

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549  
**FORM 10-Q**

(Mark one)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES**  
EXCHANGE ACT OF 1934 For the quarterly period ended June 30,  
2001

Or

**TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES**  
EXCHANGE ACT OF 1934 For the transition period from \_\_\_\_\_  
to \_\_\_\_\_

*Commission File Number: 000-27339*

**BINGO.COM, INC.**

(Exact name of registrant as specified in its charter)

Florida

98-0206369

-----  
(State or Other Jurisdiction  
of Incorporation)

-----  
(IRS Employer Identification No.)

**3rd Floor, 1286 Homer Street, Vancouver, British Columbia, Canada V6Z 1R5**

(Address of Principal Executive Offices)

(604) 647-6407

(Registrant's Telephone Number, Including Area Code)

4223 Glencoe Avenue, Suite C200, Marina Del Rey, California 90292

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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

**APPLICABLE ONLY TO CORPORATE ISSUERS**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As at July 31, 2001, the number of the Registrant's shares outstanding: 10,838,608

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

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**Bingo.com, Inc.**

**CONSOLIDATED BALANCE SHEETS**

	2001	(unaudited) June 30, 2000	December 31,
	-----	-----	
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		\$ 100,823	\$ 174,463
Accounts receivable, net of allowance for doubtful accounts of \$93,699 at June 30, 2001 and \$36,949 at December 31, 2000, respectively		119,288	268,849
Note receivable from officer		18,569	31,405
Prepaid expenses		20,167	51,128
	-----	-----	
Total current assets		258,847	525,845
	-----	-----	
Equipment			
Office and computer equipment		464,396	453,921
Software development and website equipment		338,584	318,308
Less: accumulated depreciation		(408,420)	(265,332)
	-----	-----	
	394,560	506,897	
	-----	-----	
Other assets			
Domain name rights, net		57,307	37,286
		1,451,688	1,645,230
	-----	-----	
Total assets		\$ 2,162,402	\$ 2,715,258
	=====	=====	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 612,325	\$ 517,081
Contract payable - current portion (Note 4)		275,200	270,165
Capital leases - current portion		169,620	166,855
	-----	-----	
Total current liabilities		1,057,145	954,101
	-----	-----	
Contract payable, net of current portion (Note 4)		90,313	276,476
Debenture payable (Note 5)		760,340	-
Capital leases, net of current portion		59,733	100,660
	-----	-----	
	1,967,531	1,331,237	
	-----	-----	
Stockholders' equity			
Common stock - \$0.001 par value; authorized 50,000,000 shares; issued and outstanding: 10,104,608 shares at June 30, 2001 and December 31, 2000		10,105	10,105
Additional paid-in-capital		7,629,900	7,629,900
Accumulated deficit		(7,435,305)	(6,250,335)
Accumulated other comprehensive income (loss)		(9,829)	(5,649)
	-----	-----	
	194,871	1,384,021	
	-----	-----	
Total liabilities and stockholders' equity		\$ 2,162,402	\$ 2,715,258
	=====	=====	

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

**Bingo.com, Inc.**

**CONSOLIDATED STATEMENTS OF OPERATIONS  
UNAUDITED**

	For the six months ended June 30, 2001	For the six months ended June 30, 2000	For the three months ended June 30, 2001	For the three months ended June 30, 2000
Revenues	\$ 1,057,867	\$ 61,868	\$ 475,064	\$ 57,588
Cost of revenues	707,850	160,528	243,960	115,644
Gross profit	350,017	(98,660)	231,104	(58,056)
Operating Expenses				
Sales and marketing	164,312	193,941	71,218	93,054
General and administrative	977,204	1,189,886	363,886	826,582
Depreciation and amortization	336,630	180,080	165,837	168,992
Total operating expenses	1,478,146	1,563,907	600,941	1,088,628
Loss from operations	(1,128,129)	(1,662,567)	(369,837)	(1,146,684)
Other income (expense)				
Net interest (expense) income	(56,841)	45,667	(53,149)	24,307
Loss on disposal of discontinued operations	--	(45,899)	--	(45,899)
Net loss	(1,184,970)	(1,662,799)	(422,986)	(1,168,276)
Basic and diluted loss per share	\$ (0.12)	\$ (0.17)	\$ (0.04)	\$ (0.12)
Weighted average basic and diluted shares	10,104,608	10,046,368	10,104,608	10,035,068

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

**Bingo.com, Inc.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
UNAUDITED**

	For the six months ended June 30, 2001	For the six months ended June 30, 2000
Cash flows from operating activities:		
Net loss	\$ (1,184,970)	\$ (1,662,799)
Adjustments to reconcile net loss to net cash used in operating activities		
Provision for loss from discontinued operations	--	45,899
Depreciation and amortization	36,630	180,080
Provision for doubtful accounts	--	--
Stock based compensation costs	--	26,800
Change in operating assets and liabilities:		
Accounts receivable	149,561	(28,906)
Note receivable	12,836	--
Prepaid expenses and security deposits	10,940	(41,500)
Accounts payable and accrued liabilities	105,584	139,903
	-----	-----
Cash used by continuing operations	(569,419)	(1,340,523)
Cash used by discontinued operations	--	(40,555)
	-----	-----
Cash used in operating activities	(569,419)	(1,381,078)
Cash flows from investing activities:		
Acquisition of property and equipment	(30,751)	(152,789)
Payments on domain name contract payable	(181,128)	(50,000)
	-----	-----
Cash used in investing activities	(211,879)	(202,789)
Cash flows from financing activities:		
Capital lease repayments	(38,162)	(5,339)
Proceeds from debenture debt	750,000	--
Repayment of loan payable	--	(53,912)
	-----	-----
Cash provided by (used in) financing activities	711,838	(59,251)
Net decrease in cash and cash equivalents	(69,460)	(1,643,118)
Effect of exchange rates on cash and cash equivalents	(4,180)	7,866
Cash and cash equivalents at beginning of period	174,463	3,382,529
	-----	-----
Cash and cash equivalents at end of period	\$ 100,823	\$ 1,747,277
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 49,359	\$ 700
	=====	=====
Non Cash Transactions		
Issuance of common stock for services rendered	\$ --	\$ 26,800
	=====	=====

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

## **BINGO.COM, INC.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

#### **1. HISTORY AND ORGANIZATION OF THE COMPANY**

The Company was organized on January 12, 1987, under the laws of the State of Florida as Progressive General Lumber Corp. On January 22, 1999, the Company changed its name to Bingo.com, Inc. The Company provides online, play-for-free, bingo entertainment via the Internet and operates in one industry segment.

On July 17, 1998, the State of Florida approved the Company's restated Articles of Incorporation, which increased its authorized shares from 7,500 common shares to 50,000,000 common shares. The par value was changed from \$1.00 to \$0.001. In addition, the Company forward split its common stock 200:1, thus increasing the number of outstanding common shares from 5,000 shares to 1,000,000 shares. All common share and per share data have been retroactively adjusted to reflect the stock split.

#### **2. GOING CONCERN**

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. However, as shown in the accompanying financial statements, the Company has sustained substantial losses from operations since inception. In addition, the Company has used, rather than provided, cash in its operations

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to meet its financing requirements on a continuing basis and to succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

Management of the Company has taken steps to revise and reduce its operating requirements, which it believes will be sufficient to assure continued operations and implementation of the Company's plans. These steps include moving the corporate offices from the United States to Canada, resulting in significant expense reductions in the areas of staffing, marketing and consulting.

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **PRINCIPLES OF CONSOLIDATION**

These consolidated financial statements include the accounts of the Company and the accounts of its wholly owned subsidiaries, Bingo.com (Canada) Inc., Bingo.com (Antigua) Inc. and Bingo.com (Wyoming) Inc. (collectively, the Company). All inter-company balances and transactions have been eliminated in consolidation.

##### **BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements contain, in the opinion of management, all adjustments, which consist only of normal recurring adjustments, necessary to present fairly the consolidated financial position of Bingo.com, Inc. at June 30, 2001 and the consolidated results of operations and cash flows for the six months ended June 30, 2001 and 2000 in accordance with accounting principles generally accepted in the United States of America (US GAAP). This interim consolidated financial information and notes thereto should be read in conjunction with Bingo.com's Annual Report on Form 10-K for the year ended December 31, 2000. Bingo.com's consolidated results of operations and cash flows for the interim periods are not necessarily reflective of the results to be expected for any other interim period of the full year. Certain information and footnote disclosures normally include in the financial statements prepared in accordance with US GAAP have been omitted in accordance with the rules and regulations of the SEC.

## **BINGO.COM, INC.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

#### **REVENUE RECOGNITION**

The Company initially contracted with a sales agency, Cox Interactive Sales, Inc., to sell advertising on its website directly to corporate customers or through advertising agencies. The Company paid an advertising commission to the sales agency for placing advertisements on its web site. Effective March 23, 2001, the agreement with Cox Interactive Sales, Inc. was terminated. Advertising sales are being managed directly by the staff of the Company. Advertising revenues are recognized as the advertising campaign or impressions and clicks are made on the website. Accounts receivable are recorded net of advertising commissions.

The Company bartered portions of the unsold advertising impressions generated by its web sites, for advertising in media properties owned by third parties. The Company recorded revenues and costs for such barter transactions, with no net income or loss recognized. Barter revenue approximated \$326,899 and \$28,600 for the six months ended June 30, 2001 and 2000, respectively.

The Company enters into co-branding contracts with its corporate customers. The contracts provide the customer with the ability to allow its registrants or visitors the opportunity to play Bingo for free on the customer's website. A monthly fee is charged per the contract and set-up fees are recognized as revenue when the set-up process has been completed.

#### **SOFTWARE DEVELOPMENT**

The Company has adopted Statement of Position 98-1 (SOP 98-1) Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, as its accounting policy for internally developed computer software costs. Under SOP 98-1, computer software costs incurred in the preliminary development stage are expensed as incurred. Computer software costs incurred during the application development stage are capitalized and amortized over the software's estimated useful life.

#### **DOMAIN NAME**

The Company has capitalized the cost of the purchase of the domain name Bingo.com and is amortizing the cost over five years from the date of commencement of operations.

#### **NET LOSS PER COMMON SHARE**

Basic loss per share includes no dilution and is computed by dividing the net loss by the weighted average number of common shares outstanding, for the period. Diluted loss per share reflects the potential dilution of securities that could share in the earnings of the Company. Convertible securities and stock options and warrants are not included in the calculation of weighted average number of shares because the effect would be anti-dilutive.

#### **WEBSITE DEVELOPMENT COSTS**

In March 2000, EITF 00-2 Accounting for Web Site Development Costs was released. EITF 00-2 provides guidance on how an entity should account for costs involved in such areas as planning, developing software to operate the web site, graphics, content, and operating expenses. EITF 00-2 is effective for web site development costs incurred for fiscal quarters beginning after June 30, 2000. The Company adopted EITF 00-2 and development costs incurred subsequent to June 30, 2000, associated with the Company's Web Site were recorded in accordance with EITF 00-2. All website development costs for periods subsequent to June 30, 2000 were expensed as operating costs except for \$20,000 of development costs which were capitalized during the six months ended June 30, 2001.

#### **RECLASSIFICATIONS**

Certain amounts in the prior period financial statements have been reclassified to conform with the 2001 presentation.

## BINGO.COM, INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 4. DOMAIN NAME RIGHTS AND CONTRACT PAYABLE

The rights to use the domain name Bingo.com were acquired in January of 1999 from Bingo, Inc. for \$200,000 cash and 500,000 common shares at a deemed price of \$2.00 per share.

In addition, the Company is required to make quarterly payments with a minimum guarantee of \$1,100,000 for the purchase of the domain name. Commencing July 1, 1999, a payment of \$50,000 was due 60 days after the end of each business quarter, for four consecutive quarters. On July 1, 2000, four more consecutive payments of \$75,000 were due 60 days after the end of each business quarter. On July 1, 2001, four more consecutive payments of \$100,000 are due 60 days after the end of each business quarter. Domain name rights have been capitalized by the Company based on the present value of the future minimum payments. The guarantee has been recorded in the financial statements as contract payable. Payments made relating to this contract were \$181,128 for the six months ended June 30, 2001. As of June 30, 2001 and December 31, 2000, capitalized domain name rights totaled approximately \$1,451,000 and \$1,645,000, respectively, net of accumulated amortization of \$484,000 and \$290,000, respectively.

#### 5. DEBENTURE PAYABLE

On April 16, 2001, the Company received a loan from and issued a convertible debenture to Redruth Ventures Inc., a British Virgin Islands corporation (\$750,000), and to Bingo, Inc., an Anguilla corporation (\$500,000) (the Holders). The Company promises to pay to the Holders, an amount equal to U.S.\$1,250,000, together with simple interest at the fixed rate per annum of twelve percent (12%), with interest accruing and payable on the outstanding principal amount of this Debenture.

The Company shall pay the outstanding principal amount of this Debenture on April 16, 2006. Interest shall accrue on the principal amount from the issuance date through April 16, 2003 (Accrued Interest Payment Date), at which time the interest will become payable. Thereafter, interest shall accrue and be payable on the first business day of each succeeding quarter through and including April 16, 2006. All principal, accrued but unpaid interest and any other amounts due shall be due and payable at maturity on April 16, 2006.

The Company shall pay the accrued interest on the Accrued Interest Payment Date and shall pay all other interest thereafter accrued, at the Company's option, in (i) cash (ii) common stock of the Company or (iii) a combination of both cash and Company Common Stock. Any amounts remaining unpaid on this Debenture on the maturity date, whether principal, interest or other amounts due, shall be paid in full in cash on such date. Any Company Common Stock delivered to the Holder in payment of this Debenture as described above will be valued at \$0.25 per share.

The Holders of the loan received a total of 12,000,000 shares of common stock purchase warrants at an exercise price of \$0.25 per share exercisable for a period of three years from the date of the Debenture. The Holders have the right, but not the obligation, to elect to convert any or all of the principal amount of the Debenture into shares of the Company's common stock at a conversion price of \$0.125 per share until the third anniversary date of the Debenture. The Debenture is also secured by all assets of the Company. Drawdowns of principal under this Debenture are scheduled as follows:

	U.S. Dollars
	-----
April 16, 2001	\$250,000
May 1, 2001	250,000
June 1, 2001	250,000
July 1, 2001	150,000
October 1, 2001	100,000
January 1, 2002	100,000
April 1, 2002	100,000
July 1, 2002	50,000

As at June 30, 2001, the Company had drawn down \$750,000 of the debenture debt.

**BINGO.COM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**6. NOTES PAYABLE**

In February 2001, the Company entered into a promissory note for \$45,000 from an unrelated third party bearing interest at prime plus one percent, calculated annually, with a maturity date of June 15, 2001.

In March 2001, the Company entered into a promissory note with an unrelated third party for \$45,000 bearing interest at ten percent per annum with a maturity date of May 15, 2001.

Both notes have been repaid at June 30, 2001.

**7. STOCKHOLDERS' EQUITY**

**1999 Non-Qualified Stock Option Plan**

The Company granted 500,000 stock options under its 1999 Non-Qualified Stock Option Plan (the 1999 Plan) during December 2000 to the Company's Director, CEO and President. On June 29, 2000, the Company re-priced options to purchase 800,000 shares of the Company's common stock previously granted to the person serving as sole Director, CEO and President and the person serving as the Senior Vice President of the Company. At June 30, 2001, outstanding employee and director stock options granted under the 1999 Plan, with various vesting provisions, were as follows:

Number of Shares -----	Exercise Price -----	Expiration Date -----
600,000	\$0.75	July 1, 2004
215,000	3.00	December 1, 2004
200,000	0.75	December 1, 2004
10,000	1.45	December 1, 2004
500,000	0.44	December 13, 2005
-----		
1,525,000		
=====		

These re-pricings have resulted in variable accounting, which required the computation and recording of no stock based compensation expense for the quarter ending June 30, 2001 because the fair market value of the stock as of June 30, 2001 was below the option exercise price. In accordance with the Financial & Accounting Standards Board (FASB) FIN 44, the expense related to these options was based on the difference between the market value of the stock and the option exercise price in this reporting period.

**2000 Stock Option Plan**

On September 1, 2000, subject to Shareholder approval, the Company granted incentive stock options to purchase 95,000 shares of the Company's common stock to nine full time employees and non-qualified stock options to purchase 61,000 shares of the Company's common stock to certain key consultants under the Company's 2000 Stock Option Plan (the 2000 Plan). The 2000 Stock Option Plan expired before the Company obtained shareholder ratification.

**BINGO.COM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

7. STOCKHOLDERS' EQUITY (Continued)

Therefore, for financial reporting purposes, there were no stock options outstanding as of June 30, 2001 for the 2000 Stock Option Plan. The following table summarizes information about stock option transactions for the period ended June 30, 2001 related to the 1999 Stock Option Plan.

	Shares	Weighted average exercise price
	-----	-----
Options outstanding at December 31, 1998	--	\$ --
Granted	1,025,000	3.72
Exercised	--	--
Canceled	--	--
	-----	-----
Options outstanding at December 31, 1999	1,025,000	3.72
Granted - including repriced shares	1,300,000	0.63
Exercised	--	--
Canceled - repriced shares	(800,000)	3.92
	-----	-----
Options outstanding at December 31, 2000	1,525,000	\$ 0.96
Granted	--	--
Exercised	--	--
Canceled	--	--
	-----	-----
	-----	-----
	-----	-----
Options outstanding at June 30, 2001	1,525,000	\$ 0.96
	=====	=====

On May 31, 2001, the Company's Board of Directors adopted the 2001 Stock Option Plan (the 2001 Plan). On June 4, 2001, the Company granted, subject to shareholder approval, incentive stock options to purchase 280,000 shares of the Company's common stock to nine full-time employees and non-qualified stock options to purchase 91,000 shares of the Company's common stock to certain key consultants under the 2001 Plan. The options were granted at an exercise price of \$0.20 per share, which was at a premium to the fair market value of the Company's common stock on June 6, 2001, the date of grant. On June 6, 2001, the closing stock price from the Company's common shares on the OTCBB was \$0.16 per share. The options vest over various periods as to be determined by the Board of Directors. As at June 30, 2001, the terms of the option agreements have not been finalized. The 2001 plan was approved by a majority of the Company's shareholders at the annual general meeting held in June, 2001.

## 8. WARRANTS

As at June 30, 2001 the Company has warrants outstanding enabling the holders to acquire 12,000,000 common shares of the Company at a price of \$0.25 per share, expiring on April 16, 2004.

## 9. RELATED PARTY TRANSACTIONS

In 2000, the Company provided an interest-free loan to the Company's Sole Officer and Director of \$56,484 Canadian dollars (\$37,686 US dollars), repayable over 12 months. As of June 30, 2001 and December 31, 2000, \$28,122 and \$47,070 Canadian dollars (\$18,569 and \$31,405 US dollars), respectively, remained outstanding. In April 2001, the original employment agreement with the President, CEO and Director (President) of the Company was cancelled and a new agreement was entered into indicating a salary of \$175,000 for the first year of employment with increases to \$200,000 for the second year and \$225,000 for the third year. The agreement also stipulates 750,000 shares of common stock will be issued to the President. They were issued in July, 2001. The shares will be held in escrow for a period of one year. The shares will be released upon the earlier of (i) the last day of the escrow period or (ii) the date that employment is terminated, once the escrow period has expired. If termination occurs prior to the escrow period, then all shares will be surrendered and gifted back to the Company. The agreement acknowledges and honors the previous stock option grants totaling 1,100,000 common stock options under the 1999 Stock Option Plan and the salary advance without interest. The agreement also includes several covenants not to compete and specifically refers to assignment, intellectual property protection, and copyrights in working.

## 10. SUBSEQUENT EVENT

Subsequent to June 30, 2001, the Company issued the 750,000 shares of common stock to the President under the revised employment agreement as disclosed in Note 9.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and the documents incorporated herein by reference contain forward-looking statements based on current expectations, estimates and projections about the Company's industry, management's beliefs and certain assumptions made by management. All statements, trends, analyses and other information contained in this report relative to trends in net sales, gross margin, anticipated expense levels and liquidity and capital resources, as well as other statements including, but not limited to, words such as anticipate, believe, plan, estimate, expect, seek, intend, and other similar expressions, constitute forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to certain risks and uncertainties that are difficult to predict. Accordingly, actual results may differ materially from those anticipated or expressed in such statements. Potential risks and uncertainties include, among others, those set forth in this Item 2. Particular attention should be paid to the cautionary statements involving the Company's limited operating history, the unpredictability of its future revenues, the Company's need for and the availability of capital resources, the evolving nature of its business model, the intensely competitive market for business-to-business electronic procurement, and the risks associated with systems development, management of growth and business expansion. Except as required by law, the Company undertakes no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise. Readers, however, should carefully review the factors set forth in other reports or documents that the Company files from time to time with the Securities and Exchange Commission (SEC).

Bingo.com has incurred significant losses since inception, and as of June 30, 2001 had an accumulated deficit of \$7,435,305.

Bingo.com has made a significant investment in the development of the website, purchase of the domain name, branding, marketing and maintaining operations.

As of the date of this Report, the Company has utilized substantially all of its available funding. The Company's continuation as a going concern will depend on its ability to raise additional capital. No assurance can be given that the Company will be able to raise additional funds. In the absence of such funds, the Company will be required to cease operations.

### RESULTS OF OPERATIONS

The quarter ended June 30, 2001 was the continuation of our second year of generating operating revenues. Initially, our strategy was to develop an online gaming operation with an initial focus on bingo. Due to adverse changes in North American gaming laws, in August 1999 our board, decided to prohibit gaming in jurisdictions with laws that prohibit online gaming. From August 1999 to

## **RESULTS OF OPERATIONS (CONTINUED)**

December 31, 1999, we revised our business plan and focused on the alternative of developing our prize-based, play for free games with an emphasis on entertainment. In December 1999, we launched a beta version of our first play for free game and our revamped website. In 2000, our board announced the discontinuance of our Antigua based gaming operation and we applied all of its resources to our revised business plan. In 1999, we had just begun active business operations, but as we were still in the development stage, no revenues were yet being generated. The company began to see growth in revenues in 2000, but this should be kept in mind when making direct comparisons to the operating results of the quarter ended June 30, 2001 to that ended June 30, 2000.

Balances as of June 30, 2001 compared to December 31, 2000:

Total assets decreased to \$2,162,402 as of June 30, 2001 compared to \$2,715,258 at the beginning of the fiscal year. In the six months ended June 30, 2001, we invested \$30,751 in office and computer equipment, including software and development, compared to \$152,789 in 2000. Our cash position decreased by \$ 69,460 from December 31, 2000 and our working capital position at June 30, 2001 was a deficit of \$798,298. Accounts receivable decreased from \$268,849 at December 31, 2000 to \$119,288 at June 30, 2001, partially due to adverse market conditions and the increase in the allowance for doubtful accounts to \$93,699 at June 30, 2001 from \$36,949 at December 31, 2000.

Total Liabilities increased to \$1,967,531 at June 30, 2001 from \$1,331,237 at December 31, 2000. The increase was primarily due to the debenture payable as described in Item 2, Changes in Securities and Use of Proceeds.

### **Quarter Ended June 30, 2001 Compared to the Quarter Ended June 30, 2000:**

Of the \$600,941 of total expenses for operations for the quarter ended June 30, 2001, \$363,886 was for general and administrative expenses associated with our operations. General and administrative expenses consist primarily of payroll and consultant costs for the Company's executive staff, accounting and administrative personnel, premises costs, legal and professional fees for preparation and review of our registration statement, insurance and other general corporate and office expenses. We recorded \$165,837 for amortization of capital assets and the value of the domain name in the second quarter of 2001, compared to \$168,992 in 2000.

Sales and marketing expenses were \$71,218 for the quarter ended June 30, 2001 and were \$93,054 for the quarter ended June 30, 2000. We incurred costs of \$13,823 in the quarter ended June 30, 2001 and \$70,074 in the same quarter of 2000 for marketing, co-brand advertising and key word buys for our game site. The balance of marketing and advertising expenses consists of payroll and consultant's costs, travel and office costs.

We had a net loss of \$422,986 or \$.04 per share for the quarter ended June 30, 2001, compared to a loss of \$1,168,276 or \$.12 per share for the quarter ended June 30, 2000. The second quarter of 2001 included net interest expense of \$53,149, primarily due to interest on long term debt payments, whereas the same quarter in 2000 included net interest income of \$21,360 earned on our surplus cash balances. We expect continued losses in the foreseeable future as we continue to expand and develop our website and the technologies related to new games. Revenue generation and operating income are dependent upon the utilization of significant cash resources for development, advertising and promotion, new games, and our future successes at attracting advertising customers and new product development.

## **LIQUIDITY AND CAPITAL RESOURCES**

We did not issue any shares in the second quarter of 2001. We did repay \$90,000 of short-term loans. We did not lease any additional capital assets; however, we paid \$38,162 under contractual terms for previously existing leases. In the quarter ended June 30, 2001, we generated revenue of \$475,064 from our sales operations, compared to \$57,588 of sales generated in the second quarter of 2000.

As at June 30, 2001, we had cash and cash equivalents of \$100,823 versus \$1,747,277 at June 30, 2000. Our working capital position at June 30, 2001 was a deficit of \$798,298. In the first six months of 2001, we used \$569,419 for operating activities, and \$211,879 for investing activities, compared to 2000 uses of \$1,381,078 and \$202,789, respectively. Made payments of \$181,128 on the domain name debt in the first half of 2001, and \$50,000 in the first half of 2000.

In April, 2001, we negotiated a debt financing (debenture) for \$1,250,000. We expect that the cash proceeds received from this financing of \$750,000 at June 30, 2001, in conjunction with the cash flow generated from operations, will be sufficient to maintain and grow our operations as intended. The Holders of the debenture received a total of 12,000,000 shares of common stock purchase warrants at an exercise price of \$0.25 per share exercisable for a period of three years from the date of the Debenture. The Holders have the right, but no the obligation, to elect to convert any or all of the principal amount of the debenture into shares of the Company's common stock at a conversion price of \$0.125 per share. The debenture is secured by all assets of the Company.

## **RISK RELATED TO THE COMPANY'S BUSINESS**

### **Need For Additional Capital**

The Company has recorded substantial operating losses and, as of June 30, 2001, has an accumulated deficit of approximately \$7,435,305. The Company believes that cash funds will provide operating capital until December 31, 2001, and if the Company launches its intended new game product prior to December 31, 2001, the Company does not anticipate that it will require additional funding before it can finance its operations and growth wholly on internally generated funds. Should the new product not launch prior to December 31, 2001, the Company anticipates that it will require additional funding to finance its operations and growth.

### **Large Operating Losses Expected to Continue**

As discussed above, the Company has accumulated substantial net losses through June 30, 2001. Since inception, the Company has not had material revenues, and has recognized substantially half of its revenues from barter transactions. Although the Company has significantly reduced ongoing expenses, there is no assurance that the Company will achieve positive cash flow and operating profitability within the limits of its available capital.

### **Dependence on Sales and Marketing Relationships for Growth**

The Company's business model includes generating sales through its alliance and affiliate programs. Consequently, the Company will depend, in part, on sales and marketing strategic relationships for growth. The Company has established and plans to continue to establish sales and marketing strategic relationships with large organizations as part of our growth strategy. Such relationships may not contribute to increased use of the Company's services, help the Company add new clients, or increase the Company's revenue. The Company may not be able to enter into new relationships or renew existing relationships on favorable terms, if at all. In addition, the Company may not be able to recover the costs and the expenses associated with these programs. **Success Depends on Key Personnel; No Key Man Life Insurance.** Future performance depends on the continued service of key personnel, and the ability to attract, train, and retain additional technical, marketing, customer support, and management personnel. The loss of one or more key employees could negatively impact the Company, and there is no key man life insurance in force at this time. Competition for qualified personnel is intense, and there can be no assurance that the Company will retain key employees, or attract and retain other needed personnel.

## **RISKS RELATED TO THE INTERNET AND E-COMMERCE**

### **Volatility in Stock Price**

The stock market and especially the stock prices of Internet related companies have been very volatile. This volatility may not be related to the operating performance of the companies. The broad market volatility and industry volatility may reduce the price of the Company's stock without regard to the Company's operating performance. The market price of the company's stock could significantly decrease at any time due to this volatility. The uncertainty that results from such volatility can itself depress the market price of the Company's stock.

### **Dependence Upon, and Risks Related To, the Internet**

The use of the Company's website on the increased acceptance and use of the Internet as a medium of communication. While management believes that acceptance and use of the Internet will continue to increase at very rapid rates and that additional hits to the site will be made, there can be no assurances that such increase will continue to develop, or that use of the Internet as a means of communication and entertainment will continue or increase. If growth in the use of the Internet does not continue, there may not be an increase in the number of hits to the Company's website at the rates or for the purposes management has assumed. This could, in turn, adversely impact the Company and the results of its business operations. Further, even if acceptance and use of the Internet does increase rapidly, but the technology underlying the Internet and other necessary technology and related infrastructure does not effectively support that growth, the Company's future would be negatively impacted.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We currently have instruments sensitive to market risk relating to exposure in changing interest rates and market prices. We do not enter into financial instruments for trading or speculative purposes and do not currently utilize derivative financial instruments. Our operations are conducted primarily in the United States and as such are not subject to material foreign currency exchange rate risk.

The fair value of our investment portfolio or related income would not be significantly impacted by either a 100 basis point increase or decrease in interest rates due mainly to the short term nature of the majority of our investment portfolio.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

The Company is not currently a party to any legal proceeding, and was not a party to any legal proceeding during the fiscal period ended June 30, 2001. Management of the Company is currently not aware of any legal proceedings proposed to be initiated against the Company. However, from time to time, the Company may become subject to claims and litigation generally associated with any business venture.

### Item 2. Changes in Securities and Use of Proceeds

On April 16, 2001, as previously disclosed in the Company's current report on Form 8-K filed with the Securities Exchange Commission on May 3, 2001, the Company received a loan from and issued a convertible debenture to Redruth Ventures Inc., a British Virgin Islands corporation (\$750,000), and to Bingo, Inc., an Anguilla corporation (\$500,000) (the Holders). The Company promises to pay to the Holders, an amount equal to U.S.\$1,250,000, together with simple interest at the fixed rate per annum of twelve percent (12%), with interest accruing and payable on the outstanding principal amount of this Debenture. The Holders of the loan received a total of 12,000,000 common share purchase warrants, entitling the holders to purchase an aggregate of 12,000,000 shares of the Company's Common Stock at an exercise price of \$0.25 per share exercisable for a period of three years from the date of the Debenture. The Holders have the right, but not the obligation, to elect to convert any or all of the principal amount of the Debenture into shares of the Company's common stock at a conversion price of \$0.125 per share. The Debenture is secured by all assets of the Company. Drawdowns of principal under this Debenture are scheduled as follows:

Date	U.S. Dollars
April 16, 2001	\$250,000
May 1, 2001	250,000
June 1, 2001	250,000
July 1, 2001	150,000
October 1, 2001	100,000
January 1, 2002	100,000
April 1, 2002	100,000
July 1, 2002	50,000

As at June 30, 2001, the Company had drawn down \$750,000.

### Item 3. Defaults Upon Senior Securities

Not Applicable

### Item 4. Submission of Matters to a Vote of Security Holders

We held our Annual Meeting of Stockholders on June 27, 2001 for the purposes of electing our directors, to ratify the appointment of Grant Thornton LLP as our independent auditors for the 2001 fiscal year, to ratify and approve the Company's 1999 Stock Option Plan, to ratify and approve the Company's 2001 Stock Option Plan and to ratify and approve the amendments to the Company's bylaws.

All nominees for directors were elected, the appointment of auditors was ratified, the Company's 1999 Stock Option Plan was ratified, the Company's 2001 Stock Option Plan was ratified and the amendments to the Company's bylaws were ratified. The voting on each matter is set forth below:

## **Election of the Directors of the Company.**

Nominee	For	Against	Abstain
David Chalk	5,313,383	350	23,554
Shane Murphy	5,309,241	4,492	23,554
Randy Peterson	5,313,633	100	23,554
Mitch White	5,313,483	250	23,554

Proposal to ratify the appointment of Grant Thornton LLP as our independent auditors for the 2001 fiscal year.

### **For Against Abstain**

5,267,457 17,670 52,160

Proposal to ratify and approve the Company's 1999 Stock Option Plan.

### **For Against Abstain**

5,150,097 150,382 36,808

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Proposal to ratify and approve the Company's 2001 Stock Option Plan.

### **For Against Abstain**

5,181,933 118,412 36,942

Proposal to ratify and approve the amendments to the Company's bylaws.

### **For Against Abstain**

5,249,058 57,294 36,590

The following votes were required (and received) for the adoption of the Bingo.com, Inc. 1999 Stock Option Plan, the 2000 Stock Option Plan and the amendments to the Company's bylaws: the affirmative vote of a majority of the outstanding shares of the Company's Common Stock voting in person or by proxy at the annual meeting, with each share of Common Stock having one-tenth of a vote per share.

## **Item 5. Other Information**

In April 2001, in connection with the issuance of the convertible debenture issued to the Holders as disclosed above under Item 2, the original employment agreement with the President, CEO and Director (President) of the Company was cancelled and a new agreement was entered into indicating a salary of \$175,000 for the first year of employment with increases to \$200,000 for the second year and \$225,000 for the third year. The agreement also stipulates 750,000 shares of common stock will be issued to the President. The shares will be held in escrow for a period of one year. The shares will be released upon the earlier of (i) the last day of the escrow period or (ii) the date that employment is terminated, once the escrow period has expired. If termination occurs prior to the escrow period, then all shares will be surrendered and gifted back to the Company. The agreement acknowledges and honors the previous stock option grants totaling 1,100,000 common stock options under the 1999 Stock Option Plan and the salary advance without interest. The agreement also includes several covenants not to compete and specifically refers to assignment, intellectual property protection, and copyrights in working. As at June 30, 2001, the 750,000 shares of common stock had not yet been issued.

In July, 2001, as previously disclosed in the Company's current report on Form 8-K filed with the Securities Exchange Commission on July 9, 2001, the Company relocated its executive offices from Marina Del Rey, California, to Vancouver British Columbia, Canada.

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

### Exhibits

The following instruments are included as exhibits to this Report. Exhibits incorporated by reference are so indicated.

3(ii)	Bylaws of the Company as amended and currently in effect
4.1	\$1,250,000.00 Convertible Debenture*
4.2	Common Stock Purchase Warrant (Redruth Ventures Inc. a British Virgin Islands corporation (RRV) and Bingo, Inc.*
4.3	Common Stock Purchase Warrant (Redruth Ventures Inc. a British Virgin Islands corporation (RRV) and Bingo, Inc.*
10.1	Non Qualified Stock Option Plan**
10.2	2001 Stock Option Plan**
10.3	Employment Agreement dated April 16, 2001, between the Company and Shane Murphy

\*Previously filed with the Company's quarterly report on Form 10-Q for the period ended March 31, 2001, on June 25, 2001.

\*\*Previously filed with the Company's Definitive Proxy Statement on Schedule 14A on June 12, 2001.

### Reports on Form 8-K.

During the quarter covered by this report, the Company filed the following reports on Form 8-K.

Form 8-K filed on April 6, 2001, reporting the termination of the proposed acquisition of acquisition of The Lottery Channel Inc. and the execution of a letter of intent proposing a financing arrangement with Bounceback Technologies.Com, Inc.

Form 8-K filed on May 3, 2001, reporting the termination of the letter of intent proposing a financing arrangement with Bounceback Technologies.Com, Inc., and reporting the execution of a definitive financing arrangement between the Company, Redruth Ventures Inc. a British Virgin Islands corporation (RRV) and Bingo, Inc an Anguillia corporation (BI) (collectively the Holders).

Form 8-K filed on July 9, 2001, reporting on the events and outcome of the business conducted at the Company's Annual General Meeting held June 27, 2001.

Form 8-K filed on August 14, 2001, reporting the change of independent accountants from Grant Thornton, LLP to Davidson & Company, Chartered Accountants.

**\*SIGNATURES\***

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

**BINGO.COM, INC.**

(Registrant)

*Date: August 17, 2001*

*/s/ Shane Murphy*

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*Shane Murphy, Chairman of the Board,  
Chief Executive Officer, President, Treasurer  
and Secretary  
(Principal Executive and Accounting Officer)*

Exhibit Index

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\*\*Previously filed with the Company's Definitive Proxy Statement on Schedule 14A on June 12, 2001.

**Exhibit 3(ii)**

**BYLAWS  
OF  
BINGO.COM, INC.**

**ARTICLE I  
OFFICES, CORPORATE SEAL**

Section 1.01. Registered Office. The registered office of the corporation in Florida shall be that set forth in the articles of incorporation or in the most recent amendment of the articles of incorporation or resolution of the directors filed with the secretary of state of Florida changing the registered office.

Section 1.02. Other Offices. The corporation may have such other offices, within or without the state of Florida, as the directors shall, from time to time, determine.

Section 1.03. Corporate Seal. The corporation shall have no seal.

**ARTICLE II  
MEETINGS OF SHAREHOLDERS**

Section 2.01. Place and Time of Meetings. Except as provided otherwise by the Florida Business Corporation Act, meetings of the shareholders may be held at any place, within or without the state of Florida, as may from time to time be designated by the directors and, in the absence of such designation, shall be held at the principal corporate office of the corporation in the state of Florida. The directors shall designate the time of day for each meeting and, in the absence of such designation, every meeting of shareholders shall be held at ten o'clock a.m.

Section 2.02. Regular Meetings.

(a) A regular meeting of the shareholders shall be held on such date as the board of directors shall by resolution establish.

(b) At a regular meeting the shareholders, voting as provided in the articles of incorporation and these bylaws shall designate the number of directors to constitute the board of directors (subject to the authority of the board of directors thereafter to increase or decrease the number of directors as permitted by law), shall elect qualified successors for directors who serve for an indefinite term or whose terms have expired or are due to expire within six months after the date of the meeting, and shall transact such other business as may properly come before them.

Section 2.03. Special Meetings. Special meetings of the shareholders may be held at any time and for any purpose and may be called by the chief executive officer, the chief financial officer, two or more directors or by a shareholder or shareholders holding 10% or more of the voting power of all shares entitled to vote, except that a special meeting for the purpose of

considering any action to directly or indirectly facilitate or affect a business combination, including any action to change or otherwise affect the composition of the board of directors for that purpose, must be called by 25% or more of the voting power of all shares entitled to vote. A shareholder or shareholders holding the requisite percentage of the voting power of all shares entitled to vote may demand a special meeting of the shareholders by written notice of demand given to the chief executive officer or chief financial officer of the corporation and containing the purposes of the meeting. Within 30 days after receipt of demand by one of those officers, the board of directors shall cause a special meeting of shareholders to be called and held on notice no later than 90 days after receipt of the demand, at the expense of the corporation. Special meetings shall be held on the date and at the time and place fixed by the chief executive officer or the board of directors, except that a special meeting called by or at demand of a shareholder or shareholders shall be held in the county where the principal executive office is located. The business transacted at a special meeting shall be limited to the purposes as stated in the notice of the meeting.

Section 2.04. Quorum, Adjourned Meetings. The holders of a majority of the shares entitled to vote shall constitute a quorum for the transaction of business at any regular or special meeting. In case a quorum shall not be present at a meeting, the meeting may be adjourned from time to time without notice other than announcement at the time of adjournment of the date, time and place of the adjourned meeting. If a quorum is present, a meeting may be adjourned from time to time without notice other than announcement at the time of adjournment of the date, time and place of the adjourned meeting.

Section 2.04. Quorum, Adjourned Meetings. (CONTINUED)

At adjourned meetings at which a quorum is present, any business may be transacted that might have been transacted at the meeting as originally noticed. If a quorum is present when a meeting is convened, the shareholders present may continue to transact business until adjournment notwithstanding the withdrawal of enough shareholders originally present to leave less than a quorum.

Section 2.05. Voting. At each meeting of the shareholders, every shareholder having the right to vote shall be entitled to vote either in person or by proxy. Each shareholder, unless the articles of incorporation or statutes provide otherwise, shall have one vote for each share having voting power registered in such shareholder's name on the books of the corporation. Jointly owned shares may be voted by any joint owner unless the corporation receives written notice from any one of them denying the authority of that person to vote those shares. Upon the demand of any shareholder, the vote upon any question before the meeting shall be by ballot. All questions shall be decided by a majority vote of the number of shares entitled to vote and represented at the meeting at the time of the vote except if otherwise required by statute, the articles of incorporation, or these bylaws. For purposes of these bylaws, no shareholders owning shares of non-voting common stock of the corporation shall be entitled to vote.

Section 2.06. Record Date. The board of directors may fix a date, not exceeding 70 days preceding the date of any meeting of shareholders, as a record date for the determination of the shareholders entitled to notice of, and to vote at, such meeting, notwithstanding any transfer of shares on the books of the corporation after any record date so fixed. If the board of directors fails to fix a record date for determination of the shareholders entitled to notice of, and to vote at, any meeting of shareholders, the record date shall be the twentieth day preceding the date of such meeting.

Section 2.07. Notice of Meetings. There shall be mailed to each shareholder shown by the books of the corporation to be a holder of record of voting shares, at his or her address as shown by the books of the corporation, a notice setting out the time and place of each regular meeting and each special meeting, except (unless otherwise provided in Section 2.04 hereof) where the meeting is an adjourned meeting and the date, time and place of the meeting were announced at the time of adjournment, which notice shall be mailed at least 10 days but not more than 60 days prior thereto (unless otherwise provided in Section 2.04 hereof). Every notice of any special meeting called pursuant to Section 2.03 hereof shall state the purpose or purposes for which the meeting has been called, and the business transacted at all special meetings shall be confined to the purposes stated in the notice. The written notice of any meeting at which a plan of merger or exchange is to be considered shall so state such as a purpose of the meeting. A copy or short description of the plan of merger or exchange shall be included in or enclosed with such notice.

Section 2.08. Waiver of Notice. Notice of any regular or special meeting may be waived by any shareholder either before or after such meeting, in writing, signed by such shareholder or a representative entitled to vote the shares of such shareholder. A shareholder, by his or her attendance at any meeting of shareholders, shall be deemed to have waived notice of such meeting, except where the shareholder objects at the beginning of the meeting to the transaction of business because the meeting is not lawfully called or convened, or objects before a vote on an item of business because the item may not lawfully be considered at that meeting and does not participate in the consideration of the item at that meeting.

Section 2.09. Written Action. Any action that may be taken at a meeting of the shareholders may be taken without a meeting if done in writing and signed by all of the shareholders entitled to vote on that action.

**ARTICLE III  
DIRECTORS**

Section 3.01. General Powers. The business and affairs of the corporation shall be managed by or under the authority of the board of directors, except as otherwise permitted by statute.

Section 3.02. Number, Qualification and Term of Office. Until the organizational meeting of the board of directors, the number of directors shall be the number named in the articles of incorporation. Thereafter, the number of directors shall be increased or decreased from time to time by resolution of the board of directors or the shareholders. Directors need not be shareholders. Each of the directors shall hold office until the regular meeting of shareholders next held after such director's election and until such director's successor shall have been elected and shall qualify, or until the earlier death, resignation, removal, or disqualification of such director.

Section 3.03. Board Meetings. Meetings of the board of directors may be held from time to time at such time and place within or without the state of Florida as may be designated in the notice of such meeting.

Section 3.04. Calling Meetings; Notice. Meetings of the board of directors may be called by the chairman of the board by giving at least 24 hours' notice, or by any other director by giving at least five days' notice, of the date, time and place thereof to each director by mail, telephone, facsimile, telegram or in person. If the day or date, time and place of a meeting of the board of directors has been announced at a previous meeting of the board, no notice is required. Notice of an adjourned meeting of the board of directors need not be given other than by announcement at the meeting at which adjournment is taken.

Section 3.05. Waiver of Notice. Notice of any meeting of the board of directors may be waived by any director either before or after such meeting orally or in a writing signed by such director. A director, by his or her attendance at any meeting of the board of directors, shall be deemed to have waived notice of such meeting, except where the director objects at the beginning of the meeting to the transaction of business because the meeting is not lawfully called or convened and does not participate thereafter in the meeting.

Section 3.06. Quorum. A majority of the directors holding office immediately prior to a meeting of the board of directors shall constitute a quorum for the transaction of business at such meeting.

Section 3.07. Absent Directors. A director may give advance written consent or opposition to a proposal to be acted on at a meeting of the board of directors. If such director is not present at the meeting, consent or opposition to a proposal does not constitute presence for purposes of determining the existence of a quorum, but consent or opposition shall be counted as a vote in favor of or against the proposal and shall be entered in the minutes or other record of action at the meeting, if the proposal acted on at the meeting is substantially the same or has substantially the same effect as the proposal to which the director has consented or objected.

Section 3.08. Conference Communications. Any or all directors may participate in any meeting of the board of directors, or of any duly constituted committee thereof, by any means of communication through which the directors may simultaneously hear each other during such meeting. For the purposes of establishing a quorum and taking any action at the meeting, the directors participating pursuant to this Section 3.08 shall be deemed present in person at the meeting; and the place of the meeting shall be the place or origination of the conference telephone conversation or other comparable communication technique.

Section 3.09. Vacancies; Newly Created Directorships. Vacancies on the board of directors of this corporation occurring by reason of death, resignation, removal or disqualification shall be filled for the unexpired term by a majority of the remaining directors of the board although less than a quorum; newly created directorships resulting from an increase in the authorized number of directors by action of the board of directors as permitted by Section 3.02 may be filled by a majority vote of the remaining directors serving at the time of such increase although less than a quorum; and each director elected pursuant to this Section 3.09 shall be a director until such director's successor is elected by the shareholders at their next regular or special meeting.

Section 3.10. Removal. Any or all of the directors may be removed from office at any time, with or without cause, by the affirmative vote of the shareholders holding a majority of the shares entitled to vote at an election of directors except, as otherwise provided by the Florida Business Corporation Act, Section 607.0808, as amended, when the shareholders have the right to cumulate their votes. A director named by the board of directors to fill a vacancy may be removed from office at any time, with or without cause, by the affirmative vote of the remaining directors if the shareholders have not elected directors in the interim between the time of the appointment to fill such vacancy and the time of the removal. In the event that the entire board or any one or more directors be so removed, new directors may be elected at the same meeting.

Section 3.11. Committees. A resolution approved by the affirmative vote of a majority of the board of directors may establish committees having the authority of the board in the management of the business of the corporation to the extent provided in the resolution. A committee shall consist of one or more persons, who need not be directors, appointed by affirmative vote of a majority of the directors present. Committees are subject to the direction and control of, and vacancies in the membership thereof shall be filled by, the board of directors, except as provided by the Florida Business Corporation Act, Section 607.0825. A majority of the members of the committee present at a meeting is a quorum for the transaction of business, unless a larger or smaller proportion or number is provided in a resolution approved by the affirmative vote of a majority of the directors present.

Section 3.12. Written Action. Any action that might be taken at a meeting of the board of directors, or any duly constituted committee thereof, may be taken without a meeting if done in writing and signed by all of the directors or committee members, unless the articles provide otherwise and the action need not be approved by the shareholders.

Section 3.13. Compensation. Directors who are not salaried officers of this corporation shall receive such fixed sum per meeting attended or such fixed annual sum as shall be determined from time to time by resolution of the board of directors. The board of directors may by resolution provide that all directors shall receive their expenses, if any, of attendance at meetings of the board of directors or any committee thereof. Nothing herein contained shall be construed to preclude any director from serving this corporation in any other capacity and receiving proper compensation therefor.

## **ARTICLE IV. OFFICERS**

Section 4.01. Number. The officers of the corporation shall consist of a chairman of the board (if one is elected by the board), a chief executive officer, a president, one or more vice presidents (if desired by the board), a treasurer, a secretary (if one is elected by the board) and such other officers and agents as may from time to time be elected by the board of directors. Any number of offices may be held by the same person.

Section 4.02. Election, Term of Office and Qualifications. The board of directors shall elect or appoint, by resolution approved by the affirmative vote of a majority of the directors present, from within or without their number, the president, treasurer and such other officers as may be deemed advisable, each of whom shall have the powers, rights, duties, responsibilities and terms in office provided for in these bylaws or a resolution of the board of directors not inconsistent with these bylaws. The president and all other officers who may be directors shall continue to hold office until the election and qualification of their successors, notwithstanding an earlier termination of their directorship.

Section 4.03. Removal and Vacancies. Any officer may be removed from his or her office by the board of directors at any time, with or without cause. Such removal, however, shall be without prejudice to the contract rights of the person so removed. If there be a vacancy in an office of the corporation by reason of death, resignation or otherwise, such vacancy shall be filled for the unexpired term by the board of directors.

Section 4.04. Chairman of the Board. The chairman of the board, if one is elected, shall preside at all meetings of the shareholders and directors and shall have such other duties as may be prescribed, from time to time, by the board of directors.

Section 4.05. Chief Executive Officer. The chief executive officer shall have general active management of the business of the corporation. In the absence of the chairman of the board, the chief executive officers shall preside at all meetings of the shareholders and directors. He or she shall see that all orders and resolutions of the board of directors are carried into effect. He or she shall execute and deliver, in the name of the corporation, any deeds, mortgages, bonds, contracts or other instruments pertaining to the business of the corporation unless the authority to execute and deliver is required by law to be exercised by another person or is expressly delegated by the articles or bylaws or by the board of directors to some other officer or agent of the corporation. He or she shall maintain records of and, whenever necessary, certify all proceedings of the board of directors and the shareholders and, in general, shall perform all duties usually incident to the office of the president. He or she shall have such other duties as may from time to time be prescribed by the board of directors.

Section 4.06. President. The president shall assist the chief executive officer and shall have such powers and shall perform such duties as may be delegated or prescribed by the board of directors or the chief executive officer, including, without limitation, the power to execute share certificates issued by the corporation.

Section 4.07. Vice-President. Each vice president, if one or more is elected, shall have such powers and perform such duties as prescribed by the board of directors, the chief executive officer or the president. In the event of the absence or disability of the president, the vice-president(s) shall succeed to the president's power and duties in the order designated by the board of directors.

Section 4.08. Secretary. The secretary, if one is elected, shall be secretary of and attend all meetings of the shareholders and board of directors and shall record all proceedings of such meetings in the minute book of the corporation. He or she shall give proper notice of meetings of shareholders and directors and shall perform such other duties as may from time to time be prescribed by the board of directors, the president or the chief executive officer.

Section 4.09. Treasurer. The treasurer shall be the chief financial officer and shall keep accurate financial records for the corporation. He or she shall deposit all moneys, drafts and checks in the name of, and to the credit of, the corporation in such banks and depositories as the board of directors shall, from time to time, designate. He or she shall have power to endorse, for deposit, all notes, checks and drafts received by the corporation. He or she shall disburse the funds of the corporation, as ordered by the board of directors, making proper vouchers therefor. He or she shall render to the president and the directors, whenever requested, an account of all his or her transactions as treasurer and of the financial condition of the corporation, and shall perform such other duties as may from time to time be prescribed by the board of directors or by the president.

Section 4.10. Compensation. The officers of the corporation shall receive such compensation for their services as may be determined from time to time by resolution of the board of directors.

**ARTICLE V.  
SHARES AND THEIR TRANSFER**

Section 5.01. Certificates for Shares. All shares of the corporation shall be certificated shares. Every owner of shares of the corporation shall be entitled to a certificate, to be in such form as shall be prescribed by the board of directors, certifying the number of shares of the corporation owned by such shareholder. The certificates for such shares shall be numbered in the order in which they shall be issued and shall be signed in the name of the corporation by the chief executive officer (or the president, if the chief executive officer delegates such authority) and by the secretary or an assistant secretary or by such officers as the board of directors may designate. If the certificate is signed by a transfer agent or registrar, such signatures of the corporate officers may be by facsimile if authorized by the board of directors. Every certificate surrendered to the corporation for exchange or transfer shall be canceled, and no new certificate or certificates shall be issued in exchange for any existing certificate until such existing certificate shall have been so canceled, except in cases provided for in Section 5.04.

Section 5.02. Issuance of Shares. The board of directors is authorized to cause to be issued shares of the corporation up to the full amount authorized by the articles of incorporation in such amounts as may be determined by the board of directors and as may be permitted by law. Shares may be issued for any consideration, including, without limitation, in consideration of cash or other property, tangible or intangible, received or to be received by the corporation under a written agreement, of services rendered or to be rendered to the corporation under a written agreement, or of an amount transferred from surplus to stated capital upon a share dividend. At the time of approval of the issuance of shares, the board of directors shall state by resolution its determination of the fair value to the corporation in monetary terms of any consideration other than cash for which shares are to be issued.

Section 5.03. Transfer of Shares. Transfer of shares on the books of the corporation may be authorized only by the shareholder named in the certificate, the shareholder's legal representative or the shareholder's duly authorized attorney-in-fact, and upon surrender of the certificate or the certificates for such shares. The corporation may treat as the absolute owner of shares of the corporation the person or persons in whose name shares are registered on the books of the corporation.

Section 5.04. Loss of Certificates. Any shareholder claiming a certificate for shares to be lost, stolen or destroyed shall make an affidavit of that fact in such form as the board of directors shall require and shall, if the board of directors so requires, give the corporation a bond of indemnity in form, in an amount and with one or more sureties satisfactory to the board of directors, to indemnify the corporation against any claim that may be made against it on account of the reissue of such certificate, whereupon a new certificate may be issued in the same tenor and for the same number of shares as the one alleged to have been lost, stolen or destroyed.

**ARTICLE VI.  
DISTRIBUTIONS, RECORD DATE**

Section 6.01. Distributions. Subject to the provisions of the articles of incorporation, of these bylaws and of law, the board of directors may authorize and cause the corporation to make distributions whenever, and in such amounts or forms as, in its opinion are deemed advisable.

Section 6.02. Record Date. Subject to any provisions of the articles of incorporation, the board of directors may fix a date not exceeding 120 days preceding the date fixed for the payment of any distribution as the record date for the determination of the shareholders entitled to receive payment of the distribution and, in such case, only shareholders of record on the date so fixed shall be entitled to receive payment of such distribution notwithstanding any transfer of shares on the books of the corporation after the record date.

**ARTICLE VII.  
BOOKS AND RECORDS, FISCAL YEAR**

Section 7.01. Share Register. The board of directors of the corporation shall cause to be kept at its principal executive office, or at another place or places within the United States determined by the board:

- (a) a share register not more than one year old, containing the names and addresses of the shareholders and the number and classes of shares held by each shareholder; and
- (b) a record of the dates on which certificates or transaction statements representing shares were issued.

Section 7.02. Other Books and Records. The board of directors shall cause to be kept at its principal executive office or, if its principal executive office is not in Florida, shall make available at its Florida registered office within five days after receipt by an officer of the corporation of a written demand for them made by a shareholder or other person authorized by the Florida Business Corporation Act, Section 607.1602, originals or copies of:

- (a) its articles or restated articles of incorporation and all amendments currently in effect;
- (b) its bylaws or restated bylaws and all amendments currently in effect;
- (c) resolutions adopted by the board of directors creating one or more classes or series of shares and fixing the relative rights, preferences, and limitations, if shares issued pursuant to the resolutions are still outstanding;
- (d) minutes of all shareholder meetings and records of all action taken by the shareholders without a meeting within the last three years;
- (e) written communication to all shareholders generally or to all shareholders of a class or series within the last three years, including the financial statements furnished for the last three years required by the Florida Business Corporation Act, Section 607.1620;
- (f) a list of the names and business street addresses of its current directors and officers; and
- (g) its most recent annual report delivered to the Department of State pursuant to Florida Business Corporation Act, Section 607.1622.

Section 7.03. Fiscal Year. The fiscal year of the corporation shall be determined by the board of directors.

#### **ARTICLE VIII. LOANS, GUARANTEES**

Section 8.01. The corporation may lend money to, guarantee an obligation of or otherwise financially assist any officer, director or employee of the corporation or of a subsidiary if the transaction, or a class of transactions to which the transaction belongs, is approved by the affirmative vote of a majority of the directors present, and if the transaction:

- (a) is in the usual and regular course of business of the corporation;
- (b) is with, or for the benefit of, a related corporation, an organization in which the corporation has a financial interest, an organization with which the corporation has a business relationship, or an organization to which the corporation has the power to make donations;
- (c) is with, or for the benefit of, an officer or other employee of the corporation or a subsidiary, including an officer or employee who is a director of the corporation or a subsidiary, and may reasonably be expected, in the judgment of the board, to benefit the corporation; or
- (d) has been approved by (1) the holders of two-thirds of the voting power of the shares entitled to vote that are owned by persons other than the interested person or persons, or (2) the unanimous affirmative vote of the holders of all outstanding shares whether or not entitled to vote.

Such loan, guarantee or other financial assistance may be with or without interest and may be unsecured, or may be secured in the manner as a majority of the directors present approve, including, without limitation, a pledge of or other security interest in shares of the corporation. Nothing in this section shall be deemed to deny, limit or restrict the powers of guaranty, surety or warranty of the corporation at common law or under a statute of the state of Florida.

#### **ARTICLE IX. INDEMNIFICATION OF CERTAIN PERSONS**

Section 9.01. The corporation shall indemnify all officers and directors of the corporation for such expenses and liabilities, in such manner, under such circumstances and to such extent as permitted by the Florida Business Corporation Act, Section 607.0850, as now enacted or hereafter amended. Unless otherwise approved by the board of directors, the corporation shall not indemnify any employee of the corporation who is not otherwise entitled to indemnification pursuant to this Section 9.01.

**ARTICLE X.  
AMENDMENTS**

Section 10.01. These bylaws may be amended or altered by a vote of the majority of the whole board of directors at any meeting. Such authority of the board of directors is subject to the power of the shareholders, exercisable in the manner provided in the Florida Business Corporation Act, Section 607.1020, to adopt, amend or repeal bylaws adopted, amended or repealed by the board of directors. After the adoption of the initial bylaws, the board of directors shall not make or alter any bylaws fixing a quorum for meetings of shareholders, prescribing procedures for removing directors or filling vacancies in the board of directors or fixing the number of directors of their classifications, qualifications or terms of office, except that the board of directors may adopt or amend any bylaw to increase their number.

**ARTICLE XI.  
SECURITIES OF OTHER CORPORATIONS**

Section 11.01. Voting Securities Held by the Corporation. Unless otherwise ordered by the board of directors, the president and chief executive officer shall have full power and authority on behalf of the corporation (a) to attend any meeting of security holders of other corporations in which the corporation may hold securities and to vote such securities on behalf of this corporation; (b) to execute any proxy for such meeting on behalf of the corporation; or (c) to execute a written action in lieu of a meeting of such other corporation on behalf of this corporation. At such meeting, the president shall possess and may exercise any and all rights and powers incident to the ownership of such securities that the corporation possesses. The board of directors may from time to time grant such power and authority to one or more other persons and may remove such power and authority from the president or any other person or persons.

Section 11.02. Purchase and Sale of Securities. Unless otherwise ordered by the board of directors, the president and chief executive officer shall have full power and authority on behalf of the corporation to purchase, sell, transfer or encumber any and all securities of any other corporation owned by the corporation, and may execute and deliver such documents as may be necessary to effectuate such purchase, sale, transfer or encumbrance. The board of directors may from time to time confer like powers upon any other person or persons.

**BINGO.COM, INC.  
BINGO.COM (CANADA) ENTERPRISES INC.**  
Suite C200 - 4223 Glencoe Avenue  
Marina del Ray, California 90292

April 16, 2001

**To: SHANE MURPHY**  
201 - 1688 Cypress Street  
Vancouver, British Columbia  
**V6J 5J1**

Re: Employment Agreement

In consideration of the BVI/RRV Transaction and the covenants and agreements made by BVI/RRV, Bingo.com Canada and Bingo.com under subsections 2(d), 2(e), 2(f) and 2(g) of this Agreement, you have agreed to enter into this Agreement to specify the terms and conditions of your employment with Bingo.com and Bingo.com Canada going forward. This Agreement will commence on the closing date of the BVI/RRV Transaction (the Commencement Date) and will replace and supersede the written employment agreement dated June 17, 1999 between you and Bingo.com and Bingo.com Canada. Your employment will continue until terminated in accordance with the provisions of this Agreement.

1. Definitions

In this Agreement:

(a) Agreement means this letter agreement and schedules attached to this letter agreement, as amended or supplemented from time to time.

(b) BVI/RRV means Redruth Ventures Inc., a British Virgin Islands corporation and Bingo, Inc. an Anguillia corporation.

## 1. Definitions (CONTINUED)

(c) BVI/RRV Transaction means the loan by way of convertible debenture transaction between BVI/RRV and Bingo.com.

(d) Bingo.com means Bingo.com, Inc., a company incorporated under the laws of Florida.

(e) Bingo.com Canada means Bingo.com (Canada) Enterprises Inc., a company incorporated under the laws of British Columbia.

(f) Board means the board of directors.

(g) Business of the Group means (i) the business of being an online provider of bingo-based games and entertainment and a producer of entertainment products and services; and (ii) any other material business carried on from time to time by any member of the Group.

(h) Cause includes, without limiting the usual meaning of just cause under the common law or the laws of British Columbia or the United States of America:

(i) your conviction of a crime (indictable level or penalized by incarceration or a lesser crime involving moral turpitude); or

(ii) any act of fraud, misappropriation, dishonesty, embezzlement or similar conduct against any member of the Group.

(i) Competitive Business means any business or enterprise that competes with the Business of the Group.

(j) Confidential Information means all confidential or proprietary facts, data, techniques and other information relating to the Business of the Group which may before or after the date of this Agreement be disclosed to you by any member of the Group or which may otherwise come within your knowledge or which may be developed by you in the course of your employment or from any other Confidential Information.

(k) Group means Bingo.com, Bingo.com Canada and their affiliates and subsidiaries.

(l) Intellectual Property Rights means all rights in respect of intellectual property including, without limitation, all patent, industrial design, integrated circuit topography, know-how, trade secret, privacy and trade-mark rights and copyright, to the extent those rights may subsist anywhere in the universe.

(m) Person means any individual, partnership, limited partnership, joint venture, syndicate, sole proprietorship, company or corporation with or without share capital, unincorporated association, trust, trustee, executor, administrator or other legal personal representative, regulatory body or agency, government or governmental agency or entity however designated or constituted.

(n) Works means copyrightable works of authorship including, without limitation, any technical descriptions for products, user guides, illustrations, advertising materials, computer programs (including the contents of read only memories) and any contribution to such materials.

## 2. Employment

The terms of your employment will be as follows:

(a) Position and Responsibilities: You will serve in the offices of President and Chief Executive Officer of the Group's parent company, Bingo.com, reporting to the Board of Bingo.com. You will perform or fulfil such duties and responsibilities as the Board of Bingo.com may reasonably prescribe from time to time or as are incidental to the position of President and Chief Executive Officer of a parent company, subject to the laws of Florida and the memorandum, articles and by-laws of Bingo.com. You will provide the Board of Bingo.com with such information regarding the affairs of the Group as the Board of Bingo.com may require, and at all times you will conform to the reasonable instructions and directions of the Board of Bingo.com.

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You will also serve in the offices of President and Chief Executive Officer of Bingo.com Canada reporting to the Board of Bingo.com Canada. You will perform or fulfil such duties and responsibilities as the Board of Bingo.com Canada may reasonably prescribe from time to time or as are incidental to the position of President and Chief Executive Officer, subject to the Company Act (British Columbia) and the memorandum and articles of Bingo.com Canada. At all times you will conform to the reasonable instructions and directions of the Board of Bingo.com Canada.

## 2. Employment (CONTINUED)

(b) Director: You will serve as a director of both Bingo.com Canada and Bingo.com if so elected or appointed and subject to the memorandum, articles and by-laws of Bingo.com Canada and Bingo.com and the laws of British Columbia and Florida.

(c) Scope of Duties: During your employment, you will devote the whole of your time, attention and abilities during normal business hours to the duties hereby granted and accepted and you will give the Group the full benefit of your knowledge, expertise, technical skill and ingenuity.

(d) Salary: Subject to subsection 2(g) and the following, during the first year of your employment, you will receive a salary in the amount of US\$175,000; during your second year of your employment, you will receive a salary in the amount of US\$200,000; and during the third year of your employment, you will receive a salary in the amount of US\$225,000 (in each case, the Salary). Thereafter, your Salary will be reviewed annually on or before the anniversary of the Commencement Date and may be adjusted by the Group (although in no case will it be less than US\$225,000). Notwithstanding the foregoing, until such time as the Group is in a positive cash flow position, you will receive a salary in the amount of Cdn\$10,000 per month (the Temporary Salary). For so long as is necessary to repay the Loan, each month the difference between your Salary and your Temporary Salary will be applied by the Group to repayment of the Loan under subsection 2(g). Thereafter, each month the Group will use any and all positive cash flow to top up your Temporary Salary until it reaches the level of your Salary. Immediately upon the first month that the Group is able to pay your full Salary under this provision, the provision regarding your Temporary Salary will cease to be in effect and from that date forward the Group will pay you your full Salary, provided that the positive cash flow comes from regular operations and not an unusual event as generally understood under Canadian GAAP. All salary will be payable in accordance with the Group's standard salary payment schedule.

(e) Stock Options: As of the date of this Agreement, you have outstanding stock options to purchase 1,100,000 common shares in the capital of Bingo.com (the Options). The Options will remain in force and effect and are summarized as follows:

(i) Options to purchase 600,000 of the common shares are subject to the terms and conditions of Bingo.com's 1999 Non-Qualified Stock Option Plan. The exercise price of those Options was re-priced on June 29, 2000 to \$0.75 per common share. The Options may not be exercised until the 1999 Non-Qualified Stock Option Plan has been approved by the shareholders of Bingo.com; and

(ii) Options to purchase the remaining 500,000 of the common shares are subject to the terms and conditions of Bingo.com's 1999 Non-Qualified Stock Option Plan. The exercise price of those Options is \$0.44 per common share. The Options may not be exercised until the 1999 Non-Qualified Stock Option Plan has been approved by the shareholders of Bingo.com.

In consideration of you entering into this Agreement, BVI/RRV hereby covenants and agrees that it will vote its shares of Bingo.com to approve the 1999 Non-Qualified Stock Option Plan and the 2000 Stock Option Plan. The Options will vest immediately upon the later of the following: (i) the date that Bingo.com receives the necessary shareholder approval under paragraph (i) or (ii) above, as applicable; and (ii) the first anniversary of the Commencement Date. In addition, in the event your Options have not fully vested pursuant to this subsection and your employment is terminated pursuant to subsection 5(c) or 5(d), any unvested Options will immediately vest upon the date that written notice of termination is given. Notwithstanding anything contained in the 1999 Non-Qualified Stock Option Plan, the 2000 Stock Option Plan or any stock option agreement, in the event your employment with the Group is terminated for any reason whatsoever, you will have one year following your last day of employment to exercise any vested Options. All other terms of the Options remain the same.

The parties hereby acknowledge that under a Second Amended and Restated Option Agreement dated December 13, 2000 (the Option Agreement), the Options to purchase 600,000 common shares referenced in paragraph (e)(i) above are subject to an anti-dilution provision, which will be triggered by an event. The parties hereby agree that notwithstanding any future share issuances by Bingo.com, the issuance of shares in connection with the BVI/RRV Transaction is the event that will trigger the anti-dilution provision. The parties also agree that notwithstanding anything contained in the Option Agreement, the anti-dilution provision will not terminate upon the closing of the BVI/RRV Transaction or the issuance of shares in connection with the BVI/RRV Transaction and the Board of Bingo.com will approve an amendment to the Option Agreement to so provide.

(f) Common Shares: In consideration of you entering into this Agreement, on the Commencement Date (being the closing date of the BVI/RRV Transaction), Bingo.com will issue 750,000 common shares in the capital of Bingo.com (the Shares) to you. Subject to any securities laws, regulations, rulings, policies, notices or orders of any securities regulatory authority having application, the Shares will be validly issued and outstanding fully paid and non-assessable common shares of the Company registered in the name of and

## 2. Employment (CONTINUED)

beneficially owned by you, free and clear of all voting restrictions, resale restrictions, trade restrictions, liens, charges or encumbrances of any kind whatsoever. The Shares will be held in escrow for a period of one year following the Commencement Date. The Shares will be released to you upon the earlier of: (i) the last day of the escrow period; and (ii) the date that your employment is terminated pursuant to subsection 5(b), 5(c) or 5(d) of this Agreement. If, prior to the end of the escrow period, your employment is terminated pursuant to subsection 5(a) of this Agreement, then you will surrender and gift back the Shares to Bingo.com. You agree that when requested by Bingo.com, you will execute and deliver any documents and perform any acts reasonably required in order to carry out the intent of this subsection.

(g) Loan: You acknowledge and agree that the Group made a salary advance to you, without interest (the Loan). You agree to repay the Loan in accordance with the payment schedule set out under subsection 2(d) of this Agreement. If this Agreement is terminated for any reason whatsoever prior to repayment of the Loan, then the Group agrees that:

(i) it will not deduct the Loan or any interest thereon, if any, from any salary or other amount due and owing to you under this Agreement including, without limitation, the Severance Amount; and

(ii) it will forgive the balance of the Loan and any interest thereon, if any.

(h) Vacation Entitlement: You will receive paid vacation equal to four weeks per annum, pro-rated for any partial year of employment. Your vacation must be taken in accordance with the Group's vacation policy in effect from time to time.

(i) Medical Insurance and Other Benefits: You will have the same rights as all other executive employees to participate in any medical insurance, health insurance, life and accident insurance programs as are now or may hereafter be established by the Group for the benefit of its executive employees.

You will have the benefits provided, from time to time, in accordance with the practise of the Group.

(j) Travel Expenses: The Group will reimburse you for all reasonable travelling and other out-of-pocket expenses actually and properly incurred by you in connection with your duties under this Agreement, provided that you first furnish statements and vouchers for all such expenses to the Group in a timely fashion.

(k) Location: You will work out of Bingo.com Canada's office in Vancouver, British Columbia.

(l) Indemnification and Liability Insurance: The Group agrees, subject to obtaining any necessary court approval, to indemnify you, your heirs and personal representatives, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, actually and reasonably incurred by you, including an amount paid to settle an action or satisfy a judgment in a civil, criminal or administrative action or proceeding to which you are made a party because of being or having been a director or officer of Bingo.com Canada or Bingo.com, including an action brought by Bingo.com Canada or Bingo.com, if:

(i) you acted honestly and in good faith with a view to the best interests of the Bingo.com Canada or Bingo.com, as applicable; and

(ii) in the case of a criminal or administrative action or proceeding, you had reasonable grounds for believing your conduct was lawful.

## 3. Assignment of Interest in Inventions

As consideration for your employment, you covenant and agree as follows:

(a) Disclosure: You will make prompt and full disclosure to the Group of any discovery, invention, development, production, process or improvement relating to the Business of the Group, conceived, made, improved upon or participated in by you, solely or jointly, in the course of or relating to your employment with Bingo.com Canada or Bingo.com (the Inventions).

(b) Assignment: You agree that the Group will hold all Intellectual Property Rights in respect of the Inventions for the exclusive benefit of the Group and you agree not to claim or apply for registration or challenge the Group's registration of any such Intellectual Property Rights. Your acceptance of the terms of this Agreement constitutes your absolute, unconditional and irrevocable assignment, transfer and conveyance of all past, present and future right, title, benefit and interest in and to all Intellectual Property Rights in

### 3. Assignment of Interest in Inventions (CONTINUED)

respect of the Inventions. You hereby waive in favour of the Group all claims of any nature whatsoever that you now or hereafter may have for infringement of any Intellectual Property Rights for the Inventions so assigned to the Group. To the extent that copyright may subsist in the Inventions, you hereby waive all past, present and future moral rights you may have.

(c) Intellectual Property Protection: By your acceptance you irrevocably agree the Inventions and all related Intellectual Property Rights will be the absolute and exclusive property of the Group. The Group may apply for patent, copyright or other intellectual property protection in their names or, where such procedure is proper, in your name, anywhere in the world. You will, at the Group's request, execute all documents and do all such acts and things considered necessary by the Group to obtain, confirm or enforce any Intellectual Property Rights in respect of the Inventions. If the Group requires but is unable to secure your signature for any such purpose in a timely manner, you hereby irrevocably nominate, constitute and appoint Bingo.com and any duly authorized officer or agent of Bingo.com (the Attorney) as your true and lawful attorney, to act for you and in your behalf and stead to execute and deliver any such documents and instruments and to do all other lawfully permitted acts, matters and things to carry out the intent of this provision, with the same legal force and effect as if executed or done by you, and for the aforesaid purpose you hereby grant and give to such Attorney full and absolute power and authority to do any and all acts, matters and things in respect of the aforesaid purpose.

(d) Copyrights in Works: Any Works created by you in the course of your duties as an employee with Bingo.com Canada or Bingo.com are subject to Section 13(3) of the Copyright Act (Canada) and to the work for hire provisions of sections 101 and 201 of the United States Copyright Law, Title 17 of the United States Code. All right, title and interest to copyrights in all Works that have been or will be prepared by you within the scope of your employment will be the property of the Group. You acknowledge and agree that, to the extent the provisions of the Copyright Act (Canada) or the copyright laws of the United States do not vest in the Group the copyrights to any Works, you hereby irrevocably assign to the Group all right, title and interest to copyrights which you may have in any Works. You will disclose to the Group all Works, will execute and deliver all applications, registrations and documents relating to the copyrights in the Works and will provide assistance to secure the Group's title to the copyrights in the Works. The Group will be responsible for all expenses incurred in connection with the registration of all copyrights. You hereby waive any moral rights which you may have under the Copyright Act (Canada) or similar legislation anywhere in the world or otherwise with respect to the Works.

### 4. Obligations of Employment

You further covenant and agree as follows:

(a) Performance and Duty: Throughout your employment you will well and faithfully serve the Group and use all reasonable endeavours to promote the interests of the Group. You will act honestly, in good faith and in the best interests of the Group. You will adhere to all applicable policies of the Group.

(b) Business of the Group: You will not, during your employment with Bingo.com Canada and Bingo.com, engage in any business, enterprise or activity that is contrary to or detracts from the due performance of the Business of the Group.

(c) Confidentiality: You will retain all Confidential Information developed, utilised or received by each member of the Group in the strictest confidence and will not disclose or permit the disclosure of Confidential Information in any manner other than in the course of your employment with and for the benefit of the Group or as required by law or a regulatory authority having jurisdiction. You will not use Confidential Information for your own personal benefit or permit it to be used for the benefit of any Person other than a member of the Group, either during your employment with Bingo.com Canada and Bingo.com or thereafter. You will take all reasonable precautions to prevent any Person from having unauthorized access to Confidential Information or use of it. In particular, you will not copy, modify or part with any Confidential Information, in whole or in part, unless it is required to carry out your duties under this Agreement. All copies of Confidential Information, and all documents and electronic or other records which now or hereafter may contain Confidential Information, are and will remain the exclusive and absolute property of the Group.

(d) Exceptions: Any obligations specified in subsection 4(c) will not apply to the following:

(i) any information that is presently in the public domain;

(ii) any information that subsequently becomes part of the public domain through no fault of yours;

(iii) any information obtained by you from a third party with a valid right to disclose it, provided that said third party is not under a confidentiality obligation to the Group; or

(iv) any information that was independently developed by you or was otherwise in your lawful possession prior to receipt from a member of the Group, other than through prior disclosure by a member of the Group, as evidenced by your business records.

#### 4. Obligations of Employment (CONTINUED)

(e) Restrictions: You agree to comply with all of the restrictions set forth below at all times during your employment and for a period of one year after the termination of your employment and this Agreement:

(i) you will not, either individually or in conjunction with any Person, as principal, agent, director, officer, employee, investor or in any other manner whatsoever, directly or indirectly, engage in or become financially interested in an internet-based Competitive Business. The foregoing will not prevent you from holding any class of publicly held shares of a company, partnership or other organization provided that you, alone or in conjunction with any other Person, will not directly or indirectly hold more than 5% percent of the shares of any such class;

(ii) you will not, either directly or indirectly, on your own behalf or on behalf of others, solicit, divert or appropriate or attempt to solicit, divert or appropriate to any Competitive Business, any Business or actively sought prospective Business of the Group or any customers with whom any member of the Group has current agreements relating to the Business of the Group, or with whom you have dealt, or with whom you have supervised negotiations or business relations, or about whom you have acquired Confidential Information in the course of your employment;

(iii) you will not, either directly or indirectly, on your own behalf or on behalf of others, solicit, divert or hire away, or attempt to solicit, divert, or hire away, any independent contractor or any person employed by the any member of the Group or persuade or attempt to persuade any such individual to terminate his or her contract or employment with any member of the Group; and

(iv) you will not directly or indirectly impair or seek to impair the reputation of any member of the Group, nor any relationships that any member of the Group has with its employees, independent contractors, customers, suppliers, agents or other parties with which any member of the Group does business or has contractual relations.

(f) No Personal Benefit: You will not receive or accept for your own benefit, either directly or indirectly, any commission, rebate, discount, gratuity or profit from any Person having or proposing to have one or more business transactions with any member of the Group, without the prior approval of the Board of such member of the Group.

(g) Customer Contacts: During your employment you will communicate and channel to the Group all knowledge, business and customer contacts and any other information that could concern or be in any way beneficial to the Business of the Group. Any such information communicated as aforesaid will be and remain the property of the Group notwithstanding the subsequent termination of your employment.

(h) Return of Property: Upon termination of your employment, you will promptly return to the Group all Group property including all written information, tapes, discs or memory devices and copies thereof, and any other material on any medium in your possession or control pertaining to the Business of the Group, without retaining any copies or records of any Confidential Information whatsoever. You will also return any keys, pass cards, identification cards or other property belonging to a member of the Group.

#### 5. Termination

(a) Resignation: If for any reason you should wish to leave the Group, you will provide the Boards of Bingo.com Canada and Bingo.com with two months' prior written notice of your intention.

(b) With Cause: The Group may terminate your employment at any time for Cause, immediately after delivery to you by the Board of Bingo.com of a notice of termination of your employment for Cause, in which case you will not be entitled to receive any further amounts (except for amounts, if any, accrued under this Agreement up to the date of termination of your employment and unpaid at the date of such termination), severance pay, notice, payment in lieu of notice or damages of any kind and you will have thereupon released all claims and entitlements thereto, without limitation.

(c) Without Cause: The Group may terminate your employment without Cause at any time, by having the Board of Bingo.com provide you with 30 days' prior written notice. In the event your employment is terminated pursuant to this subsection 5(c), the Group will pay to you immediately upon such termination a lump sum amount equal to 12 months' Salary, based on your Salary in effect immediately prior to such termination (the Severance Amount).

## 5. Termination (CONTINUED)

(d) Constructive Dismissal: If there is a change (other than a change that is clearly consistent with a promotion) in your position, duties, title or level of responsibility within the Group without your consent or a reduction in your compensation, benefits or any other form of remuneration under this Agreement without your consent, you may terminate your employment immediately by providing written notice to the Boards of Bingo.com Canada and Bingo.com, within a reasonable amount of time of the change, specifying that you believe you have been constructively dismissed. If you terminate your employment pursuant to this subsection, then you will be entitled to the Severance Amount.

(e) Limitation: You understand that if your employment is terminated pursuant to subsection 5(c) or 5(d), then you will be limited to the Severance Amount and that upon providing you with the Severance Amount the Group will have satisfied all of its contractual, common law and statutory obligations. You will not be entitled to receive any further severance pay, notice, payment in lieu of notice or damages of any kind and you will not be entitled to receive any further amounts (except for amounts, if any, accrued under this Agreement up to the date of termination of your employment and unpaid at the date of such termination) and you will have thereupon released all claims and entitlements thereto including, without limitation, any claims and entitlements under the Employment Standards Act (British Columbia). The Severance Amount will be subject to all source deductions and other deductions required to be deducted and remitted under applicable provincial or federal laws of Canada or Group policy.

## 6. Agreement Voluntary and Equitable

The parties agree that you each have carefully considered and understand the terms of employment contained in this Agreement, that the terms are mutually fair and equitable, and that you each have executed this Agreement voluntarily and of your own free will.

## 7. Irreparable Harm

You acknowledge and agree that any breach of section 3, subsection 4(c) or subsection 4(e) of this Agreement by you will cause irreparable harm to the Group and in addition to all of the remedies available to the Group by law, the Group will be entitled to equitable relief including without limitation, injunctive relief to ensure your compliance with section 3 and subsections 4(c) and 4(e) of this Agreement.

## 8. Assignment and Enurement

You may not assign this Agreement, any part of this Agreement or any of your rights under this Agreement without the prior written consent of Bingo.com Canada and Bingo.com. This Agreement enures to the benefit of and is binding upon the parties and their respective heirs, executors, administrators, successors and permitted assigns.

## 9. Severability

If any provision or portion of this Agreement is determined to be invalid or unenforceable for any reason, then that provision or portion will be severed from this Agreement. The rest of this Agreement will remain in full force and effect.

## 10. Entire Agreement

This Agreement contains the whole agreement between the parties with respect to your employment with Bingo.com Canada and Bingo.com, and there are no representations, warranties, collateral terms or conditions, express or implied, other than as set forth in this Agreement. This Agreement supersedes any written or oral agreement or understanding between the parties. No change or modification of this Agreement will be valid unless it is in writing and initialled by all parties.

## 11. Notice

Any notice required or permitted to be given hereunder must be in writing and will be sufficiently given or made if delivered or sent by registered mail to the address of the parties set out on page 1 hereof. Any notice so given will be deemed to have been given and to have been received on the day of delivery if it is a business day and otherwise on the next succeeding business day or, if mailed, on the third business day following the mailing thereof (excluding each day during which there exists any interruption of postal services due to strike, lockout or other cause). Addresses for notice may be changed by giving notice in accordance with this section.

12. Non-waiver

No failure or delay by you or by Bingo.com Canada or Bingo.com in exercising any power or right under this Agreement will operate as a waiver of such power or right. Any consent or waiver by you or by Bingo.com Canada or Bingo.com to any breach or default under this Agreement will be effective only in the specific instance and for the specific purpose for which it was given.

13. Survival of Terms

The provisions of sections 1, 3, 5 and 7 and of subsections 4(c), 4(e), 4(g) and 4(h) of this Agreement will survive the termination of your employment and this Agreement.

14. Further Assistance

The parties will execute and deliver any documents and perform any acts necessary to carry out the intent of this Agreement.

15. Time

Time is of the essence of this Agreement.

16. Governing Laws

This Agreement will be construed in accordance with and governed by the laws of British Columbia and the laws of Canada applicable in British Columbia.

17. Counterparts

This Agreement may be executed in two or more counterparts, each of which will be deemed to be an original and all of which will constitute one Agreement.

*BINGO.COM (CANADA) ENTERPRISES INC.*

*By: /s/ Shane Murphy*

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*Name: Shane Murphy, President*

*BINGO.COM, INC.*

*By: /s/ David Chalk*

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*Name: David Chalk, Director*

*By: /s/ Stephen C. Camps*

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*Name: Stephen C. Camps, Director*

*BINGO, INC.*

*By: /s/ Donald Curtis*

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*Name/Title: Donald Curtis, Director*

*REDRUTH VENTURES INC.*

*By: /s/ Mitch White*

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*Name/Title: Mitch White, Officer*

I acknowledge and accept the terms and conditions of my employment with Bingo.com Canada and Bingo.com as set out above.

**DATED this 16th day of April 2001.**

*/s/ Shane Murphy*

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*SHANE MURPHY*