. The estimated allowance for uncollectible amounts is based primarily on our evaluation of the financial condition of the customer, and our estimation of the customer's willingness to pay amounts due. We review

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our credit policies on a regular basis and analyze the risk of each prospective customer individually in order to minimize our risk.

### Goodwill

Effective November 1, 2001, we adopted SFAS No. 141, "Business Combinations" ("SFAS 141") and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and also specifies the criteria for the recognition of intangible assets separately from goodwill. Under SFAS 142, goodwill is no longer amortized, but is subject to an impairment test at least annually or more frequently if impairment indicators arise. In accordance with SFAS 142, an annual impairment test of goodwill was performed by an independent valuation firm in the fourth quarter of fiscal year 2004. The results of this impairment test indicated goodwill was not impaired. The impairment test process is detailed below.

We record goodwill when the consideration paid for an acquisition exceeds the fair value of net tangible and identifiable intangible assets acquired. Performance of the impairment test involves a two-step process. The first step compares the fair value of our single reporting unit to its carrying amount. The fair value of the reporting unit is determined by calculating the market capitalization of the reporting unit as derived from quoted market prices, and further substantiated through the use of other generally accepted valuation methods. A potential impairment exists if the fair value of the reporting unit is lower than its carrying amount. Historically, the impairment test has shown that the carrying value is less than fair value. The second step of the process is only performed if a potential impairment exists, as indicated by step one, and involves determining the difference between the fair values of the reporting unit's net assets, other than goodwill, as compared to the fair value of the reporting unit. If the difference is less than the net book value of goodwill, impairment exists and is recorded. We determine our reporting units, for purposes of testing for impairment, by determining (i) how we manage our operations, (ii) if a component of an operating unit constitutes a business for which discrete financial information is available and our management regularly review such financial information, and (iii) how the acquired entity is integrated with our operations. Based on these criteria, we determined that we have a single reporting unit.

In order to determine the fair value of our reporting unit under SFAS 142, we consider the following two approaches:

- \* Market Approach - Under the market approach, recent sales of comparable companies or securities are analyzed to determine the value for a particular asset under study. Adjustments are made to the sales data to account for differences between the subject asset and the comparables. The market approach is most applicable to assets that are homogenous in nature and are actively traded. Relative to other approaches to value, the key strength of the market approach is that it provides objective indications of value while requiring relatively few assumptions be made.
- \* Income Approach - This approach measures the present worth of anticipated future net cash flows generated by the business. Net cash flows are forecast for an appropriate period and then discounted to present value using an appropriate discount rate. Net cash flow forecasts require analysis of the significant variables influencing revenues, expenses, working capital, and capital investment. An income approach methodology is generally useful because it accounts for the specific contribution of fundamental factors impacting those variables

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that affect the value of the business.

According to SFAS 142, quoted market prices in active markets are the best evidence of fair value and shall be used as the basis for the measurement of fair value, if available. As of October 31, 2004, our market capitalization was \$2,303,415, determined by taking the shares outstanding as of that date multiplied by our stock price of \$0.10. We added interest bearing debt and operating liabilities (excluding net current liabilities of discontinued operations), adjusted downward to a fair value estimate of 25%, resulting in a fair value of assets of approximately \$4.75 million. This amount exceeds the carrying value of our assets (the value of our assets as reported in our financial statements), including goodwill, of \$4,361,408. While our market capitalization renders a minority interest valuation, because shares of the Company represent minority interests, the fair value of assets exceeds its carrying value even without the application of a control premium as recommended by SFAS 142. However, we believe that the application of the market approach necessitates additional analysis for three reasons (i) we have generated no analyst coverage to provide information about the stock to the public, suggesting that the market price may not reflect available information, (ii) our stock price demonstrated volatility as of the valuation date, and (iii) our stock is thinly traded with no organization making an active market in the stock. These factors suggest that our stock price, when taken in isolation, may not be sufficient evidence of fair value. In estimating the fair value of a reporting unit, a valuation technique based on multiples of earnings or revenues or a similar performance measure may be used if that technique is consistent with the objective of measuring fair value. As further support for our market approach, we calculated the Business Enterprise Value (BEV) for five other telecommunications companies which provide services similar to those that we provide. The BEV is determined by taking the market capitalization of a public enterprise, adding their debt and subtracting any cash equivalents. The resulting value is divided by annual revenue in order to determine a reasonable multiple that can be applied to us. We averaged the multiple of these five companies, trading on average at 2.1 times their annual revenue obtained from their most recent published financials, and applied the result to our 2004 fiscal year revenues. The resulting BEV for us was well in excess of the fair value of our assets calculated above. As a result, we determined that the fair value of our Company exceeds its carrying amount, and therefore that goodwill is not impaired.

### Financing, Warrants and Amortization of Warrants and Fair Value Determination

We have traditionally financed our operations through the issuance of debt instruments that are convertible into our common stock, at conversion rates at or below the fair market value of our common stock at the time of conversion, and typically include the issuance of warrants. We have recorded debt discounts in connection with these financing transactions in accordance with Emerging Issues Task Force Nos. 98-5 and 00-27. Accordingly, we recognize the beneficial conversion feature imbedded in the financings and the fair value of the related warrants on the balance sheet as debt discount. The debt discount is amortized over the life of the respective debt instrument.

### Carrier Disputes

We review our vendor bills on a monthly basis and periodically dispute amounts invoiced by our carriers. We review our outstanding disputes on a quarterly basis, as part of the overall review of our accrued carrier costs, and adjust our liability based on management's estimate of amounts owed.

### RESULTS OF OPERATIONS

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The following table presents our operating results for the three and six-month periods ended April 30, 2005 and 2004 as well as a comparison of the percentage change of our operating results from the three and six-month periods ended April 30, 2004 to the corresponding periods ended April 30, 2005:

	Three Months Ended April 30,		% Change Three Months Ended April 30, 2004 to Three Months Ended April 30, 2005	Six Months Ended April 30,	
	2005	2004	Increase (Decrease)	2005	2004
REVENUES	\$2,864,960	\$3,342,892	(14%)	\$5,649,212	\$7,687,5
COSTS AND EXPENSES					
Costs of revenues	2,385,165	2,594,185	(8%)	4,382,579	5,921,2
Sales and marketing	42,919	81,253	(47%)	97,528	214,3
General and administrative	849,937	824,647	3%	1,600,018	1,676,4
Depreciation and amortization	150,415	153,286	(2%)	296,649	308,0
Gain on disposal of equipment	-	-	-	(8,800)	(225,0
Gain on settlement of liabilities	-	(225,000)	(100%)	-	-
Total costs and expenses	3,428,436	3,428,371	0%	6,367,974	7,895,0
Operating loss	(563,476)	(85,479)	559%	(718,762)	(207,4
OTHER INCOME (EXPENSE)					
Interest expense and financing costs	(54,092)	(92,224)	(41%)	(108,181)	(187,8
Related party interest expense	(36,772)	(58,710)	(37%)	(73,544)	(117,4
Foreign currency exchange gains (losses)	(2,788)	(3,587)	(22%)	7,359	11,1
Total other expense, net	(93,652)	(154,521)	(39%)	(174,366)	(294,0
LOSS FROM CONTINUING OPERATIONS	(657,128)	(240,000)	174%	(893,128)	(501,5
INCOME FROM DISCONTINUED OPERATIONS	-	-	-	-	1,504,1
NET INCOME (LOSS)	\$ (657,128)	\$ (240,000)	174%	\$ (893,128)	\$ 999,5
NET INCOME (LOSS) PER SHARE:					
Basic and diluted net income (loss) per share					
Continuing operations	\$ (0.03)	\$ (0.01)		\$ (0.04)	\$ (0.
Discontinued operations	-	-		-	0.
	\$ (0.03)	\$ (0.01)		\$ (0.04)	\$ 0.
WEIGHTED AVERAGE SHARES USED IN THE CALCULATION OF PER SHARE AMOUNTS:					
Basic and diluted weighted average common shares					
	23,022,129	16,189,781		23,022,129	16,189,7

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RESULTS OF OPERATIONS - COMPARISON OF THE THREE AND SIX-MONTH PERIODS ENDED  
APRIL 30, 2005 and 2004

### REVENUES

For the three-month period ended April 30, 2005, 77% and 23% of our revenues were derived from our wholesale and retail customers, respectively, compared to 74% and 26%, respectively, for the three-month period ended April 30, 2004. Our wholesale revenues have decreased by 11% from the three-month period ended April 30, 2004 compared to the three-month period ended April 30, 2005, while our retail revenues have decreased by 25% over the comparable period.

For the six-month period ended April 30, 2005, 74% and 26% of our revenues were derived from our wholesale and retail customers, respectively, compared to 76% and 24%, respectively, for the six-month period ended April 30, 2004. Our wholesale revenues have decreased by 29% from the six-month period ended April 30, 2004 compared to the six-month period ended April 30, 2005, while our retail revenues have decreased by 20% over the comparable period.

The decrease in wholesale revenues for the three and six-month periods ended April 30, 2005 compared to the same period in fiscal 2004 is attributable to a decrease in the number of termination opportunities available to us to offer our customers. Due to the competitive nature of the wholesale telecommunications business, our customers frequently request a reduction in the per minute termination rates that we offer them. At times, our suppliers are not able to offer us lower rates in order to maintain the minutes we are terminating to them. As a result, our wholesale revenues fluctuate depending on the number of termination opportunities available to us at any one time. We are working with new providers in an effort to recapture our lost revenue, though the ultimate results of these discussions cannot be predicted with any certainty. If we are unable to attract and retain new wholesale customers, our wholesale revenues will continue to erode.

The decrease in retail revenues for the three and six-month periods ended April 30, 2005 compared to the same period in fiscal 2004 is primarily attributable to increased competition in our largest foreign markets, including competition from the incumbent phone company in each market. Furthermore, a significant portion of our retail business comes from members of the United States military stationed in foreign markets. The March 2003 redeployment of troops into Iraq, where we have not historically provided long distance service, resulted in a decline in our retail sales to these military customers who were previously stationed in foreign markets that we serviced. During the first five months of the current fiscal year, we offered services to U.S. troops in Iraq on a limited basis. We anticipate offering these services again during the last part of fiscal year 2005. We are exploring opportunities to grow our retail business, utilizing our in-house sales group and our outside agents, through the introduction of new products and services, focusing our efforts principally on the sale of Internet phones that allow users to connect specialized Internet phones to their existing Dial-Up or DSL Internet connections. If we are unable to stabilize our retail revenues from the U.S. military and grow our retail revenues from VoIP-based products, this category of revenue will also continue to decline.

### OPERATING EXPENSES



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Costs of Revenues: Our costs of revenues as a percentage of revenues have increased from 78% for the three-month period ended April 30, 2004 to 83% for the three-month period ended April 30, 2005. This increase was primarily due to a lower average margin per minute relating to our wholesale business. As a majority of our costs of revenues are variable, based on per minute transportation costs, costs of revenues as a percentage of revenues will fluctuate, from period to period, depending on the traffic mix between our wholesale and retail products and total revenue for each period.

Our costs of revenues as a percentage of revenues have increased from 77% for the six-month period ended April 30, 2004 to 78% for the six-month period ended April 30, 2005. Included within our costs of revenues for the six-month period ended April 30, 2005 is a reduction of costs in the amount of \$283,138 relating to the favorable resolution of a dispute with one of our vendors. These costs were originally recorded to costs of revenues in prior periods. Had this dispute resolution not occurred during the six-month period ended April 30, 2005, our costs of revenues as a percentage of revenues would have been 83% for the period. The increase from the six-month period ended April 30, 2004 to the six-month period ended April 30, 2005 is primarily due to the reason cited above for the three-month period comparison.

Sales and Marketing Expenses: A significant component of our revenue is generated by outside agents or through periodic newspaper advertising, which is managed by a small in-house sales and marketing organization.

The reduction in our sales and marketing costs for the three and six-month periods ended April 30, 2005 compared to the three and six-month periods ended April 30, 2004 is primarily due to a reduction in our sales personnel and lower agent commission costs, which are paid as a percentage of our revenue. During the three and six-month periods ended April 30, 2005, we have focused our attention on increasing revenues through the efforts of our agents. We will continue to focus our sales and marketing efforts on periodic newspaper advertising, the establishment of distribution networks to facilitate the introduction and growth of new products and services, and agent related expenses to generate additional revenues.

General and Administrative Expenses: During the three-month period ended April 30, 2005, we issued, to a provider of legal and investment consulting services, warrants to acquire 1,000,000 shares of common stock. Relating to this issuance of warrants, we recorded \$159,695, the fair value of the warrants, to general and administrative expense. Excluding this non-cash expense amount, general and administrative expenses would have decreased by 16% and 14% for the three and six-month periods ended April 30, 2005 compared to the three and six-month periods ended April 30, 2004, respectively. This reduction has been accomplished primarily through the elimination of personnel and personnel related costs. However, due to the overall decline in revenue and the fixed nature of our general and administrative expenses, as a percentage of revenue, our general and administrative expenses have increased. We review our general and administrative expenses regularly and continue to manage the costs accordingly to support the current and anticipated future business.

### DEPRECIATION AND AMORTIZATION

Depreciation and amortization has decreased as a larger portion of our assets still in use have become fully depreciated, including a majority of the assets acquired from Rapid Link. A majority of our depreciation and amortization expense relates to the equipment utilized in our VoIP network.

### INTEREST EXPENSE AND FINANCING COSTS

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Interest expense and financing costs for the three and six-month periods ended April 30, 2005 were due primarily to interest expense on our convertible debentures, notes payable and notes payable to related parties. Interest expense and financing costs for the three and six-month periods ended April 30, 2004 were due primarily to interest expense and the amortization of deferred financing fees and debt discount on our convertible debentures, notes payable and notes payable to related parties. The decrease in interest expense and financing costs from the three and six-month periods ended April 30, 2004 to the three and six-month periods ended April 30, 2005 primarily relates to the reduction in such amortization due to our convertible debentures and note payable reaching their maturity dates during fiscal year 2004 and all associated debt discounts and deferred financing fees being fully amortized. A further explanation of these changes can be found in the Liquidity and Capital Resources section.

### INCOME FROM DISCONTINUED OPERATIONS

Income from discontinued operations for the six-month period ended April 30, 2004 relates to an increase in the Company's estimated sales tax liability of \$750,000, offset by the write-off of the remaining net liability of our German subsidiary, Rapid Link Telecommunications GMBH, totaling \$2,250,000.

In the fourth quarter of fiscal 2003, Rapid Link Telecommunications GMBH filed for insolvency. The net liability associated with the disposal of the assets and liabilities of Rapid Link Telecommunications GMBH of approximately \$2.3 million was included in the balance sheet at October 31, 2003 and classified as Discontinued Operations. During fiscal year 2004, we determined that we no longer controlled the operations of this subsidiary and that the parent entity had no legal obligation to pay the liabilities of Rapid Link Telecommunications GMBH. Accordingly, we wrote off the remaining net liability of \$2,251,000 and included the gain in Discontinued Operations during the first quarter of fiscal year 2004.

During the first quarter of fiscal year 2004, we received final written communications from the State of Texas that it is demanding payment of sales taxes (including penalties and interest) totaling \$1.1 million. We had previously accrued an estimated settlement amount of \$350,000. Accordingly, we accrued an additional \$750,000. The sales tax amount due is attributable to audit findings of our former parent, Canmax Retail Systems, from the State of Texas for the years 1995 to 1999. These operations were previously classified as discontinued after we changed our business model from a focus on domestic prepaid phone cards to international wholesale and retail business. The State of Texas determined that we did not properly remit sales tax on certain transactions. Management believes that the amount due has been improperly assessed and will continue to pursue a lesser settlement amount, though we cannot assure you that this matter will be resolved in our favor. Since this sales tax liability represents an adjustment to amounts previously reported in Discontinued Operations, this amount was classified during the three-month period ended January 31, 2004 as Discontinued Operations. (See Note 5 to the Consolidated Financial Statements.)

### LIQUIDITY AND CAPITAL RESOURCES

Although we have reduced our operating loss, to date we have been generally unable to achieve positive cash flow on a quarterly basis primarily due to the fact that our present lines of business do not generate a volume of business sufficient to cover our overhead costs. Our audit report for the fiscal year ended October 31, 2004 includes an explanatory paragraph indicating substantial doubt about our ability to continue as a going concern.

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We have violated certain requirements of our convertible debt agreements relating to failure to register the underlying securities, and timely payment of principal and interest, including payment in full on the maturity date of the notes, either through the issuance of common stock, or payment in cash. Our lenders have not declared us in default and have allowed us to continue to operate. On June 1, 2005, we and our third-party lenders agreed to amendments to our notes payable and convertible debenture agreements to extend the maturity dates to various times ranging from November 26, 2005 through February 29, 2008. Approximately \$2.3 million is due to two of our executives and a director.

Furthermore, we frequently are not able to make timely payment to our trade creditors. As of April 30, 2005, approximately \$2.3 million, representing approximately 49% of our trade accounts payable and accrued liabilities, were past due. Although formal payment terms have not been negotiated with most of these vendors, we continue to make regular payments, or provide opportunities for the vendors to send us telecommunications traffic in return for a reduction in our debt to them. These vendors have not stopped providing services to us. If these vendors were to stop providing services to us, our ability to continue to operate would be jeopardized. We continue to seek sources of working capital sufficient to fund delinquent balances and meet ongoing obligations, though our success on that front has been limited.

Our future operating success is dependent on our ability to quickly generate positive cash flow from our VoIP lines of products and services. Our major growth areas are anticipated to include the establishment of additional wholesale points of termination to offer our existing wholesale and retail customers, and the introduction of new retail VoIP products (see "General"), both domestically and internationally. We anticipate a \$300-500,000 cash shortfall from operations during the next twelve months, however we are currently pursuing retail and wholesale opportunities that we believe will eliminate this shortfall. There can be no assurance that we will be successful in implementing these opportunities. We do not have any capital equipment commitments during the next twelve months. We are actively pursuing debt or equity financing opportunities to continue our business. Any failure of our business plan, including the risk and timing involved in rolling out retail products to end users, to generate positive cash flow could result in a significant cash flow crisis and could force us to seek alternative sources of financing as discussed, or to greatly reduce or discontinue operations. Although various possibilities for obtaining financing or effecting a business combination have been discussed from time to time, there are no agreements with any party to raise money or for us to combine with another entity and we cannot assure you that we will be successful in our search for investors or lenders. Any additional financing we may obtain will involve material and substantial dilution to existing stockholders. In such event, the percentage ownership of our current stockholders will be materially reduced, and any new equity securities sold by us may have rights, preferences or privileges senior to our current common stockholders. If we are unable to obtain additional financing, our operations in the short term will be materially affected and we may not be able to remain in business. These circumstances raise substantial doubt as to the ability of our Company to continue as a going concern.

At April 30, 2005, we had cash and cash equivalents of \$597,000, an increase of \$11,000 from the balance at October 31, 2004. We had significant working capital deficits at both April 30, 2005 and October 31, 2004.

Net cash provided by operating activities of continuing operations was \$24,000 and \$217,000 for the six-month periods ended April 30, 2005 and 2004, respectively. The net cash provided by operating activities of continuing operations for the six-month period ended April 30, 2005 was

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primarily due to a net loss from continuing operations of \$893,000 adjusted for: depreciation and amortization of \$297,000; warrants issued for professional services of \$160,000; net changes in operating assets and liabilities of \$490,000; offset by bad debt expense of \$21,000. For the six-month period ended April 30, 2004, the net cash provided by operating activities of continuing operations was due to a net loss from continuing operations of \$502,000 adjusted for: non-cash interest expense of \$86,000; depreciation and amortization of \$308,000; net changes in operating assets and liabilities of \$549,000; offset by gain on settlement of liabilities of \$225,000.

Net cash used in investing activities of continuing operations for the six-month periods ended April 30, 2005 and 2004 was \$13,000 and \$82,000, respectively, and primarily relates to the purchase of property and equipment.

Net cash used in financing activities of continuing operations for the six-month period ended April 30, 2004 was \$34,000 and was due to payments on capital leases.

We have an accumulated deficit of approximately \$47.4 million as of April 30, 2005 as well as a significant working capital deficit. Funding of our working capital deficit, current and future operating losses, and expansion will require continuing capital investment which may not be available to us.

Since the beginning of April 2001, we have raised \$5.7 million in debt financing.

Although to date we have been able to arrange the debt facilities and equity financing described below, there can be no assurance that sufficient debt or equity financing will continue to be available in the future or that it will be available on terms acceptable to us. As of April 30, 2005, we had \$3.8 million of notes payable and convertible debentures which have matured as well as a significant amount of trade payables and accrued liabilities which are past due. We will continue to explore external financing opportunities and renegotiation of our short-term debt with our current financing partners in order to extend the terms or retire these obligations. Approximately 75% of the short-term debt is due to our senior management. Our management is committed to the success of our Company as is evidenced by the level of financing it has made available to our Company. Failure to obtain sufficient capital will materially affect our Company's operations and financial condition. As a result of the aforementioned factors and related uncertainties, there is significant doubt about our Company's ability to continue as a going concern.

Our current capital expenditure requirements are not significant, primarily due to the equipment acquired from Rapid Link. Our capital expenditures for the six-month period ended April 30, 2005 were \$23,000 and we do not anticipate significant spending for the remainder of fiscal year 2005.

In October 2001, we executed 10% convertible notes (the "Notes") with three of our executives, which provided financing of \$1,945,958. With an original maturity date of October 24, 2003, these Notes were amended subsequent to fiscal year 2002 to mature on February 24, 2004. Currently, these Notes have matured and are due on demand. These Notes continue to accrue interest at the stated rate. These Notes are secured by selected Company assets and are convertible into our common stock at the option of the holder at any time. The conversion price is equal to the closing bid price of our common stock on the last trading day immediately preceding the conversion. We also issued to the holders of the Notes warrants to acquire an aggregate of 1,945,958 shares of common stock at an exercise price of \$0.78 per share, which expire on October 24, 2006. For the year ended

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October 31, 2002, an additional \$402,433 was added to the Notes and an additional 402,433 warrants to acquire our common stock were issued in connection with the financing. During fiscal year 2004, the holders of the Notes elected to convert \$877,500 of the Notes into 6,750,000 shares of our common stock. The outstanding balance of these Notes at April 30, 2005 totals \$1,470,890.

In January 2002, we executed a 6% convertible debenture (the "Second Debenture") with GCA Strategic Investment Fund Limited ("GCA"), which provided financing of \$550,000 and had an original maturity date of January 28, 2003. We also issued to the holder of the Second Debenture warrants to acquire an aggregate of 50,000 shares of common stock at an exercise price of \$0.41 per share, which expire on January 28, 2007. The Second Debenture was amended in January 2003 to mature on November 8, 2004. In connection with this January 2003 amendment of the Second Debenture, we adjusted the exercise price of the previously issued warrants to \$0.21 per share and also issued to the holder of the Second Debenture warrants to acquire an aggregate of 100,000 shares of common stock at an exercise price of \$0.21 per share, which expire on February 8, 2008. The Second Debenture was amended again in June 2005, which extended the maturity date to November 26, 2005. In connection with this June 2005 amendment of the Second Debenture, we also issued to the holder of the Second Debenture 100,000 shares of our common stock, warrants to purchase 150,000 shares of our common stock at an exercise price of \$0.38 per share and warrants to purchase 110,000 shares of our common stock at an exercise price of \$0.11 per share, all of which expire on June 1, 2010. The conversion price is equal to the lesser of (i) 100% of the volume weighted average of sales price as reported by the Bloomberg L.P. of the common stock on the last trading day immediately preceding the Closing Date ("Fixed Conversion Price") and (ii) 85% of the average of the three (3) lowest volume weighted average sales prices as reported by Bloomberg L.P. during the twenty (20) trading days immediately preceding but not including the date of the related notice of conversion (the "Formula Conversion Price"). In an event of default the amount declared due and payable on the Second Debenture shall be automatically converted into shares of our common stock at the Formula Conversion Price. During fiscal year 2003, GCA converted \$50,000 of the Second Debenture and \$3,463 of accrued interest into approximately 374,000 shares of common stock. During fiscal year 2004, GCA converted \$10,000 of the Second Debenture and \$730 of accrued interest into approximately 82,000 shares of our common stock. The outstanding balance on the Second Debenture is \$490,000 at April 30, 2005.

In November 2002, we executed a 12% note payable (the "GC-Note") with Global Capital Funding Group, L.P., which provided financing of \$1,250,000. The GC-Note matured on November 8, 2004. We also issued to the holder of the GC-Note warrants to acquire an aggregate of 500,000 shares of common stock at an exercise price of \$0.14 per share, which expire on November 8, 2007. In June 2005, the GC-Note was replaced by a convertible note ("GC-Conote"). The GC-Conote matures on February 29, 2008, and the annual interest rate due on this convertible note is 10.08%. The conversion price is equal to 80% of the average of the three (3) lowest volume weighted average sales prices as reported by Bloomberg L.P. during the twenty (20) trading days immediately preceding the date of the related notice of conversion. In addition, we issued to the holder of the GC-Conote 100,000 shares of our common stock, warrants to purchase 500,000 shares of our common stock at an exercise price of \$0.38 per share and warrants to purchase 125,000 shares of our common stock at an exercise price of \$0.11 per share, all of which expire on June 1, 2010. In addition, interest of approximately \$350,000 due on the GC-Note at the time of replacement by the GC-Conote was converted to a non-interest bearing note payable, which matures on March 30, 2007.

In July 2003, we executed a 10% note payable (the "GCA-Note") with GCA

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Strategic Investment Fund Limited, which provided financing of \$550,000. The GCA-Note's maturity date was December 23, 2003. We also issued to the holder of the GCA-Note warrants to acquire an aggregate of 100,000 shares of common stock at an exercise price of \$0.14 per share, which expire on July 24, 2008. Per the terms of the GCA-Note agreement, in the event the GCA-Note is not repaid in full within 10 days of the maturity date, the terms of the GCA-Note shall become the same as those of the Second Debenture. Effective January 2, 2004, the GCA-Note was replaced by a convertible debenture ("GCA-Debenture") with the same terms as those of the Second Debenture, which had a maturity date of November 8, 2004. The principal balance of the GCA-Debenture was \$574,597, which included \$24,597 of interest due on the GCA-Note at the time it was replaced by the GCA-Debenture. The GCA-Debenture was amended in June 2005, to extend the maturity date to November 26, 2006. In connection with this June 2005 amendment of the GCA-Debenture, we also issued to the holder of the GCA-Debenture 40,000 shares of our common stock, and warrants to purchase 150,000 shares of our common stock at an exercise price of \$0.38 per share, which expire on June 1, 2010. The outstanding balance on the GCA-Debenture is \$574,597 at April 30, 2005.

### Risk Factors

Our cash flow may not be sufficient to satisfy our operations

For the six-month period ended April 30, 2005, we recorded a net loss of \$893,000, for the year ended October 31, 2004, we recorded a net profit of \$707,000 which included discontinued operations non-cash income of \$1.5 million, and for the year ended October 31, 2003, we recorded a net loss of \$6.6 million on revenues of \$5.6 million, \$13.4 million and \$17.7 million, respectively. As a result, we currently have a significant working capital deficit. In addition, we have a significant amount of trade accounts payables and accrued liabilities, of which approximately 49% is past due. To be able to service our debt obligations over the course of the 2005 fiscal year we must generate significant cash flow and obtain additional financing. If we are unable to do so or otherwise unable to obtain funds necessary to make required payments on our trade debt and other indebtedness, it is likely that we will not be able to continue our operations.

Our independent auditors have included a going concern paragraph in their audit opinion on our consolidated financial statements for the fiscal year ended October 31, 2004, which states that "The Company has suffered recurring losses from continuing operations during each of the last three fiscal years. Additionally, at October 31, 2004, the Company's current liabilities exceeded its current assets by \$9.3 million and the Company had a shareholders' deficit totaling \$6.5 million. These conditions raise substantial doubt about the Company's ability to continue as a going concern."

Our operating history makes it difficult to accurately assess our general prospects in the VoIP portion of the telecommunications industry and the effectiveness of our business strategy. In addition, we have limited meaningful historical financial data upon which to forecast our future sales and operating expenses. Our future performance will also be subject to prevailing economic conditions and to financial, business and other factors. Accordingly, we cannot assure you that we will successfully implement our business strategy or that our actual future cash flows from operations will be sufficient to satisfy our debt obligations and working capital needs.

To implement our business strategy, we will also need to seek additional financing. There is no assurance that adequate levels of additional financing will be available at all or on acceptable terms. In addition, any

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additional financing will likely result in significant dilution to our existing stockholders. If we are unable to obtain additional financing on terms that are acceptable to us, we could be forced to dispose of assets to make up for any shortfall in the payments due on our debt under circumstances that might not be favorable to realizing the highest price for those assets. A portion of our assets consist of intangible assets, the value of which will depend upon a variety of factors, including the success of our business. As a result, if we do need to sell any of our assets, we cannot assure you that our assets could be sold quickly enough, or for amounts sufficient, to meet our obligations.

We face competition from numerous, mostly well-capitalized sources

The market for our products and services is highly competitive. We face competition from multiple sources, virtually all of which have greater financial resources and a substantial presence in our markets and offer products or services similar to our services. Therefore, we may not be able to successfully compete in our markets, which could result in a failure to implement our business strategy, adversely affecting our ability to attract and retain new customers. In addition, competition within the industries in which we operate is characterized by, among other factors, price and the ability to offer enhanced services. Significant price competition would reduce the margins realized by us in our telecommunications operations. Many of our competitors have greater financial resources to devote to research, development and marketing, and may be able to respond more quickly to new or merging technologies and changes in customer requirements. If we are unable to provide value-added Internet products and services then we will be unable to compete in certain segments of the market, which could have an adverse impact on our business.

The regulatory environment in our industry is very uncertain

The legal and regulatory environment pertaining to the Internet is uncertain and changing rapidly as the use of the Internet increases. For example, in the United States, the FCC is considering whether to impose surcharges or additional regulations upon certain providers of Internet telephony.

In addition, the regulatory treatment of Internet telephony outside of the United States varies from country to country. There can be no assurance that there will not be legally imposed interruptions in Internet telephony in these and other foreign countries. Interruptions or restrictions on the provision of Internet telephony in foreign countries may adversely affect our ability to continue to offer services in those countries, resulting in a loss of customers and revenues.

New regulations could increase the cost of doing business over the Internet or restrict or prohibit the delivery of our products or services using the Internet. In addition to new regulations being adopted, existing laws may be applied to the Internet. Newly existing laws may cover issues that include sales and other taxes, access charges, user privacy, pricing controls, characteristics and quality of products and services, consumer protection, contributions to the Universal Service Fund, an FCC-administered fund for the support of local telephone service in rural and high-cost areas, cross-border commerce, copyright, trademark and patent infringement, and other claims based on the nature and content of Internet materials.

Changes in the technology relating to Internet telephony could threaten our operations

The industries in which we compete are characterized, in part, by rapid growth, evolving industry standards, significant technological changes and frequent product enhancements. These characteristics could render existing

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systems and strategies obsolete and require us to continue to develop and implement new products and services, anticipate changing consumer demands and respond to emerging industry standards and technological changes. No assurance can be given that we will be able to keep pace with the rapidly changing consumer demands, technological trends and evolving industry standards.

We need to develop and maintain strategic relationships around the world to be successful

Our international business, in part, is dependent upon relationships with distributors, governments or providers of telecommunications services in foreign markets. The failure to develop or maintain these relationships could have an adverse impact on our business.

We derive significant revenue from a customer

We provided wholesale services to a customer who accounted for 14% of our overall revenue for the three-month period ended January 31, 2005. The loss of this customer could have an adverse effect on our financial position.

We rely on two key senior executives

Our success is dependent on our senior management team of John Jenkins and Allen Sciarillo and our future success will depend, in large part, upon our ability to retain these two individuals.

The expansion of our VoIP product offerings is essential to our survival

We intend to expand our VoIP network and the range of enhanced telecommunications services that we provide. Our expansion prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in new and rapidly evolving markets.

Our OTC Bulletin Board listing negatively affects the liquidity of our common stock

Our common stock currently trades on the OTC Bulletin Board. Therefore, no assurances can be given that a liquid trading market will exist at the time any stockholder desires to dispose of any shares of our common stock. In addition, our common stock is subject to the so-called "penny stock" rules that impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally defined as an investor with a net worth in excess of \$1 million or annual income exceeding \$200,000, or \$300,000 together with a spouse). For transactions covered by the penny stock rules, a broker-dealer must make a suitability determination for the purchaser and must have received the purchaser's written consent to the transaction prior to sale. Consequently, both the ability of a broker-dealer to sell our common stock and the ability of holders of our common stock to sell their securities in the secondary market may be adversely affected. The Securities and Exchange Commission has adopted regulations that define a "penny stock" to be an equity security that has a market price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the transaction, of a disclosure schedule relating to the penny stock market. The broker-dealer must disclose the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and, if the broker-dealer is to sell the securities as a market maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market. Finally, monthly statements must be sent disclosing recent price information for the penny stock held in the



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account and information on the limited market in penny stocks.

### ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. Our management carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective. Disclosure controls and procedures mean our controls and other procedures that are designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls. There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### PART II. OTHER INFORMATION

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the quarter ended April 30, 2005, Dial Thru International Corporation issued, to a provider of legal and investment consulting services, warrants to acquire 1,000,000 shares of common stock at an exercise price of \$0.78 per share, which warrants expire February 28, 2008. We relied on the exemption from registration provided by Section 4(2) of the Securities Act of 1933 for this non-public offering because the securities were issued to a single purchaser with financial experience who had a pre-existing relationship with us.

#### Item 6. Exhibits and Reports on Form 8-K.

2.1 Agreement and Plan of Merger dated as of January 30, 1998, among Canmax Inc., CNMX MergerSub, Inc. and US Communications Services, Inc. (filed as Exhibit 2.1 to Form 8-K dated January 30, 1998 (the "USC 8-K"), and incorporated herein by reference)

2.2 Rescission Agreement dated June 15, 1998 among Canmax Inc., USC and former principals of USC (filed as Exhibit 10.1 to Form 8-K dated January 15, 1998 (the "USC Rescission 8-K"), and incorporated herein by reference)

2.3 Asset Purchase Agreement by and among Affiliated Computed Services, Inc., Canmax and Canmax Retail Systems, Inc. dated September 3, 1998 (filed as Exhibit 10.1 to the Company's Form 8-K dated December 7, 1998 and incorporated herein by reference)

2.4 Asset Purchase Agreement dated November 2, 1999 among ARDIS Telecom & Technologies, Inc., Dial Thru International Corporation, a Delaware

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corporation, Dial Thru International Corporation, a California corporation, and John Jenkins (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K dated November 2, 1999 and incorporated herein by reference)

2.5 Stock and Asset Purchase Agreement, dated as of September 18, 2001, by and among Rapid Link USA, Inc., Rapid Link Inc., and Dial Thru International Corporation. (filed as Exhibit 2.1 to the Company's Form 8-K dated October 29, 2001 and incorporated herein by reference)

2.6 First Amendment to Stock and Asset Purchase Agreement, dated as of September 21, 2001, by and among Rapid Link USA, Inc., Rapid Link Inc., and Dial Thru International Corporation. (filed as Exhibit 2.2 to the Company's Form 8-K dated October 29, 2001 and incorporated herein by reference)

2.7 Second Amendment to Stock and Asset Purchase Agreement, dated as of October 12, 2001, by and among Rapid Link USA, Inc., Rapid Link Inc., and Dial Thru International Corporation. (filed as Exhibit 2.3 to the Company's Form 8-K dated October 29, 2001 and incorporated herein by reference)

2.8 Third Amendment to Stock and Asset Purchase Agreement, dated as of October 30, 2001, by and among Rapid Link USA, Inc., Rapid Link Inc., and Dial Thru International Corporation. (filed as Exhibit 2.4 to the Company's Form 8-K dated December 28, 2001 and incorporated herein by reference)

2.9 Fourth Amendment to Stock and Asset Purchase Agreement, dated as of November 30, 2001, by and among Rapid Link USA, Inc., Rapid Link Inc., and Dial Thru International Corporation. (filed as Exhibit 2.5 to the Company's Form 8-K dated December 28, 2001 and incorporated herein by reference)

3.1 Certificate of Incorporation, as amended (filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 1999 (the "1999 Form 10-K") and incorporated herein by reference)

3.2 Amended and Restated Bylaws of Dial Thru International Corporation (filed as Exhibit 3.2 to the 1999 Form 10-K and incorporated herein by reference)

4.1 Registration Rights Agreement between Canmax and the Dodge Jones Foundation (filed as Exhibit 4.02 to Canmax's Quarterly Report on Form 10-Q for the period ended April 30, 1997 and incorporated herein by reference)

4.2 Registration Rights Agreement between Canmax and Founders Equity Group, Inc. (filed as Exhibit 4.02 to Canmax's Quarterly Report on Form 10-Q for the period ended April 30, 1997 and incorporated herein by reference)

4.3 Amended and Restated Stock Option Plan of Dial Thru International Corporation (filed as Exhibit 4.3 to the 1999 Form 10-K and incorporated herein by reference)

4.4 Securities Purchase Agreement dated April 11, 2001 (filed as Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended April 30, 2001 and incorporated herein by reference)

4.5 Registration Rights Agreement dated April 6, 2001 between Dial Thru International Corporation and Global Capital Funding Group, L.P. (filed as Exhibit 4.2 to the Company's Form S-3, File #333-71406, filed on October 11, 2001 and incorporated herein by reference)

4.6 6% Convertible Debenture of Dial Thru International Corporation and Global Capital Funding Group, L.P. (filed as Exhibit 4.3 to the Company's Form S-3, File 333-71406, filed on October 11, 2001 and incorporated herein by reference)

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4.7 Form of Common Stock Purchase Warrant dated April 11, 2001 between Global Capital Funding Group, L.P. and Dial Thru International Corporation (filed as Exhibit 4.4 to the Company's Form S-3, File 333-71406, filed October 11, 2001 and incorporated herein by reference)

4.8 Form of Common Stock Purchase Warrant dated April 6, 2001 between D.P. Securities, Inc. and Dial Thru International Corporation (filed as Exhibit 4.5 to the Company's Form S-3, File 333-71406, filed on October 11, 2001 and incorporated herein by reference)

4.9 Securities Purchase Agreement issued January 28, 2002 between Dial Thru International Corporation and GCA Strategic Investment Fund Limited (filed as Exhibit 4.1 to the Company's Form S-3, File 333-82622, filed on February 12, 2002 and incorporated herein by reference)

4.10 Registration Rights Agreement dated January 28, 2002 between Dial Thru International Corporation and GCA Strategic Investment Fund Limited (filed as Exhibit 4.2 to the Company's Form S-3, File 333-82622, filed on February 12, 2002 and incorporated herein by reference)

4.11 6% Convertible Debenture of Dial Thru International Corporation and GCA Strategic Investment Fund Limited (filed as Exhibit 4.3 to the Company's Form S-3, File 333-82622, filed on February 12, 2002 and incorporated herein by reference)

4.12 Common Stock Purchase Warrant dated January 28, 2002 between GCA Strategic Investment Fund Limited and Dial Thru International Corporation (filed as Exhibit 4.4 to the Company's Form S-3, File 333-82622, filed on February 12, 2002 and incorporated herein by reference)

10.1 Employment Agreement, dated June 30, 1997 between Canmax Retail Systems, Inc. and Roger Bryant (filed as Exhibit 10.3 to the Company's Registration Statement on Form S-3, File No. 333-33523 (the "Form S-3"), and incorporated herein by reference)

10.2 Commercial Lease Agreement between Jackson--Shaw/Jetstar Drive Tri-star Limited Partnership and the Company (filed as Exhibit 10.20 to the Company's Annual Report on Form 10-K dated October 31, 1998, and incorporated herein by reference)

10.3 Employment Agreement, dated November 2, 1999 between ARDIS Telecom & Technologies, Inc. and John Jenkins (filed as Exhibit 4.3 to the 2000 Form 10-K and incorporated herein by reference)

14.1 Code of Business Conduct and Ethics for Employees, Executive Officers and Directors (filed as Exhibit 14.1 to the 2003 Form 10-K and incorporated herein by reference)

31.1 Certificate of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934\*

31.2 Certificate of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934\*

32.1 Certificate of Chief Executive Officer pursuant to 18 U.S.C. Section 1350\*

32.2 Certificate of Chief Financial Officer pursuant to 18 U.S.C. Section 1350\*

\* Filed herewith.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DIAL THRU INTERNATIONAL CORPORATION

By: /s/ Allen Sciarillo

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Allen Sciarillo  
Chief Financial Officer and Executive Vice  
President (Principal Financial and Principal  
Accounting Officer)

Dated June 14, 2005