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STOCKGROUP INFORMATION SYSTEMS INC

Form 10QSB

November 08, 2002

Form 10-QSB  
U.S. Securities and Exchange Commission  
Washington, D.C. 20549

(Mark One)

Quarterly report pursuant Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2002.

Transition report pursuant Section 13 or 15(d) of the Securities Exchange Act of 1934

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

Commission file number: 0-23687

Stockgroup Information Systems Inc.  
(Exact name of small business issuer as specified in its charter)

Colorado  
(State or other jurisdiction of incorporation or organization)

84-1379282  
(I.R.S. Employer Identification No.)

SUITE 500 - 750 W PENDER STREET  
VANCOUVER BRITISH COLUMBIA CANADA V6C 2T7  
(Address of principal executive offices)

A2  
(Zip Code)

Issuer's telephone number, (604) 331-0995

(Former name or address, if changed since last report)

Check whether the issuer

(1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and

(2) has been subject to such filing requirements for the past 90 days.

Yes:  No:

Applicable only to issuers involved in bankruptcy proceedings during the preceding five years

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by court. Yes  No

Applicable only to corporate issuers

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 15,943,846

Transitional Small Business Disclosure Format (check one): Yes:  No:

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Stockgroup Information Systems Inc.  
FORM 10-QSB

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PART I. FINANCIAL INFORMATION  
Item 1. Financial Statements (unaudited)

Stockgroup Information Systems Inc.  
CONSOLIDATED BALANCE SHEETS  
(UNAUDITED - Expressed in U.S. Dollars)

[See Note 1 - Nature of Business and Basis of Presentation]

	September 30, 2002	December 31, 2001
	-----	-----
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 71,372	\$ 126,618
Marketable securities	2,353	21,814
Accounts receivable [net of allowances for doubtful accounts of \$56,744; December 31, 2001 \$92,331]	180,004	173,105
Prepaid expenses	119,941	60,465
	-----	-----
TOTAL CURRENT ASSETS	\$ 373,670	\$ 382,002
Property and equipment, net (note 8)	\$ 560,003	\$ 341,688
	-----	-----
	\$ 933,673	\$ 723,690
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
CURRENT		
Bank indebtedness	\$ 913	\$ 6,081

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Accounts payable	321,833	373,674
Accrued payroll liabilities	77,391	144,920
Deferred revenue	242,094	124,944
Current portion of capital lease obligation	7,646	7,674
Notes payable and accrued interest (note 9)	205,031	108,837
Current portion of convertible notes (note 2)	100,000	2,509,236
Warrants liability (note 4)	--	110,000
	-----	-----
TOTAL CURRENT LIABILITIES	\$ 954,908	\$ 3,385,366
Capital lease obligation	4,750	11,231
Convertible notes (note 2)	1,454,168	--
Convertible debentures (note 3)	--	70,695
	-----	-----
TOTAL LIABILITIES	\$ 2,413,826	\$ 3,467,292
	-----	-----
COMMITMENTS AND CONTINGENCIES (note 7)		
SHAREHOLDERS' EQUITY (DEFICIENCY)		
COMMON STOCK, No Par Value (note 5)		
Authorized shares - 75,000,000		
Issued and outstanding shares - 15,943,846;		
10,131,260 at December 31, 2001		
	\$ 8,875,534	\$ 7,969,090
ADDITIONAL PAID-IN CAPITAL	2,803,141	2,422,014
ACCUMULATED DEFICIT	(13,158,828)	(13,134,706)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)	\$ (1,480,153)	\$ (2,743,602)
	-----	-----
	\$ 933,673	\$ 723,690
	=====	=====

The Accompanying Notes Are An Integral Part  
Of These Unaudited Financial Statements.

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### Stockgroup Information Systems Inc. CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED - Expressed in U.S. Dollars)

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002
	-----	-----	-----
REVENUE			
Revenues	\$ 563,481	\$ 731,635	\$ 1,413,425
Cost of revenues	222,129	208,301	555,635
	-----	-----	-----
Gross profit	\$ 341,352	\$ 523,334	\$ 857,790
EXPENSES			
Sales and marketing	\$ 135,930	\$ 77,356	\$ 365,441
Product development	25,687	25,229	62,864
General and administrative	432,314	386,033	1,209,362
	-----	-----	-----
	\$ 593,931	\$ 488,618	\$ 1,637,667

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LOSS FROM OPERATIONS	\$ (252,579)	\$ 34,716	\$ (779,877)
Interest income	19	936	187
Interest expense	(42,569)	(327,051)	(264,990)
Gain (loss) on warrants liability (note 4)	--	242,000	(55,000)
Other income and (expense)	(15,307)	(4,191)	(13,028)
NET LOSS BEFORE EXTRAORDINARY ITEMS & CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	\$ (310,436)	\$ (53,590)	\$ (1,112,708)
Extraordinary gain on restructuring of convertible notes (note 2)	--	--	1,088,586
Extraordinary gain on redemption of convertible notes	--	58,701	--
Cumulative effect of change in accounting principle	--	--	--
NET INCOME (LOSS)	\$ (310,436)	\$ 5,111	\$ (24,122)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE:			
Net loss before extraordinary items & cumulative effect of change in accounting principle	\$ (0.02)	\$ (0.01)	\$ (0.08)
Extraordinary gain on restructuring of convertible notes	\$ 0.00	\$ 0.00	\$ 0.08
Extraordinary gain on redemption of convertible notes	0.00	0.01	0.00
Cumulative effect of change in accounting principle	0.00	0.00	0.00
Net income (loss)	\$ (0.02)	\$ 0.00	\$ 0.00
Weighted average shares outstanding for the period	15,880,948	9,863,980	13,518,419

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Of These Unaudited Financial Statements.

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Stockgroup Information Systems Inc.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED - Expressed in U.S. Dollars)

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
	-----	-----
OPERATING ACTIVITIES		
Net (loss)	\$ (24,122)	\$ (490,282)

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Add (deduct) non-cash items		
Amortization	148,822	146,373
Loss on disposition of property and equipment	--	7,896
Amortization of deferred financing costs	--	8,818
Extraordinary gain on restructuring of convertible notes	(1,088,586)	--
Extraordinary gain on redemption of convertible notes	--	(58,701)
(Gain)/loss on warrants liability	55,000	(242,000)
Effective interest on convertible notes and debentures	246,505	379,719
Cumulative effect of change in accounting principle	--	(413,546)
Bad debt expense	(35,587)	(51,981)
Common stock and equivalents issued for services	177,712	9,690
Stock based compensation	45,936	99,351
Unrealized foreign exchange (gain) loss	(3,718)	--
	-----	-----
	\$ (478,038)	\$ (604,663)
Net changes in non-cash working capital		
Marketable securities	19,461	--
Accounts receivable	28,688	44,296
Prepaid expenses	17,722	51,955
Accounts payable	(61,926)	(362,252)
Accrued payroll liabilities	(67,529)	(35,099)
Accrued interest on notes payable	2,878	3,140
Accrued interest on convertible notes	--	132,112
Deferred revenue	117,150	(19,259)
	-----	-----
CASH PROVIDED BY (USED IN) OPERATIONS	\$ (421,594)	\$ (789,770)
	-----	-----
FINANCING ACTIVITIES		
Issuance of common stock and warrants (net)	390,920	173,993
Issuance of convertible debenture (net)	--	479,960
Issuance of notes payable	97,034	100,347
Repayment of convertible notes	(100,000)	(181,000)
Repayment of capital lease obligation	(6,509)	(3,742)
Repayment of bank indebtedness	(5,168)	(5,851)
	-----	-----
CASH PROVIDED BY (USED IN) FINANCING	\$ 376,277	\$ 563,707
	-----	-----
INVESTING ACTIVITIES		
Property and equipment	(11,172)	(17,600)
Proceeds on disposition of property and equipment	1,243	34,585
	-----	-----
CASH PROVIDED BY (USED IN) INVESTING	\$ (9,929)	\$ 16,985
	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(55,246)	(209,078)
Cash and cash equivalents, beginning of period	126,618	338,448
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 71,372	\$ 129,370
	=====	=====

The Accompanying Notes Are An Integral Part  
Of These Unaudited Financial Statements.

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### 1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Stockgroup Information Systems Inc. (the "Company") is a financial media and technology company that provides various financial software solutions, tools, content and services to media, corporate, and financial services companies. The Company employs proprietary technologies that enable its clients to provide financial data streams and news combined with fundamental, technical, productivity, and disclosure tools to their customers, shareholders, and employees in a cost effective manner. The Company also provides Internet communications products for publicly traded companies and an online research center for the investment community through its Stockhouse and Smallcapcenter financial web sites.

The Company was incorporated under the laws of Colorado on December 6, 1994.

The accompanying interim unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month and nine-month periods ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002.

The balance sheet at December 31, 2001 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements.

These interim financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-KSB for the year ended December 31, 2001.

These financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future.

The Company incurred a loss before extraordinary items of \$1,112,708 for the nine months ended September 30, 2002, has a shareholders' deficiency of \$1,480,153 and had a working capital deficiency of \$581,238 as at September 30, 2002. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management has been able, thus far, to finance the losses, as well as the growth of the business, through a series of equity and debt private placements. Management expects that revenues resulting from current operations will increase which should allow the Company to achieve profitable operations and positive cash flows in early 2003. The Company is continuing to seek other sources of financing in order to grow the business to the greatest possible extent. There are no assurances that the Company will be successful in achieving its goals.

In view of these conditions, the ability of the Company to continue as a going concern is uncertain and dependent upon achieving a profitable level of operations and on the ability of the Company to obtain necessary financing to fund ongoing operations. Management believes that its current and future plans provide an opportunity to continue as a going concern. These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the

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accompanying financial statements.

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### 2. CONVERTIBLE NOTES

	September 30, 2002	December 31, 2001
Convertible notes, maturing December 31, 2005		
Principal	\$ 1,724,000	\$1,924,000
Prepayment premium	--	288,600
Interest	--	296,636
Unamortized debt discount	(169,832)	--
Subtotal	\$ 1,554,168	\$2,509,236
Current portion	100,000	2,509,236
Long term portion	1,454,168	--

On February 6, 2002 the Company and note holders reached an agreement to restructure the terms and conditions of the existing convertible notes and callable warrants.

The note holders agreed to waive the 15% prepayment premium of \$288,600 and the accrued interest to date of \$315,000 and immediately converted \$100,000 of the principal balance due into 666,700 common shares of the Company at a conversion price of \$0.15. The remaining principal balance of \$1,824,000 matures on December 31, 2005. The notes are non-interest bearing and are convertible into common shares at the option of the holder at any time at a fixed conversion price of \$0.50 through to December 31, 2003. From January 1, 2004 to December 31, 2005, or sooner in the event of a default on any mandatory payment described below, the notes bear interest at 8% and are convertible into common shares at the option of the holder at any time at a conversion price equal to the lesser of (i) the initial conversion price of \$0.50 and (ii) 88% of the average of the 5 lowest closing prices of the Company's common shares during the 30 trading days prior to the date of conversion.

The restructured agreement provides for \$300,000 of mandatory payments through to December 31, 2004. \$23,340 was paid on June 28, 2002, \$76,660 was paid on July 12, 2002, and \$20,000 was paid on October 1, 2002. Separate payments of \$20,000 are due at the end of each of the next nine quarters through to December 31, 2004. If applicable, the Company will also provide mandatory payments of 20% of the gross proceeds raised from any common stock or common stock equivalent financing in excess of \$2,000,000 in 2002 and 20% of the gross proceeds raised from any common stock or common stock equivalent financing in excess of \$500,000 in 2003.

The restructuring resulted in an extraordinary gain of \$1,088,586 consisting of \$603,600 for the waived prepayment premium and accrued interest, \$247,222 for the repurchase of the beneficial conversion feature and \$237,764 for the debt discount representing the difference between the fair value of the notes at a market interest rate of 8% and the face value of the notes which are non-interest bearing through to December 31, 2003. The debt discount of \$237,764 is subject to accretion over the interest-free period ending December 31, 2003.

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The callable warrants permit the holders to acquire up to 181,818 common shares at an exercise price of \$3.00 at any time up to March 31, 2005. The warrants may be called by the Company, at a purchase price of \$.01 per underlying share, if the stock price of the Company's common shares exceeds \$6.00 for any 20 consecutive trading days, provided that the holders have the right to exercise the warrants within 30 days after their receipt of such a call.

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### 3. CONVERTIBLE DEBENTURES

On March 15, 2002, the Company and the 3% convertible debenture holders agreed to an amendment to the original Securities Purchase Agreement. The debenture holders agreed to immediately convert the \$200,000 outstanding principal and \$6,904 accrued interest into 413,808 common shares of the Company at the minimum conversion price of \$0.50. The conversion resulted in the immediate recognition of \$135,503 in interest expense related to the previously unamortized debt discount and beneficial conversion feature.

The Company agreed to modify the existing terms of the Series 3A and 3B warrants. The exercise price of the Series 3A warrants has been reduced from \$1.00 to \$0.25. The exercise price of the Series 3B warrants has been reduced from \$2.00 to \$0.50. The expiry date for both the Series 3A and 3B warrants has been extended to July 31, 2005 from December 31, 2004. The reduction in the exercise price and extension of the expiry date of the warrants is accounted for as an inducement to convert the convertible debentures. The fair value of the warrants after the conversion was \$24,000 greater than the fair value of the warrants prior to conversion and this excess fair value was recorded as interest expense on the conversion date.

### 4. WARRANTS LIABILITY

The Emerging Issues Task Force Abstract No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock ("EITF 00-19") became applicable to the Company's warrants on June 30, 2001. EITF 00-19 requires the Company to evaluate whether a sufficient number of authorized and unissued shares exists at each reporting date to control settlement by delivering shares. In that evaluation, the Company must compare the number of authorized but unissued shares, less the maximum number of shares that could be required to be delivered under existing convertible debt, stock option and warrant agreements with the maximum number of shares that could be required to be delivered on net share settlement of the warrants. If the Company does not have a sufficient number of authorized but unissued shares at the reporting date then the share settlement is not within the control of the Company and the warrants will be presented as a liability.

As at December 31, 2001, the Company could not demonstrate they had a sufficient number of authorized but unissued shares to share settle all of the outstanding warrants if exercised and the \$110,000 fair value of the warrants was classified as a current liability. As a result of the February 6, 2002 restructuring of the convertible notes and callable warrants, the Company could demonstrate they had a sufficient number of authorized but unissued shares to settle all of the outstanding warrants if exercised and the \$165,000 fair value of the warrants was reclassified as equity. The \$55,000 difference between the fair value on December 31, 2001 and February 6, 2002 was recorded as a loss on warrants liability in the statement of operations.

### 5. SHARE CAPITAL

The Company is authorized to issue up to 75,000,000 shares of common stock and



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5,000,000 shares of preferred stock.

At September 30, 2002, in addition to the 15,943,846 common shares outstanding, there were also 2,510,700 stock options and 3,331,818 warrants outstanding.

Issues of common shares and common share equivalents for the nine month period ended September 30, 2002 are summarized as follows:

On February 6, 2002, the Company issued 666,700 common shares pursuant to a conversion of \$100,000 of principal under the restructured convertible notes as discussed in Note 2.

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On February 25, 2002, the Company issued 33,000 common shares to an employee for services rendered. The transaction was recorded at a fair value of \$7,500 based on the closing stock price on the date of the agreement.

On March 5, 2002, the Company issued 500,000 common shares to a consultant pursuant to a service contract. The transaction was recorded at a fair value of \$107,500 based on the closing stock price on the date of the agreement.

On March 16, 2002, the Company issued warrants to purchase 250,000 common shares to a management consultant pursuant to a services agreement. The warrants have an exercise price of \$0.30 and expire on September 15, 2003. The \$60,000 fair value of the warrants issued was estimated using the Black-Scholes option pricing model and was recorded as an expense in the first quarter 2002.

On March 25, 2002, the Company issued 413,808 common shares pursuant to a conversion of the final \$206,904 in principal and accrued interest of the convertible debentures as amended, discussed in Note 3.

On March 28, 2002, the Company completed a placement of 2,000,000 units at \$0.20, each unit consisting of one common share and one warrant, plus 51,000 common shares, for gross proceeds of \$410,200. Financing fees were \$19,280, resulting in net cash proceeds of \$390,920. Each warrant entitles the holder to acquire one common share at \$0.25 per share until March 31, 2003. The net proceeds were allocated to common stock and warrants based on the relative fair value of each security at the time of issuance.

On June 28, 2002, the Company issued 2,080,000 common shares with a fair value of \$424,320 to Stockhouse Media Corporation pursuant to an asset purchase agreement. The shares are being held in escrow until certain terms of the agreement are met.

On September 23, 2002, the Company issued 68,078 common shares with a fair value of \$10,212 to an employee for services rendered.

### Stock Options

The Company's 1999, 2000, 2001, and 2002 Stock Option Plans (collectively the "Plans") authorize a total of 5,000,000 common shares for issuance. Activity under the Plans is set forth below.

		Options Outstanding	
		-----	
Shares		Number of	Price per
available		shares	share
for grant			

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Balance at December 31, 2001	391,156	2,415,900	\$0.01 - 2.75
Additional shares authorized	1,500,000	--	--
Options granted	(1,593,578)	1,593,578	0.15 - 0.40
Options forfeited	897,700	(897,700)	0.20 - 2.75
Options exercised	--	(601,078)	0.15 - 0.25
Balance at September 30, 2002	1,195,278	2,510,700	\$0.01 - 2.50

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Warrants

As at September 30, 2002, common stock issuable pursuant to warrants outstanding is as follows:

	Warrants Outstanding At January 1, 2002 #	Warrants Issued #	Warrants Exercised #	Warrants Cancelled #	Warrants Outstanding at September 30, 2002 #
Series 1	300,000	--	--	18,182	281,818
Series 3A	500,000	--	--	--	500,000
Series 3B	300,000	--	--	--	300,000
Series 4	--	2,000,000	--	--	2,000,000
Series 5	--	250,000	--	--	250,000
	1,100,000	2,250,000	--	18,182	3,331,818

6. SEGMENTED INFORMATION

SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information, requires a public business enterprise to report financial and descriptive information about its reportable operating segments. The Company has concluded that its business activities fall into one identifiable industry segment with the following sources of revenue:

	For the three months ended September 30, 2002		For the nine months ended September 30, 2002	
	September 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
Public Company				
Disclosure and Awareness Products	\$360,692	\$ 542,466	\$ 888,058	\$1,329,466
Financial Software and Content Systems	202,789	173,646	525,367	406,281
E-business Solutions	--	15,523	--	617,266
	\$563,481	\$ 731,635	\$1,413,425	\$2,353,013

During the first nine months of 2002, the Company had one customer from whom revenue received by the Company represented approximately 11% of total revenue. During the first nine months 2001, the Company had two customers from whom revenue received by the Company represented approximately 35% of total revenue. No other customers represented greater than 10% of revenue.

#### 7. COMMITMENTS AND CONTINGENCIES

The Company is currently involved in litigation with a customer to collect amounts owing pursuant to a contract entered into in September 2000. The defendant provided a \$100,000 deposit and contracted the Company to provide certain advertising services. The Company delivered the requested services throughout October and November 2000; however, the defendant defaulted on all additional payments. The Company is suing the defendant for the \$351,800 balance owing, plus interest and costs. The defendant has filed a statement of defense and counterclaim to recover the \$100,000 deposit. No court date has been set at this time. Although management currently believes the outcome of the litigation will be in the Company's favour, they have not elected to aggressively pursue the litigation at this time. The Company has made no provision for the counterclaim in the financial statements

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and any settlement or final award will be reflected in the statement of operations as the litigation is resolved.

#### 8. ASSET ACQUISITION

On June 24, 2002, the Company acquired certain website and related software assets of Stockhouse Media Corporation ("Stockhouse"). Under the terms of the agreement, the Company purchased a 65% interest in the assets by issuing 2,080,000 shares of unregistered common stock with a fair value of \$424,320. The assets acquired are program source codes underlying the website, which are classified as software, for \$347,122, and prepaid operating costs of \$77,198.

The prepaid operating costs of \$77,198 were expensed fully in the quarter ended September 30, 2002. The software is being amortized over a three year period.

Presently, an unrelated third party investor is also considering an investment in Stockhouse that would effect certain terms and conditions of the Company's agreement with Stockhouse. If the third party invests in Stockhouse, then the Company would maintain its 65% interest in the acquired assets but would then have the option to acquire the remaining 35% during the period of one year following June 24, 2004. During the same period, Stockhouse would also have the option to cause the Company to purchase the remaining 35% interest.

If the third party does not invest in Stockhouse, then the Company will immediately have the option to acquire the remaining 35% of the website and related software assets of Stockhouse with the issuance of additional common shares. As per the terms of the agreement, the number of common shares to be issued for the remaining 35% shall not be less than 920,000 shares and not more than 1,120,000 shares.

The third party had a deadline of September 30, 2002 to decide whether or not to invest in Stockhouse. As of the date of this filing, the deadline had been informally extended.

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The original 2,080,000 common shares were issued into an escrow account on June 28, 2002 and will be released to Stockhouse on the date the third party investor makes its decision.

### 9. NOTES PAYABLE

On July 23, 2002 the Company's Canadian subsidiary issued a C\$152,400 promissory note to a lender. Net proceeds after financing costs were C\$149,400. The Note carries an interest yield of 17% and matures June 30, 2003. Interest is calculated and paid monthly. The note is secured by a floating charge over the subsidiary's assets.

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

RESULTS OF OPERATIONS - NINE MONTHS ENDED SEPTEMBER 30, 2002 AND SEPTEMBER 30, 2001

The results of the first nine months of 2002 are a product of our continued focus on improving the balance sheet and obtaining high quality sales customers and partners for our Financial Software and Content Systems. In the first quarter we restructured our convertible notes, converted our convertible debentures to equity, and raised \$0.4M. Near the end of the second quarter we acquired the Stockhouse website in a non-cash transaction which added to the already improved balance sheet from the first quarter. In the third quarter we integrated the Stockhouse websites into our infrastructure, and with the exception of a certain increase in bandwidth and equipment items, we have substantially eliminated the incremental costs of the Stockhouse website. We are now in position to capitalize on the potential revenue of this asset.

We continued to acquire additional twelve and twenty-four month customers for our Financial Software and Content Systems, which will continue to grow our recurring revenue stream.

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Overall sales are down from the first nine months of 2001, primarily due to the discontinuation of our E-Business in 2001, but there is a marked improvement in all year to date expense areas. Like most companies who are involved in the financial markets, parts of our business have been negatively affected by the downturn in the stock market. We have adapted accordingly, as discussed in more detail below.

### Revenue and Gross Profits

Total revenues in the first nine months of 2002 were \$1.413 million compared to \$2.353 million in the first nine months 2001, a decrease of \$0.940 million, or 40%. Our Public Company Disclosure and Awareness Products revenue was \$0.888 million compared to \$1.329 million in the first nine months 2001, a decrease of \$0.441 million or 33%. Financial Software and Content Systems revenue was \$0.525 million compared to \$0.406 million in the first nine months 2001, an increase of \$0.119 million or 29%. E-Business Solutions revenue was nil in the first nine months 2002 compared to \$0.617 million a year earlier. We have chosen not to actively pursue E-Business Solutions business since the second quarter of 2001 in favour of revenue streams which carry more potential profitability in the long term, namely Financial Software and Content Systems and Public Company Disclosure and Awareness Products.

Gross profits in the first nine months of 2002 were \$0.858 million compared to \$1.409 million in the first nine months 2001, a decrease of \$0.551 million, or

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39%. Gross profit as a percentage of sales was 60.7% and 59.9% for the nine-months periods ended September 30, 2002 and 2001 respectively.

We are continuing to provide innovative products in our Public Company Disclosure and Awareness Products line, and the IntegratIR sales remain strong, delivering high value to customers. Historically, many of our Public Company Disclosure and Awareness Products customers have come from the technology sector, and the slowdown in this sector has caused considerable attrition. As well, part of the product line has been affected adversely as public companies reduced or eliminated spending on their awareness products. However, we continue to sign new agreements for our disclosure products with major corporations. We have been diversifying our target market for some time in order to be less dependent on any one sector. We feel that this area of the business will rebound fully when the financial markets begin to recover from their current slowdown.

Financial Software and Content Systems continues to be a strong contributor to our overall revenue and gross profits. Our process has matured over the past year, and we are able to efficiently deliver high quality services to customers for a fraction of the cost to customers of having it done internally. We have established relationships with major sales channels, media networks, and financial companies, and have already seen significant results. Financial Software and Content Systems revenue was up this nine month period 29% over the same period a year ago, and up 23% quarter over quarter from the second quarter 2002. All of this revenue is contractual, typically in 24-month terms, so we have a solid base of revenue in this area to grow from.

E-business Solutions revenue for the first nine months of 2001 was mainly derived from work on a financial leasing exchange for a single client. Since that contract, which ended in the first quarter of 2001, we have chosen not to pursue further contracts of this nature. As a result, our revenue from this segment was nil in the first nine months of 2002. We have instead decided to focus our energy on more stable, predictable revenue streams, such as Public Company Disclosure and Awareness Products and Financial Software and Content Systems, which ultimately will be more profitable.

### Operating Expenses

Total operating expenses in the first nine months of 2002 were \$1.638 million compared to \$2.113 million in the same nine months last year, a decrease of \$0.475 million or 22%. This decrease was a result of the reductions in all areas of expenditures that we made in 2001 and continued in 2002. We have stabilized our operating expenses at a level which

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will enable us to grow our sales efficiently, thereby generating the greatest return on investment.

Sales and Marketing expenses were \$0.365 million in the first nine months of 2002 compared to \$0.423 million in the first nine months 2001, a decrease of \$0.058 million, or 14%. This area of the expenses decreased slightly and should remain relatively flat for the near future.

Product Development expenses in the first nine months of 2002 were \$0.063 million compared to \$0.175 million in the first nine months 2001, a decrease of \$0.112 million, or 64%. As our business has matured, product development has naturally taken a lesser role. Our staff is more experienced, and our processes for developing new products are streamlined so that overall development costs are minimized.

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General and Administrative expenses in the first nine months of 2002 were \$1.209 million compared to \$1.515 million in the first nine months 2001, a decrease of \$0.306 million, or 20%. Expenses steadily declined during 2001 and stabilized in 2002 at a lower level that can still generate the maximum return on investment. The most notable cuts have been in payroll, which is our largest expense category. We have also eliminated our premises costs in New York and Dallas.

### Other Income (Expense) and Income Taxes

Interest expense in the first nine months of 2002 was \$0.265 million compared to \$0.526 million in the first nine months 2001, a decrease of \$0.261 million, or 50%. Of the amount for the first nine months of 2002, \$0.019 million is cash interest, either already paid or payable after the quarter end. The remaining interest is non-cash interest arising out of the 8% convertible notes and the 3% convertible debentures. Upon restructuring of the 8% convertible notes, there was a non-cash interest expense of \$0.018 million, plus amortized debt discount in Q2 and Q3 totaling \$0.068 million. Upon conversion of the remaining balance of the 3% convertible debentures there was a total non-cash interest expense of \$0.160 million.

Loss on warrants liability of \$0.055 million was a result of the increase in the fair value of the Company's 300,000 callable warrants and 800,000 other warrants immediately before the February 6, 2002 restructuring of the 8% convertible notes as described in Notes 2 and 4 to the financial statements.

Income taxes were nil in both the first nine months 2002 and the same nine months 2001. Due to our net loss position, we did not incur tax in the first nine months of 2002. As at the most recent year end, Stockgroup had tax loss carry forwards of \$5.751 million in Canada which expire in 2006, 2007, and 2008, and tax loss carry forwards of \$2.916 million in the U.S. which expire in 2019, 2020, and 2021.

Extraordinary gain on restructuring of convertible notes was \$1.088 million for the first nine months 2002 and nil in the first nine months 2001. The extraordinary gain was a result of the February 6, 2002 restructuring of the Company's 8% convertible notes, as described in Note 2 to the financial statements.

### Net Income

The net loss for the first nine months of 2002 was \$0.024 million compared to a loss of \$0.490 million in the first nine months 2001, an increase of \$0.466 million or 95%.

### LIQUIDITY AND CAPITAL RESOURCES

Stockgroup ended the third quarter of 2002 with cash and cash equivalents of \$71,372, a decrease of \$74,935 from June 30, 2002. This compares with a net cash decrease of \$110,324 in Q2 2002, and net cash increases of \$130,013 in Q1 2002, \$19,062 in Q4 2001 and \$14,698

in Q3 2001. Although we expect to generate positive cash flow from operations, we are pursuing financing to improve our working capital position and to grow the business to the greatest possible extent.

Our cash flows from operations for the first nine months of 2002 were \$(421,594). We raised \$390,920 net in equity financing in Q1, and \$97,034 in a notes payable issuance in Q3. We repaid \$100,000 of our convertible notes as per

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the restructuring agreement described in Note 2 to the financial statements. Other uses of cash were repayment of capital lease and bank debt, totaling \$11,677, and property and equipment acquisitions, net of proceeds of disposal, of \$9,929.

You should be cautioned that there can be no assurance that revenue, margins, and profitability will increase. In addition, we have cash payments due to certain of the noteholders on October 1, 2002, December 31, 2002, and at the end of each of the next 8 quarters after that. To the extent that either of these possibilities seriously depletes cash levels, we will need to seek additional capital. If we do, there can be no assurance that we will be successful in raising a sufficient amount of additional capital or in internally generating a sufficient amount of capital to meet long-term requirements. If we are unable to generate the required amount of additional capital, our ability to continue as a going concern is in substantial doubt.

### CORPORATE DEVELOPMENTS DURING THE PERIOD

A synopsis of corporate highlights for 2002 is as follows:

1. On February 11, 2002, we announced an agreement with Freedom Communications, a large private media company with publications and websites throughout the U.S., to provide our Financial Software and Content Systems to its websites.
2. On February 6, 2002, we restructured the 8% convertible notes with Deephaven Private Placement Trading Ltd. and Amro International, S.A. Under the restructuring, the interest rate and prepayment penalties are reduced to zero, accrued interest has been waived, the conversion price is fixed at \$0.50, and a total of up to \$300,000 cash is required to be paid to the noteholders over 10 quarterly installments starting June 30, 2002. The new notes have a two-year term with renewal provisions for another two years. We filed a form 8-K on February 20, 2002 which fully describes the restructured notes.
3. On February 21, 2002, we announced an agreement with The Canadian Press (CP) in which CP will re-sell our Financial Software and Content Systems. This agreement will give CP exclusive re-distribution rights for Canada.
4. On March 15, 2002, we and the remaining noteholders from the January 19, 2001 3% convertible debenture reached an agreement whereby they would convert the \$0.2M balance of the debt into common shares at \$0.50 per share. The exercise price of the Series 3A warrants has been reduced from \$1.00 to \$0.25. The exercise price of the Series 3B warrants has been reduced from \$2.00 to \$0.50. The expiry date for both the Series 3A and 3B warrants has been extended to July 31, 2005.
5. On March 19, 2002, we announced an agreement with Credential Group in which Credential Group would license our Financial Software and Content Systems, and offer our products to its more than 450 credit union partners across Canada.
6. On March 25, 2002, we completed a \$0.410M financing with 22 unaffiliated investors pursuant to a Subscription Agreement. The funding included 2,000,000 units consisting of one common share and one warrant each, at a price of \$0.20 per units, plus 51,000 common shares at a price of \$0.20 per share. The warrants have an exercise price of \$0.25 and an expiry date of March 31, 2003. The full details of this financing, including all relevant documents, were filed in a Form 8-K on March 26, 2002 and can be viewed therein.

7. On June 24, 2002, we completed an agreement with Stockhouse Media

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Corporation, in which we acquired certain of Stockhouse's assets. On June 28, 2002, we issued 2,080,000 common shares to Stockhouse as part of the agreement. The shares are being held in escrow until certain terms of the agreement are met. We filed a form 8-K on July 11, 2002 which fully describes the agreement.

8. On October 8, 2002, we announced a licensing agreement with National Bank Financial to build a customized solution to provide online market data to their clients. National Bank Financial is one of the leading securities dealers in Canada.

### DESCRIPTION OF BUSINESS MODEL

#### GENERAL

We are a financial media and technology company. Our revenue streams can be categorized into two areas:

- Financial Software and Content Systems,
- Public Company Disclosure and Awareness Products

The clients for Financial Software and Content Systems are primarily enterprise companies from many different markets, such as media, banks and credit unions, stock brokerages, insurance, and others. Public Company Disclosure and Awareness Products are primarily investor awareness and disclosure products for public companies, and advertising on Stockhouse. These products are purchased by companies in all industries as a means of generating public interest in their company or products. A more detailed discussion of our products follows in the Products and Services section.

#### CORPORATE BACKGROUND

Stockgroup was incorporated under the laws of Colorado on December 6, 1994 under the name I-Tech Holdings Group, Inc. ("I-Tech"), a United States non-operating company registered on the NASD OTC Bulletin Board. The financial statements and supporting information in this report are issued under the name of Stockgroup but are a continuation of the financial statements and report of operations of Stock Research Group, Inc. ("SRG"), a British Columbia corporation which was incorporated on May 4, 1995. On March 11, 1999, pursuant to a reverse acquisition, SRG acquired the net assets of I-Tech. For accounting purposes, SRG became a subsidiary of I-Tech.

Our name was changed from I-Tech to Stockgroup.com Holdings Inc. on May 6, 1999 and to Stockgroup Information Systems Inc. on September 20, 2001.

We are a United States publicly traded company registered on the NASD OTC Bulletin Board under the symbol SWEB. From our head office in Vancouver, we operate branch offices in San Francisco and Toronto.

As SRG, we operated from 1995 to 1997 as a profitable financial Internet technology and media company that offered proprietary financial news and tools to investors and companies. We used our experience and the funds from a public offering in spring 1999 to provide the foundation for the development and initial marketing of our products. In October 1999 we launched Smallcapcenter.com. At that time it was widely believed that a subscription/advertising model centering around Smallcapcenter was viable. While parts of this business model did not prove to be profitable, the building of Smallcapcenter and its related investment software and content aggregation & management systems gave us a strong foundation of skills and a suite of products to sell commercially. Smallcapcenter is still a high-traffic and well-maintained portal for the investment community, and its drawing power is a key driver to many of our investor awareness products. It also serves as an excellent development and testing ground for new financial software applications being



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developed by us on a continuing basis.

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From late 1999 to early 2001 we were hired to create several large enterprise web sites for different clients on a contract basis. These were large contracts, and added a significant amount of revenue to the Company, but they also added instability in our cost structure. In early 2001 it was decided that this E-Business Solutions division would be de-emphasized in favour of other areas with more profit potential, namely Financial Software and Content Systems and Public Company Disclosure and Awareness Products (as described in the PRODUCTS AND SERVICES section below).

From 2000 to 2001, we expanded our awareness and disclosure product line to include Sector Supplements, and automated investor relations software applications such as the IntegratIR. We already had a large public company customer base, so the transition into this area was a natural extension of our core competencies.

We entered the Financial Software and Content Systems market late in 2000 by licensing our proprietary financial software applications and third party content to customers that need to offer financial information to their customers or improve their content offering. We had access to a wide array of customers through our internal sales team as well as our reseller channels. Our software content model is attractive to customers because it is a comprehensive and cost effective alternative to in-house development.

Early in 2001, as the market for our products and services evolved, it became apparent to our management where the most profitable and sustainable areas of the business were. They were Financial Software and Content Systems and Public Company Disclosure and Awareness Products (including IntegratIR and other awareness and disclosure products). Once these were identified, a more streamlined and stable cost structure was introduced to improve profitability and cash flow.

On June 24, 2002, we acquired the Stockhouse website and related assets. These assets added a new dimension to our business, that being a high-traffic, highly recognized financial community. We immediately went to work marketing products and services which leverage the Stockhouse assets. While Stockhouse began contributing to our sales revenue in the third quarter of 2002, the benefits have not yet been fully realized, and we expect solid growth in this area of the business in coming quarters.

### PRODUCTS AND SERVICES

Our understanding of internet based financial technology and media has enabled us to leverage our products and services to enter new markets and secure new clients. Using a common integrated technology platform, we have developed two main revenue sources: Financial Software and Content Systems and Public Company Disclosure and Awareness Products.

### FINANCIAL SOFTWARE AND CONTENT SYSTEMS

We have developed proprietary financial applications and tools we license to clients. The clients for Financial Software and Content Systems are from many different markets, such as media, banks and credit unions, stock brokerages, leasing, insurance, and other financial services companies.

We provide Financial Software and Content Systems on a private-labeled basis, and they are typically sold on long term (twelve-month or more) contracts,

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generating recurring revenue streams. Many of the software applications are data-feed driven. We either feed data from our own aggregated databases or from third parties. The advantage of using the Stockgroup system is that the customer is able to receive data and information from a variety of different feeds all from one point of contact, at a fraction of the cost of purchasing all feeds individually. We add value by customizing, filtering, and sorting data in the configuration the customer wants, and then adding the different software applications and hosting the entire solution. We are able to use our economies of scale and automation to give a product that is efficiently delivered and customized, and at a substantial costs savings to having the customer build and manage it internally.

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Examples of some of the providers of third-party data feeds include Marketguide, Comtex, Multex, and North American Quotations.

We distribute Financial Software and Content Systems through content and application syndicates, such as Yellowbrix, through channel resellers such as The Canadian Press, Comtex News Network, Clarinet Communications, and through its own sales team. These Financial Software and Content Systems cover the entire North American market including mutual funds, commodities, and equities.

We bring in market feeds through satellite, File Transfer Protocol (FTP), Extensible Markup Language (XML), and other delivery formats. We have built and maintain our proprietary middleware solution that aggregates the multiple feeds, translates and builds a common database infrastructure. Our system then cleans, filters, and maintains the data in a common database structure. A sophisticated server cluster and security system backs this content/data management system. The data is then streamed to our proprietary software applications.

Here are just a few of the over 25 Financial Software and Content Systems products:

- o Real-time stock quotes on major U.S. exchanges
- o North American 20-minute delayed stock quotes and indices
- o Portfolio management, live portfolio updates and wireless portfolio updates
- o Most active stock updates
- o Stock watch lists
- o Company fundamentals, SEC/SEDAR filings
- o Daily stock market winners/losers, most actives
- o Company profiles, stock screening (investment data) and technical stock analysis
- o Employee stock option calculations

The Financial Software and Content Systems is delivered to customers in four different formats:

On an Application Service Provider (ASP) basis where the content and software is hosted by us and private-labeled to the customers Internet or Intranet site Through our proprietary software objects residing on the customer's servers

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which use a proprietary Application Protocol Interface (API) to retrieve data from our servers Through secured Extensible Markup Language (XML) channel Through different wireless devices and modes including: handheld devices, Short Message Service (SMS) paging, and Wireless Application Protocol (WAP) portals which have been built and maintained by us.

### PUBLIC COMPANY DISCLOSURE AND AWARENESS PRODUCTS

We have developed and own a large array of Public Company Disclosure and Awareness Products. These products are used by clients to either a) manage their investor relations and shareholder communications through their web site, b) generate investor interest in their company, c) improve their public disclosure compliance, or d) advertise and promote their products and services.

Products and services offered by this revenue stream include the IntegratIR software system, Investor Marketplace, E-Mail Distribution of Press Releases, Sector Supplements, At The Bell/Smallcap Express sponsorship, Banner and Button Advertising, Monthly Investor Marketing, Custom Web Site Development, and other online investor marketing products.

Public companies are increasingly outsourcing these activities because they lack the internal skills and resources or because it is more effective and cost efficient than in-

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house development and maintenance. We offer a 'one-stop shopping' package for corporate clients and provide everything from news release tracking and postings to quarterly streaming conference calls. Our understanding of this market segment and focus has resulted in a highly specialized bundle of products including: private label quotes, charts and database tools for building relationships with shareholders and traffic reports to track investor usage of Web sites and inquiries.

In the third quarter of 2001 we launched version 2.01 of the IntegratIR, an automated financial application that is licensed to public companies. The IntegratIR updates the clients' regulated investor relations information automatically by private labeling this software application into the clients' corporate web site. The SEC has mandated fair disclosure policies that make our IntegratIR especially attractive as it updates news releases, webcasts and SEC filings direct from the wire services as they happen and automatically sends the information to the client's shareholders and interested parties. The IntegratIR helps to prevent mistakes and increase timeliness compared to having internal staff manually update these activities.

Our IntegratIR system represents a way to manage shareholder communications and reach new investors. The IntegratIR is an investor relations web page and email management system that functions as a software application - giving the Investor Relations Officer (IRO) and Chief Financial Officer (CFO) desktop control over the investor relations portion of their web site. In addition to standard features, such as dynamic quotes and charts, the IntegratIR provides powerful new tools that automate the client's online disclosure activities including publishing their press releases, publishing of regulatory filings and distributing information requested by shareholders, all on a real-time, automated basis.

Other Public Company Disclosure and Awareness Products include the following:

Investor Marketplace (IMP), a web page which is actively marketed through advertising to draw readers, where companies can be featured online to

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prospective investors. Being featured on the IMP enables customers to get their name, profile, and internet link in front of a large investor audience that they may not otherwise be able to attain.

Targeted e-mail marketing, which is used to disseminate news releases to an exclusive list of opt-in investors and interested parties.

Sector Supplements, which are a spotlight feature on a certain industry sector, such as Energy, Mining, Biotech, or Technology, are an effective exposure tool for companies. In a Sector Supplement, investors are drawn to a web site which features up to twelve companies and contains industry-specific news and information. Investors who visit this web site can view each of the featured companies' profiles, request information, or link directly to the client's own web site.

Sponsorship of the At The Bell/Smallcap Express daily market recap mailings that goes to a large audience of e-mail readers who have signed up to receive it through Stockhouse and Smallcapcenter. A client who sponsors At The Bell/Smallcap Express gets an advertising banner at the top of each flight. This can be an effective way for the client to get their name in front of a large number of investors.

Banner Advertising and Button Advertising, both on Stockhouse and on Smallcapcenter, is a growing part of our business since the acquisition of Stockhouse. Stockhouse is a high traffic financial community. Research has shown that our traffic is composed of a high income demographic of active investors. This demographic is very attractive to advertisers. The Smallcapcenter demographic, which shares those characteristics, attracts a group whose interest is high-growth stocks. The combination of these two websites gives us a tremendous number of sales options.

The products developed by us over the past five years enable us to offer Public Company Disclosure and Awareness Products to a rapidly growing customer base while maintaining a high sales margin. The revenues derived from this source are typically contractual over a specified term. The Internet communities developed and acquired by Stockgroup host the

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critical mass to ensure a high level of exposure to our Public Company Disclosure and Awareness Products.

### SHARE PRICE AND VOLUME DATA

The Company's Common Stock has been quoted for trading on the OTC Bulletin Board since March 17, 1999. The following table sets forth high and low bid prices for the Common Stock for the three-month periods ended December 31, 2001, March 31, June 30, and September 30, 2002. These prices represent quotations between dealers without adjustment for retail markup, markdown or commission and may not represent actual transactions.

Quarter Ended:	High	Low	Volume
December 31, 2001	\$0.200	\$0.115	1,977,800
March 31, 2002	\$0.400	\$0.140	5,509,300
June 30, 2002	\$0.230	\$0.150	2,734,400
September 30, 2002	\$0.200	\$0.125	1,785,900

On September 30, 2002, the Company had 71 registered shareholders owning 15,943,846 shares.

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### DIVIDENDS

The Company has not declared any dividends since inception, and has no intention of paying any cash dividends on its Common Stock in the foreseeable future. The payment by the Company of dividends, if any, in the future, rests with the discretion of its Board of Directors and will depend, among other things, upon the Company's earnings, its capital requirements and its financial condition, as well as other relevant factors.

### Item 4. Disclosure Controls and Procedures

#### (a) Evaluation of Disclosure Controls and Procedures

Stockgroup's Chief Executive Officer and Chief Financial Officer have evaluated the company's disclosure controls and procedures as of November 1, 2002, and they concluded that these controls and procedures are effective.

#### (b) Changes in Internal Controls

There are no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to November 1, 2002

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## Part II. OTHER INFORMATION

### Item 1. Legal Proceedings

We filed a statement of claim in the Supreme Court of British Columbia on January 3, 2001, against Pacific Capital Markets Inc., James King, Rick Jeffs, and Heidi Hirst. We are suing Pacific Capital Markets Inc. for \$351,800 due to it under a sales contract we signed with them on September 20, 2000. We are suing the individuals named above, who are managers of Pacific Capital Markets Inc., for general damages for misrepresentation. We are seeking payment of the \$351,800 owing, plus interest, damages, costs and such further and other relief as deemed suitable by the court.

On January 12, 2001, Pacific Capital Markets Inc., James King, Rick Jeffs, and Heidi Hirst filed a Statement of Defense and Counterclaim. At the time of this filing, no settlement conferences have been held and no court date has been set.

As of October 25, 2002, no further action had been taken by either side. While we believe we have a strong case, we have not elected to aggressively pursue this litigation at this time, pending further information on the collectibility of the debt.

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

On February 6, 2002, we restructured our 8% convertible notes. This transaction is fully described in Note 2 to the financial statements, included herein.

On March 15, 2002, the holders of our 3% convertible debentures converted the final \$200,000 of principal and \$6,904 of accrued interest into 413,808 common shares. This transaction is fully described in Note 3 to the financial statements, included herein.

On March 28, 2002, we completed a placement of 2,000,000 units at \$0.20, each unit consisting of one common share and one warrant, plus 51,000 common shares, for gross proceeds of \$410,200. This transaction is fully described in Note 5 to

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the financial statements, included herein.

On June 24, 2002, we acquired certain of Stockhouse's assets. On June 28, 2002, we issued 2,080,000 common shares to Stockhouse as part of the agreement. The shares are being held in escrow until certain of the covenants of the agreement are met. We filed a form 8-K on July 11, 2002 which fully describes the agreement.

Other equity transactions for the period are fully described in Note 5 to the financial statements, included herein.

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

- (a) On September 19, 2002, the Company held its annual general meeting in San Francisco, California.
- (b) The existing board of directors was re-elected in its entirety.
- (c) Votes were also cast to
  - (i) Appoint Ernst & Young LLP as the Company's auditors
  - (ii) Approve the 2002 Stock Option Plan

Votes were cast as set out in the table below.

	YES	NO	ABSTAIN
1. Election of directors			
Marcus New	9,955,170	0	20,590
Craig Faulkner	9,953,170	0	22,590
Leslie Landes	9,954,215	0	21,545
Louis deBoer	9,954,020	0	21,740
David Caddey	9,955,020	0	20,740
Jeffrey Berwick	9,955,020	0	20,740
2. Appointment of Ernst & Young LLP	9,669,065	291,195	15,500
3. Approval of 2001 Stock Option Plan	6,008,393	211,826	30,600
4. Other matters	9,848,069	107,296	20,395

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

- (a) Reports on Form 8-K

On February 20, 2002, we filed an 8-K regarding the restructuring of the 8% convertible notes issued on April 3, 2000. This restructuring is described completely in Note 2 to the financial statements included herein.

On March 26, 2002, we filed an 8-K regarding our \$0.410M private placement which is described in Note 5 to the financial statements included herein.

On July 11, 2002, we filed an 8-K regarding our acquisition of certain assets of Stockhouse Media Corporation.

No other reports on form 8-K have been filed in 2002.

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(b) CEO Section 906 Certification (page 24)

(c) CFO Section 906 Certification (page 25)

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SIGNATURES

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

STOCKGROUP INFORMATION SYSTEMS INC.  
(Registrant)

Date: November 7, 2002

By: /s/ David Gillard, CGA

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Chief Financial Officer, Secretary &  
Treasurer

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CERTIFICATIONS

CERTIFICATION

I, Marcus New, CEO, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Stockgroup Information Systems Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation

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Date"); and

- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any correction actions with regard to significant deficiencies and material weaknesses.

Date: November 7, 2002

/s/ Marcus New

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Marcus New  
Chief Executive Officer

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CERTIFICATION

I, David Gillard, CFO, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Stockgroup Information Systems Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we



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have:

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any correction actions with regard to significant deficiencies and material weaknesses.

Date: November 7, 2002

/s/ David Gillard

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David Gillard, CGA  
Chief Financial Officer

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Exhibit (b) - Section 906 Certification of CEO

CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. ss.1350,  
AS ADOPTED PURSUANT TO  
ss.906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Stockgroup Information Systems Inc. (the "Company") on Form 10-QSB for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Marcus New, Chief Executive Officer of the Company, pursuant to 18 U.S.C. ss.

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1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, hereby certify that to the best of my knowledge:

(1) The Report fully complies with the requirements of ss. 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Marcus New  
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Marcus New  
Chief Executive Officer  
November 7, 2002

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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Exhibit (c) - Section 906 Certification of CFO

CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. ss.1350,  
AS ADOPTED PURSUANT TO  
ss.906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Stockgroup Information Systems Inc. (the "Company") on Form 10-QSB for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Gillard, Chief Financial Officer of the Company, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, hereby certify that to the best of my knowledge:

(1) The Report fully complies with the requirements of ss. 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ David Gillard  
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David Gillard  
Chief Financial Officer  
November 7, 2002

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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