

Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

STOCKGROUP INFORMATION SYSTEMS INC

Form 10KSB

March 24, 2003

FORM 10-KSB

U.S. Securities and Exchange Commission  
Washington, D.C. 20549

Annual report under section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended December 31, 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

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: X No:

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

State issuer's revenues for its most recent fiscal year: 1,964,699

The aggregate market value of common equity held by non-affiliates of the registrant as of March 19, 2003 was approximately \$5 million.

The number of shares outstanding of the registrant's common equity, as of March 17, 2003 was 21,095,771.

Documents incorporated by reference: none

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

Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

STOCKGROUP INFORMATION SYSTEMS INC.

FORM 10-KSB

For The Fiscal Year Ended December 31, 2002

INDEX

PART I . . . . .

Item 1. Business . . . . .

Item 2. Description of Property . . . . .

Item 3. Legal Proceedings . . . . .

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

PART II . . . . .

Item 5. Market for Registrant's Common Stock and Related Stockholder Matters . . . . .

Item 6. Management's Discussion and Analysis of Results of Operations and Financial Condition . . . . .

Item 7. Financial Statements . . . . .

Part III. . . . .

Item 9. Directors, executive officers, promoters and control persons; compliance with section 16 . . . . .

Item 10. Executive Compensation . . . . .

Item 11. Security Ownership of Certain Beneficial Owners and Management . . . . .

Item 12. Certain Relationships and Related Transactions . . . . .

Item 13. Exhibits, Financial Statement Schedules, and Reports on Form 8-K . . . . .

Item 14. Controls and Procedures. . . . .

Signatures. . . . .

CERTIFICATIONS. . . . .

PART I  
Item 1. Business

GENERAL

Stockgroup Information Systems Inc. ("Stockgroup" or the "Company") is a financial media and technology company. Its revenue streams for 2002 can be categorized into two broad areas:

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

See PRODUCTS AND SERVICES below for a full description of these two revenue streams. The clients for Financial Content and Software Applications are primarily enterprise companies from many different markets, such as media, banks and credit unions, stock brokerages, insurance, and others. Public Company Disclosure & Awareness Products are awareness and disclosure products that are purchased, as the name implies, by public companies in all industries.

CORPORATE BACKGROUND

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

We are a United States publicly traded company incorporated in 1995 and registered in Colorado. Our head office in Vancouver, Canada.

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 exercise of building Smallcapcenter and its related investment tools 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 tools being developed by the Company on a day-to-day basis.

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 favor of other areas with more profit potential, namely Financial Content and Software Applications 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 Web page tools 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 Content and Software Applications market late in 2000 by licensing our proprietary financial software tools, content and applications 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 content and software application model is attractive to customers because it is a comprehensive and cost effective alternative to in-house development.

3

Early in 2001, as the market for our products and services evolved, it became apparent to us where the most profitable and sustainable areas of the business were. They were Financial Content and Software Applications 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 and the profitability and cash flow began to improve.

On June 24, 2002, under an Agreement with StockHouse Media Corporation, we acquired the Web site assets, software and systems to run the Stockhouse websites. We issued 2,080,000 common shares of Stockgroup upon signing the agreement, in exchange for a 65% interest in the assets. Stockgroup controls and manages the operation of the assets and receives the net revenue to its account. Due to certain provisions in the agreement, we have the option of acquiring the

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

remaining 35% of the assets for between 920,000 and 1,120,000 common shares of Stockgroup based on a revenue/profit formula. The transaction was completed with an arms length party, although one of the principals of Stockhouse Media Corporation has since become a director of Stockgroup.

Prior to the Agreement, StockHouse spent approximately C\$35 million on its technology, brand and business development, ultimately becoming established as one of the leading online financial communities.

The transaction provides several key benefits to Stockgroup including:

- Augmenting the strength of the company by integrating the technology and products into the existing Stockgroup infrastructure.
- The deepening and strengthening of the company's technology, through incorporating StockHouse's applications and capabilities, expanding the company's product offering and enhancing its ability to deliver products to its customers.
- The immediate addition of the StockHouse revenue stream and customer base.
- The integration of resources of the two companies, lowering overall cost of delivery, strengthening brand and adding value to the more than 450,000 registered subscribers and over 50 million monthly page views of StockHouse.com and smallcapcenter.com.

On July 23, 2002 we became a reporting issuer in Canada and on December 17, 2002, we were listed and began trading on the TSX Venture Exchange in Canada.

### 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 Content and Software Applications, Public Company Disclosure & Awareness Products and Advertising.

### FINANCIAL SOFTWARE AND CONTENT SYSTEMS

We have developed proprietary financial applications and tools we license to clients. The clients for Financial Content and Software Applications are from many different markets, such as news media, banks and credit unions, stock brokerages, leasing, insurance, and others. We provide the tools on a private-labeled basis, and they are typically sold in licencing contracts of twelve months or more. These long term contracts generate stable, recurring revenue streams.

Many of the tools are data-feed driven. We either feed data from our own aggregated databases or from third parties. The advantage of using the Stockgroup tools is that the customer is able to receive data and information from a variety of different feeds all from point of contact, at a fraction of the cost of purchasing all feeds individually. Also, in most cases we add value by customizing, filtering, and sorting data in the configuration the customer wants. 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.

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

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

We distribute financial tools through content and application syndicates, such as Yellowbrix, through channel resellers such as The Associated Press, The Canadian Press, Comtex News Network, Clarinet Communications, and through our own sales team. These financial tools, applications 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.

The following are just a few of the over 25 Financial Content and Software Applications products:

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

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

- On an Application Service Provider (ASP) basis where the content and software is hosted by Stockgroup and private labeled to the customers Internet or Intranet site.
- Through our proprietary software objects residing on the customers' servers 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 awareness for their company and their stock, c) improve their public disclosure compliance, or d) advertise their products and services.

Products and services offered by this revenue stream include the IntegratIR software system, Investor Marketplace, E-Mail News Blasts, Sector Supplements, Stockhouse @ The Bell sponsorship, Smallcap Express sponsorship, Web site advertising, monthly investor marketing bundles, 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-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.

Our IntegratIR system represents a whole new 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 awareness products for public companies 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 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.

Stockhouse News Blasts, Special Situation Alerts, and NewsHotlines, which are targeted e-mail marketing tools used to disseminate news releases to an exclusive list of up to 450,000 opt-in investors.

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 that 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 Stockhouse @ 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.com and Smallcapcenter.com. A client who sponsors Stockgroup @ 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.

Advertising, which is shown in various positions on Stockhouse.com and Smallcapcenter.com on a prescribed rotation, is another way for clients to get the attention of a targeted investor audience. Potential investors who see the advertisement can 'click through' the ad to get to a jump page which can include the client's own description of their company or product.

The StockHouse network (StockHouse.com/.ca/.com.au) offers content aggregation

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

from hundreds of sources, a comprehensive equities database and the Internet's first syndicated message forums, the BullBoards(TM). The three Web sites attract investors in a number of global markets, including the USA, Canada, and Australia.

### EMPLOYEES

As of December 31, 2002, we employed 25 people on a full-time basis and 6 people on a part-time basis. After seeing wide fluctuations in the number of employees between 1999 and 2001, the number of employees has remained relatively stable for the past eighteen months. An exception was a three month period after we acquired the StockHouse Web site when we needed extra staff for the transition. This stability has been an important part of our improved cost structure.

### 6

None of our employees are subject to collective bargaining agreements. We have never had a work stoppage. We believe relations with employees are good.

### REGULATORY ISSUES

We are not subject to governmental regulation in our Internet publishing efforts other than local state and municipal sales tax licenses.

A number of legislative and regulatory proposals under consideration by federal, state, provincial, local and foreign governmental organizations may lead to laws or regulations concerning various aspects of the Internet, including, but not limited to, online content, user privacy, taxation, access charges, liability for third-party activities and jurisdiction. Additionally, it is uncertain how existing laws will be applied by the judiciary to the Internet. The adoption of new laws or the application of existing laws may decrease the growth in the use of the Internet, which could in turn decrease the demand for our services, increase the cost of doing business or otherwise have a material adverse effect on the Company's business, results of operations and financial condition.

### SUBSIDIARIES

Stockgroup owns 100% of the issued and outstanding voting common shares of 579818 B.C. Ltd., which wholly owns Stockgroup Media Inc., a British Columbia corporation, and owns 50% of Stockscores Analytics Corp., a British Columbia corporation. In addition, Stockgroup wholly owns Stockgroup Systems Ltd., a Nevada Corporation and Stockgroup Australia Pty Ltd, an Australia Corporation.

### RESEARCH AND DEVELOPMENT

During 2001 and 2002 we invested approximately \$241,392 and \$78,792 respectively on research and development related to new products and services.

### FORWARD-LOOKING STATEMENTS

Certain statements contained herein constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements can be identified by the use of predictive, future-tense or forward-looking terminology, such as "believes," "anticipates," "expects," "estimates," "plans," "may," "intends," "will," or similar terms. These statements appear in a number of places in this report and include statements regarding the intent, belief or current

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

expectations of the Company, its directors or its officers with respect to, among other things: (i) trends affecting the Company's financial condition or results of operations, (ii) the Company's business and growth strategies, (iii) the Internet and Internet commerce and (iv) the Company's financing plans. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors set forth under "Risk Factors" and elsewhere in this report. The preceding discussion of the financial condition and results of operations of the Company should be read in conjunction with the financial statements and notes related thereto included elsewhere in this report.

### Item 2. Description of Property

#### INTELLECTUAL PROPERTY, PROPRIETARY RIGHTS AND DOMAIN NAMES

We protect our intellectual property through a combination of trademark and copyright law, trade secret protection and confidentiality agreements with its employees, customers, independent contractors and strategic partners. We pursue the registration of our domain names, trademarks and service marks in the United States and internationally.

7

Effective trademark, service mark, copyright and trade secret protection may not be available in every country in which our services and products are made available on-line. We create a majority of our own content and obtains rights to use the balance of our content from third parties. It is possible that we could become subject to infringement actions based upon the content obtained from these third parties. In addition, others may use this content and we may be subject to claims from its licensors. We currently have no patents or patents pending and do not anticipate that patents will become significant part of its intellectual property in the future. We enter into confidentiality agreements with our employees and independent consultants and have instituted procedures to control access to and distribution of our technology, documentation and other proprietary information and the proprietary information of others from whom we license content. The steps we take to protect our proprietary rights may not be adequate and third parties may infringe or misappropriate our copyrights, trademarks, service marks and similar proprietary rights. In addition, other parties may assert claims of infringement of intellectual property or alter proprietary rights against us. The legal status of intellectual property on the Internet is currently subject to various uncertainties as legal precedents have not been set and are still to be determined in many areas of internet law.

#### LEASEHOLD

Our corporate offices are composed of one floor of leased space located in the center of Vancouver's business community. We also hold a lease in New York, and rent an office in Toronto on a month to month basis. Our facilities are fully used for current operations, with the exception of the New York facility, which is currently being subleased to a tenant.

City	Monthly Payment	Lease	Expiry Date
-----			



## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

Vancouver	CDN \$23,647	7 years	June -- 2006
New York	\$8,449	7 years	August -- 2006
New York sublease	-\$8,449	3 years	April -- 2004
Toronto	CDN \$2,400	N/A	

### EQUIPMENT

We have made a significant investment in servers and computer equipment required for our Web site and have dedicated staff assigned to maintenance and support of these operations.

### Item 3. Legal Proceedings

We are 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 us to provide certain lead generation services. We delivered the requested services throughout October and November, 2000, however, the defendant defaulted on all additional payments. We are 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. As of December 31, 2002, no further action had been taken by either party and no court date has been set. Although we currently believe the outcome of the litigation will be in the Company's favour, we have not elected to aggressively pursue the litigation at this time. We have made no provision for the counterclaim in the financial statements and any settlement or final award will be reflected in the statement of operations as the litigation is resolved.

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

None

8

## PART II

### Item 5. Market for Registrant's Common Stock and Related Stockholder Matters

#### MARKET INFORMATION

Our common stock has been quoted for trading on the OTC BB since March 17, 1999. On December 17, 2002, we began trading on the TSX-Venture Exchange in Canada. The following table sets forth high and low bid prices on the OTC BB for the common stock for the quarterly periods ending March 31, 2001 through to December 31, 2002 and the partial quarter from January 1, 2003 to March 6, 2003. These prices represent quotations between dealers without adjustment for retail markup, markdown or commission and may or may not represent actual transactions.

Quarter Ended:	High	Low	Volume
-----			
March 31, 2001	0.969	0.375	1,005,700

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

June 30, 2001	0.650	0.280	2,840,800
September 30, 2001	0.390	0.090	1,105,300
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	0.147	2,734,400
September 30, 2002	0.200	0.125	1,785,900
December 31, 2002	0.270	0.140	6,072,100
Jan 1-Mar 6, 2003 (partial)	0.380	0.205	4,098,100

The closing price on March 6, 2003 was \$0.230.

During 2002 we issued 9,421,336 shares of common stock, representing 93% of the outstanding stock at the beginning of 2002. We also has authorized, reserved, and registered 3,050,000 shares of common stock for issuance upon the exercise of outstanding warrants, and 3,500,975 shares for issuance upon the exercise of non-qualified stock options. The total amount of shares covered by outstanding registrations would represent 43% of the number of our outstanding shares on the date of this filing. In addition, we have authorized and reserved, but not registered, 5,541,693 shares for issuance upon exercise of certain warrants and convertible notes, which would represent 19% of the number of our outstanding shares on the date of this filing.

9

### Recent sales of unregistered securities

Date	Exemption	Name	Number of Common Shares	Common Shares Underlying Convertible Securities
June 30, 2002	Regulation S	Stockhouse Media Corp.	2,080,000	0
December 31, 2002	Regulation S	Private Placement (28 Places)	3,403,750	1,701,875 (1)
December 31, 2002	Regulation S	Bolder Capital	0	150,000 (2)

### HOLDERS

On December 31, 2002, we had 87 holders of record, which does not include beneficial owners of our common stock whose shares are held in the names of various dealers, clearing agencies, banks, brokers and other fiduciaries.

### DIVIDENDS

We have not declared, and do not foresee declaring, any dividends now or into the foreseeable future.

-----  
1 All warrants issued December 31, 2002, with the exception of 150,000 warrants to Bolder Capital, are exercisable at two warrants plus \$0.22 per common share, and have an expiry date of December 31, 2003.

2 Warrants exercisable at one warrant plus \$0.16 per common share, with an expiry date of December 31, 2003.

10

Item 6. Management's Discussion and Analysis of Results of Operations and Financial Condition

RESULTS OF OPERATIONS - FOR THE YEARS ENDED DECEMBER 31, 2002 AND DECEMBER 31, 2001

We are in a business in which sales are strongly influenced by public interest in the North American stock markets. Nearly all aspects of our business, including financial tools, investor marketing, and Stockhouse advertising are affected by ups and downs of the markets.

The results for the year 2002 were mixed, as we made a number of significant improvements during the year, but revenue was down from 2001, primarily due to the discontinuation of our E-Business consulting. In Q1 we improved our balance sheet by restructuring and converting a portion of our convertible debt, and in the process decreased our net loss dramatically through a gain of \$1.089 million. In Q2 we acquired a valuable Web site asset, software, and technology by acquiring a majority interest in certain assets of Stockhouse Media Inc., without expending any cash. We expect the Stockhouse assets will yield positive returns in 2003. In Q4 we raised \$0.490 million net in a private placement which improved our balance sheet, and we were accepted for listing on the TSX Venture Exchange in Canada. We emerged from 2002 stronger and more experienced, with a strong management team in place.

Revenue and Gross Profits

-----  
Total revenues for 2002 were \$1.965 million compared to \$2.857 million in 2001, a decrease of \$0.893 million, or 31%. The drop in revenue was primarily the result of the discontinuation of our E-Business consulting.

Our revenue from Public Company Disclosure and Awareness Products decreased compared to last year, from \$1.643 million in 2001 to \$1.209 in 2002, a decrease of \$0.434 million or 26%. Much of this decrease is attributed to the decrease in public company corporate communications spending caused by the continued downturn in financial markets. Nevertheless, we continued to direct a significant portion of our sales efforts in this area because we feel that strategically this business will be profitable for us in the future.

Financial Software and Content Systems revenue increased from \$0.580 million in 2001 to \$0.756 million in 2002, an increase of 30%, which was a result of a gradual buildup of recurring monthly fees. The revenue from Financial Software and Content represented 38% of total sales in 2002, an increase over the 20% of sales it represented in 2001. This is a growing source of revenue that is expected to continue increasing. We continue to acquire high quality clients, both through new relationship building and referrals from existing clients.

E-Business revenue was nil in 2002, compared to \$0.634 million in 2001. The decision was made in 2001 to focus on our scalable recurring product lines in place of consulting revenue.

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

Gross profits in 2002 were \$1.258 million compared to \$1.812 million in 2001, a decrease of \$0.554 million, or 30%. Gross profit margin percentage increased slightly from 63% to 64%. Direct costs include direct payroll, bandwidth, data feeds, and job-specific advertising purchases.

### Operating Expenses

-----  
Total operating expenses for 2002 were \$2.266 million compared to \$2.485 million in 2001, a decrease of \$0.219 million or 9%. Most of the decrease in costs was in product development, which dropped off significantly due to the fact that most of our products were in place by the beginning of the year.

Sales and Marketing expenses were \$0.475 million compared to \$0.467 million in 2001, an increase of \$0.008 million or 2%.

11

Product Development expenses in 2002 were \$0.079 million compared to \$0.241 million in 2001, a decrease of \$0.163 million or 67%. Our products were fully developed by the end of 2001, and our strategy for 2002 was to only develop new products if there was a known demand or request for them. This led to a sharp decrease in product development costs.

General and Administrative expenses in 2002 were \$1.712 million compared to \$1.777 million in 2001, a decrease of \$0.065 million, or 4%. Payroll is our largest cost item in this category. Our payroll costs remained relatively stable throughout the year, with only moderate increases and a three-month period after we acquired the Stockhouse Web site when our employee base temporarily increased by about 10 people. In 2001, for comparison, we had higher payroll at the beginning of the year than at the end, so overall the payrolls were similar in both years. Our emphasis in all other cost areas for both 2002 and 2001 has been toward cost reduction, with measured expansion in conjunction with expanded sales only.

Operating losses were \$1.008 million and \$0.673 million for 2002 and 2001 respectively. The increase of operating loss year over year was due mainly to the decrease in total sales.

### Other Income (Expense) and Income Taxes

-----  
Interest expense in 2002 was \$0.320 million compared to \$0.596 million in 2001, a decrease of \$0.276 million, or 46%. Interest on our 8% convertible notes was \$0.120 million in 2002, compared to \$0.193 million in 2001, a decrease of \$0.073 million caused by lower principal balances in 2002 and put premiums being avoided in 2002 due to the restructuring of the notes that took place on February 6, 2002. Interest on our 3% convertible debentures was \$0.160 million in 2002, compared to \$0.375 million in 2001, a decrease of \$0.215 million caused by the conversion of the full amount of principal in March 2002. Other interest was \$0.040 million in 2002, compared to \$0.028 million in 2001, an increase of \$0.012 million caused by the addition of a 17% note in July 2002, a 25% note in October 2002, and a new capital lease in June 2002. Of the \$0.320 million in interest expense in 2002, \$0.040 million was paid in cash. The remaining \$0.280 million was a combination of amortized debt discount on the 8% convertible notes and deemed interest expense on the induced conversion of the 3% convertible debentures.

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

The Gain on Warrants Liability of \$0.055 million results from the restructuring of the warrants from the 3% convertible debentures, as described in Note 10 of the financial statements.

The Gain of \$1.089 million is the result of the restructuring of our 8% convertible notes in February 2002, and is further described in Note 7 of the financial statements.

Other expense in 2002 was \$0.013 million, which consists of net losses on market value of short term marketable securities.

Due to our net loss position, we did not incur income tax in 2002 or 2001.

Net Income

-----  
The net loss for 2002 was \$0.307 million compared to \$0.542 million in 2001, a decrease in losses of \$0.235 million or 43%. This reduction in net loss was due to the gain of \$1.089 million, which offset the increase in ordinary net loss of \$0.326 million.

### CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with accounting policies generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We believe the following critical

12

accounting policies affect significant judgments, estimates and assumptions used in the preparation of the consolidated financial statements.

#### Revenue

Financial Software and Content Systems and Public Company Disclosure and Awareness Products revenues are recognized as services are rendered based on contractual terms such as usage, fixed fee, or other pricing models. Financial Software and Content Systems are sold in monthly service agreements, typically twelve or twenty-four months in length. Public Company Disclosure and Awareness Products are sold in either one-off or twelve-month contract arrangements. Revenue is recognized only if a contractual arrangement is in place, no significant obligations remain, and collection of the resulting receivable is probable. Start-up fee revenues, charges for implementation and initial integration support of our products, are recognized over the initial term of the contract pursuant to the SEC Staff Accounting Bulletin 101, Revenue Recognition in Financial Statements. Amounts received in advance are deferred and recognized over the service period.

#### Property and Equipment

We evaluate, on a periodic basis, our property and equipment, to determine whether any events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. We base our evaluation on certain impairment indicators, such as the nature of the assets, the future economic

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. If these impairment indicators are present or other factors exist that indicate that the carrying amount of the asset may not be recoverable, we then use an estimate of the undiscounted value of expected future operating cash flows to determine whether the asset is recoverable and measure the amount of any impairment as the difference between the carrying amount of the asset and its estimated fair value. The fair value is estimated using valuation techniques such as market prices for similar assets or discounted future operating cash flows.

Amortization of property and equipment is on a straight-line basis over the asset's estimated useful life.

### Contingencies

From time to time, we are subject to proceedings, lawsuits and other claims related to labor and other matters. We are required to assess the likelihood of any adverse judgments or outcomes to these contingencies as well as potential ranges of probable losses and establish reserves accordingly. We use professional judgement, legal advice, and estimates in the assessment of outcomes of contingencies. The amounts of reserve required, if any, may change in future periods due to new developments in each matter or changes in approach to a matter such as a change in settlement strategy.

### LIQUIDITY AND CAPITAL RESOURCES

-----  
We finished 2002 with \$539,970 in cash and cash equivalents. We incurred a net loss of \$306,677 for the year ended December 31, 2002 [2001 - \$541,552], and had a working capital deficiency of \$211,045 as at December 31, 2002. We made a debt payment of \$20,000 on January 2, 2003, and a note repayment of \$50,000 on January 21, 2003. Our cash usage from operations for Q4 2002 was \$32,327 and for the year 2002 was \$430,867. These factors raise substantial doubt about our ability to continue as a going concern.

We experienced a reduction in cash used in operations from \$778,086 in 2001 to \$430,867 in 2002 as a result of cost restructuring activities initiated in 2001. We have negotiated the conversion of \$392,984 of our 8% convertible notes on January 28, 2003, thereby eliminating eight mandatory quarterly payments totaling \$42,012 and a maturity payment of \$350,972. Of the remaining principal of the 8% convertible notes, \$137,988 will be paid in mandatory quarterly payments of \$15,332 until December 31, 2004, and the \$1,168,360 balance is due December 31, 2005. Although we have taken steps to achieve profitable operations in 2003, there are no assurances that we will be successful in achieving our goals.

13

We raised \$0.4M and \$0.5M in equity financings during Q1 and Q4 respectively. We intend to raise additional capital in 2003 in order to stabilize our balance sheet, make our mandatory debt repayments, and have additional working capital in place.

In view of these conditions, our ability to continue as a going concern is uncertain and dependent upon achieving a profitable level of operations and, if necessary, on our ability to obtain necessary financing to fund ongoing operations.

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

### CORPORATE DEVELOPMENTS DURING THE YEAR

-----  
A synopsis of corporate highlights for 2002 is as follows:

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.

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.

On February 21, 2002, we announced the signing of a market exclusive agreement with The Canadian Press, Canada's national news agency, to resell our financial content management and software system in Canada.

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.

On March 19, 2002, we signed a licensing agreement with Credential Group for financial software tools and content. Credential Group is partnered with more than 450 credit unions across Canada. We will provide Credential Group with mutual fund information, stock quotes, interactive charts, indexes, and other financial information.

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.

On May 30, 2002, we announced that Profit Magazine had recognized the Company's Canadian subsidiary as one of Canada's fastest growing companies. The 2001 Profit 100 list awards companies based on their 5-year revenue growth.

On June 24, 2002 we acquired certain of the assets of StockHouse Media Corp. We purchased the StockHouse assets, including its financial communities, StockHouse.com, StockHouse.ca and StockHouse.au, its software applications, and its infrastructure, with an initial 65% ownership interest for 2,080,000 shares of unregistered common stock of Stockgroup and with an additional option to acquire the remaining 35% interest based on a formula for between 920,000 and 1,120,000 shares. We filed a form 8-K on July 11, 2002 which fully describes the agreement.

On September 25, 2002, we retained Canada's largest independent investment dealer, Canaccord Capital to act as sponsor for the inter-listing of our shares on the TSX Venture Exchange.

On October 1, 2002, we announced that Intrawest will license our IntegratIR Software System. Our IntegratIR tool allows Intrawest complete control of the individual elements of their IR site and enables Intrawest to quickly update and change their site anytime, from anywhere they have internet access.

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.

On December 17, 2002, we were accepted for listing in Canada on the TSX Venture Exchange.

On December 31, 2002, we closed a private equity placement of 3,403,750 units, each unit consisting of one share and one warrant, to a group of unaffiliated investors, for gross proceeds of \$544,600.

#### DEVELOPMENTS SINCE YEAR END

On January 22, 2003, we reached an agreement with AP Digital, a division of The Associated Press that distributes news and information to interactive applications, to market and resell our market information and financial content management and software system to AP's worldwide network of members and customers.

On January 26, 2003, we signed a licensing agreement with Global Securities Information Inc. (GSI) to provide GSI's clients with financial information powered by the software tools and content in we's proprietary Financial Content Management System. Global Securities Information Inc. is an award-winning specialty provider of public-record business transaction information to law and accounting firms, investment banks, corporations, and the business press.

On January 31, 2003, we announced that Amro International had converted its remaining balance of \$0.4 million of its convertible debenture. The debt was converted into stock at US\$0.32/share as part of a negotiation between Amro and Stockgroup to eliminate Amro's debt. Our outstanding long-term debt has been reduced from \$1.7 million to \$1.3 million.

On February 5, 2003, we signed an agreement with UnionBanCal Corporation's primary subsidiary, Union Bank of California, N.A. Union Bank will license our cutting-edge XML suite of financial content and software applications. We will customize a scrolling ticker and provide secure XML-based quotes, charts and other banking-specific financial content for Union Bank's customers and internal applications.

On February 18, 2003, we announced that our popular StockHouse financial Web portals, StockHouse.com and StockHouse.ca, had recorded over 6 million postings within their BullBoards(TM) message forums.

#### RISK FACTORS

The following factors should be considered carefully in evaluating the Company and its business.



## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

Our limited operating history makes it difficult for you to judge our prospects.

We have a limited operating history upon which an evaluation of our current business and prospects can be based. You should consider any purchase of our shares in light of the risks, expenses and problems frequently encountered by all companies in the early stages of its corporate development.

Liquidity and capital resources are uncertain.

We incurred a net loss of \$306,677 for the year ended December 31, 2002 [2001 - \$541,552], and had a working capital deficiency of \$211,045 as at December 31,

15

2002. These factors raise substantial doubt about our ability to continue as a going concern. We experienced a reduction in cash used in operations from \$778,086 in 2001 to \$430,867 in 2002 as a result of cost restructuring activities initiated in 2001. We have negotiated the conversion of \$392,984 of our 8% convertible notes on January 28, 2003, thereby eliminating eight mandatory quarterly payments totaling \$42,012 and a maturity payment of \$350,972. Of the remaining principal of its 8% convertible notes, \$137,988 will be paid in mandatory quarterly payments of \$15,332 until December 31, 2004, and the \$1,168,360 balance is due December 31, 2005. Although we have taken steps to achieve profitable operations in 2003, there are no assurances that we will be successful in achieving our goals.

In view of these conditions, our ability to continue as a going concern is uncertain and dependent upon achieving a profitable level of operations and, if necessary, on our ability to obtain necessary financing to fund ongoing operations.

Computer equipment problems and failures could adversely affect business.

Problems or failures in Internet-related equipment, including file servers, computers and software, could result in interruptions or slower response times of the our products, which could reduce the attractiveness of the Web site, financial tools, or software products to advertisers and users. Should such interruptions continue for an extended period we could lose significant business and reputation. Equipment problems and failures could result from a number of causes, including an increase in the number of users of the Web site, computer viruses, outside programmers penetrating and disrupting software systems, human error, fires, floods, power and telecommunications failures, and internal breakdowns. In addition, any disruption in Internet access provided by third parties could have a material and adverse effect.

We may not be able to compete successfully against current and future competitors.

We currently compete with several other companies offering similar services. Many of these have significantly greater financial resources, name recognition, and technical and marketing resources, and virtually all of them are seeking to improve their technology, products and services. We can not assure you that we will have the financial resources or the technological expertise to successfully meet this competition.

We are significantly influenced by our officers, directors and entities affiliated with them.

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

In the aggregate, ownership of Stockgroup shares by management represents approximately 28% of issued and outstanding shares of common stock. These shareholders, if acting together, will be able to significantly influence all matters requiring approval by shareholders, including the election of directors and the approval of mergers or other business combinations transactions.

We may be unable to protect the intellectual property rights upon which our business relies.

We regard substantial elements of our Web site and underlying technology as proprietary and attempt to protect them by relying on intellectual property laws, including trademark, service mark, copyright and trade secret laws and restrictions on disclosure and transferring title and other methods. We also generally enter into confidentiality agreements with employees and consultants and in connection with license agreements with third parties, and seeks to control access to proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain or use our proprietary information without authorization or to develop similar technology independently. There can also be no assurance that our business activities will not infringe upon the proprietary rights of others, or that other parties will not assert infringement claims against us, including claims that by directly or indirectly providing hyperlink text links to Web sites operated by third parties, we have infringed upon the proprietary rights of other third parties.

16

It is unclear how any existing and future laws enacted will be applied to the internet industry and what effect such laws will have on us.

A number of legislative and regulatory proposals under consideration by federal, state, provincial, local and foreign governmental organizations may lead to laws or regulations concerning various aspects of the Internet, including, but not limited to, online content, user privacy, taxation, access charges, liability for third-party activities and jurisdiction. Additionally, it is uncertain how existing laws will be applied by the judiciary to the Internet. The adoption of new laws or the application of existing laws may decrease the growth in the use of the Internet, which could in turn decrease the demand for our services, increase the cost of doing business or otherwise have a material adverse effect on our business, results of operations and financial condition.

We may be held liable for online information or products provided by us or third parties.

Because materials may be downloaded by the public on Internet services offered by us or the Internet access providers with which we have relationships, and because third party information may be posted by third parties on our Web site through discussion forums and otherwise there is the potential that claims will be made against us for defamation, negligence, copyright or trademark infringement, or other theories. Such claims have been brought against providers of online services in the past. The imposition of liability based on such claims could materially and adversely affect us.

Even to the extent such claims do not result in liability, we could incur significant costs in investigating and defending against such claims. The imposition on us of potential liability for information or products carried on or disseminated through our Web site could require implementation of measures to reduce exposure to such liability, which may require the expenditure of

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

substantial resources and limit the attractiveness of services to members and users.

Our general liability insurance may not cover all potential claims to which we are exposed or may not be adequate to indemnify us for all liability that may be imposed. Any imposition of liability that is not covered by insurance or is in excess of insurance coverage could have a material adverse effect on our business, results of operations and financial condition.

Future sales of shares may adversely impact the value of our stock.

During 2002 we issued 9,421,336 shares of common stock, representing 93% of the outstanding stock at the beginning of 2002. We also have authorized, reserved, and registered 4,901,875 shares of common stock for issuance upon the exercise of outstanding warrants, and 3,500,975 shares for issuance upon the exercise of non-qualified stock options. The total amount of shares covered by outstanding registrations would represent 43% of the number of our outstanding shares on the date of this filing. In addition, we have authorized and reserved, but not registered, 3,689,818 shares for issuance upon exercise of certain warrants and convertible notes, which would represent 19% of the number of our outstanding shares on the date of this filing.

If required, we will seek to raise additional capital through the sale of common stock. Under the terms of outstanding convertible notes and debentures, the number of shares that may be issued under such instruments may be increased in the event of certain changes in our capital structure. Future sales of shares by us or our stockholders could cause the market price of its common stock to decline.

The departure of key personnel could have an adverse impact on our business.

We employ certain key personnel with skills, including management skills, which may be difficult to replace quickly. Should one or more of our key personnel depart our company we may incur time and cost losses replacing them. Even if replaced, it is possible that their departure could have a long lasting adverse impact on us.

17

Item 7. Financial Statements

Consolidated Financial Statements

STOCKGROUP INFORMATION SYSTEMS INC.  
December 31, 2002 and 2001

AUDITORS' REPORT

To the Shareholders of  
STOCKGROUP INFORMATION SYSTEMS INC.

We have audited the accompanying consolidated balance sheets of STOCKGROUP INFORMATION SYSTEMS INC. as of December 31, 2002 and 2001 and the related consolidated statements of operations, shareholders' equity (deficiency), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stockgroup Information Systems Inc. at December 31, 2002 and 2001 and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that Stockgroup Information Systems Inc. will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred recurring net losses and has a working capital deficiency. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 10 to the financial statements, in 2001, the Company changed its method of accounting for callable warrants.

Vancouver, Canada,  
February 24, 2003.

Chartered Accountants

STOCKGROUP INFORMATION SYSTEMS INC.

# Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

## CONSOLIDATED BALANCE SHEETS

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

As at December 31	(expressed in US dollars)	
	2002	2001
	\$	\$
<hr/>		
ASSETS [notes 5, 6 and 7]		
CURRENT		
Cash and cash equivalents . . . . .	539,970	126,618
Marketable securities . . . . .	1,198	21,814
Accounts receivable [net of allowances for doubtful accounts of \$40,866; 2001 - \$92,331] [note 3] . . . . .	169,675	173,105
Prepaid expenses . . . . .	102,118	60,465
<hr/>		
TOTAL CURRENT ASSETS . . . . .	812,961	382,002
<hr/>		
Property and equipment, net [note 4] . . . . .	638,665	341,688
<hr/>		
	1,451,626	723,690
<hr/>		
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
CURRENT		
Bank indebtedness . . . . .	-	6,081
Accounts payable . . . . .	313,272	373,674
Accrued payroll liabilities . . . . .	109,930	144,920
Deferred revenue . . . . .	320,900	124,944
Current portion of capital lease obligation [note 5] . . . . .	103,205	7,674
Current portion of notes payable [note 6] . . . . .	95,371	108,837
Current portion of convertible notes [note 7] . . . . .	81,328	2,509,236
Warrants liability [note 10] . . . . .	-	110,000
<hr/>		
TOTAL CURRENT LIABILITIES . . . . .	1,024,006	3,385,366
<hr/>		
Capital lease obligation [note 5] . . . . .	31,844	11,231
Notes payable [note 6] . . . . .	159,787	-
Convertible notes [note 7] . . . . .	1,486,806	-
Convertible debentures [note 8] . . . . .	-	70,695
<hr/>		
TOTAL LIABILITIES . . . . .	2,702,443	3,467,292
<hr/>		
Commitments and contingencies [note 14]		
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Common stock, no par value [note 11]		
Authorized shares - 75,000,000		
Issued and outstanding shares - 19,552,596 in 2001		
and 10,131,260 in 2001 . . . . .	9,203,235	7,969,090
Additional paid-in capital . . . . .	2,987,331	2,422,014
Accumulated deficit . . . . .	(13,441,383)	(13,134,706)
<hr/>		
TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY) . . . . .	(1,250,817)	(2,743,602)
<hr/>		
	1,451,626	723,690
<hr/>		

# Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

See accompanying notes

20

STOCKGROUP INFORMATION SYSTEMS INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended December 31

(expressed in US dollars)

	2002	2001
	\$	\$
<hr/>		
REVENUE		
Revenues [note 12]. . . . .	1,964,699	2,857,151
Cost of revenues. . . . .	706,911	1,045,326
<hr/>		
Gross profit. . . . .	1,257,788	1,811,825
<hr/>		
EXPENSES		
Sales and marketing . . . . .	475,038	466,954
Product development . . . . .	78,792	241,392
General and administrative. . . . .	1,712,056	1,776,710
<hr/>		
	2,265,886	2,485,056
<hr/>		
Loss from operations. . . . .	(1,008,098)	(673,231)
Interest income . . . . .	195	4,020
Interest expense [notes 5, 6, 7 and 8]. . . . .	(319,641)	(596,097)
Gain (loss) on warrants liability [note 10] . . . . .	(55,000)	242,000
Gain on restructuring of convertible notes [note 7] . . . . .	1,088,586	-
Gain on convertible note redemptions. . . . .	-	58,701
Other income (expense). . . . .	(12,719)	9,509
<hr/>		
Loss before cumulative effect of change in accounting principle .	(306,677)	(955,098)
Cumulative effect of change in accounting principle [note 10] . .	-	413,546
<hr/>		
NET LOSS. . . . .	(306,677)	(541,552)
<hr/>		
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE		
Loss before cumulative change in accounting principle . . . . .	(0.02)	(0.10)
Cumulative effect of change in accounting principle . . . . .	-	0.04
<hr/>		
Net loss. . . . .	(0.02)	(0.06)
<hr/>		
Weighted average number of common shares outstanding. . . . .	14,151,349	9,305,391
<hr/>		

Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

See accompanying notes

21

STOCKGROUP INFORMATION SYSTEMS INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)

Year ended December 31

[note 11]	COMMON STOCK # OF SHARES	COMMON STOCK \$	ADDITIONAL PAID-IN CAPIT \$
BALANCE AT DECEMBER 31, 2000 . . . . .	8,467,676	7,344,483	2,602,743
Fair value of detachable warrants pursuant to convertible debenture private placement, net of financing costs. . . .	-	-	298,778
Intrinsic value of beneficial conversion feature pursuant to convertible debenture private placement. . . . .	-	-	190,000
Issuance of common stock on partial conversion of outstanding convertible notes and debentures . . . . .	960,640	413,664	-
Repurchase of beneficial conversion feature on partial redemption of outstanding convertible notes. . . . .	-	-	(31,551)
Intrinsic value of beneficial conversion feature pursuant to convertible notes private placement. . . . .	-	-	32,182
Cumulative effect of change in accounting principle	-	-	(765,546)
Issuance of common stock for shares granted under the employee stock option plan. . . . .	92,944	27,260	-
Issuance of common stock pursuant to exercise of employee stock options. . . . .	600,000	173,993	-
Issuance of common stock for consulting services .	10,000	9,690	-
Stock based compensation . . . . .	-	-	95,408
Net loss . . . . .	-	-	-
BALANCE, DECEMBER 31, 2001 . . . . .	10,131,260	7,969,090	2,422,014
Issuance of common stock on partial conversion of outstanding convertible notes [note 7] . . . . .	666,700	100,000	-
Repurchase of beneficial conversion feature on partial redemption of outstanding convertible notes [note 7] . . . .	-	-	(247,222)
Issuance of common stock on conversion of outstanding debentures [note 8]. . . . .	413,808	-	206,904
Reclassification of warrant liability to equity [note 10]. . . . .	-	-	165,000
Excess of fair value of convertible debentures after conversion [note 8] . . . .	-	-	24,000
Issuance of common stock pursuant to			

Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

private placements, net . . . . .	5,454,750	571,563	301,756
Issuance of common stock pursuant to asset acquisition [note 9]. . . . .	2,080,000	424,320	-
Issuance of common stock for shares granted under the employee stock option plan	101,078	17,712	-
Issuance of common stock pursuant to exercise of employee stock options. . . . .	205,000	13,050	-
Issuance of common stock for consulting services . . . . .	500,000	107,500	-
Issuance of warrants for consulting services	-	-	60,000
Stock based compensation . . . . .	-	-	54,879
Net loss . . . . .	-	-	-
<hr/>			
BALANCE, DECEMBER 31, 2002	19,552,596	9,203,235	2,987,331
<hr/>			

See accompanying notes

22

STOCKGROUP INFORMATION SYSTEMS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31 (expressed in US dollars)

	2002 \$	2001 \$
OPERATING ACTIVITIES		
Net loss. . . . .	(306,677)	(541,552)
Add (deduct) non-cash items		
Amortization. . . . .	308,558	191,632
Amortization of deferred financing costs. . . . .	-	8,818
Bad debt expense. . . . .	(51,464)	(27,299)
Loss on disposition of property and equipment . . . . .	-	8,759
Non-cash interest on convertible notes and debentures . . . . .	280,471	401,093
Gain on redemption of convertible notes . . . . .	-	(58,701)
Gain on restructuring of convertible notes. . . . .	(1,088,586)	-
Cumulative effect of change in accounting principle . . . . .	-	(413,546)
(Gain) loss on warrants liability . . . . .	55,000	(242,000)
Common stock and warrants issued for consulting services. . . . .	167,500	9,690
Stock based compensation. . . . .	72,591	122,668
Unrealized foreign exchange gain. . . . .	3,322	-
<hr/>		
Net change in operating assets and liabilities [note 15].	(559,285)	(540,438)
<hr/>		
CASH USED IN OPERATING ACTIVITIES . . . . .	(430,867)	(778,086)
<hr/>		
FINANCING ACTIVITIES		
Net proceeds from issuance of common stock. . . . .	886,369	173,993
Net proceeds from issuance of convertible debentures. . . . .	-	479,960



## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

Net proceeds from issuance of notes payable . . . . .	144,034	100,347
Repayments of convertible notes . . . . .	(120,000)	(181,000)
Repayment of capital lease obligation . . . . .	(7,231)	(5,741)
Repayments of bank indebtedness, net. . . . .	(6,081)	(8,222)
<hr style="border-top: 1px dashed black;"/>		
CASH PROVIDED BY FINANCING ACTIVITIES . . . . .	897,091	559,337
<hr style="border-top: 1px dashed black;"/>		
INVESTING ACTIVITIES		
Purchase of property and equipment. . . . .	(54,115)	(7,103)
Proceeds on disposition of property and equipment . . . .	1,243	31,107
<hr style="border-top: 1px dashed black;"/>		
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES . . . . .	(52,872)	24,004
<hr style="border-top: 1px dashed black;"/>		
DECREASE IN CASH AND CASH EQUIVALENTS . . . . .	413,352	(194,745)
Cash and cash equivalents, beginning of year. . . . .	126,618	321,363
<hr style="border-top: 1px dashed black;"/>		
CASH AND CASH EQUIVALENTS, END OF YEAR. . . . .	539,970	126,618
<hr style="border-top: 1px dashed black;"/>		

See accompanying notes

23

### 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 [www.smallcapcenter.com](http://www.smallcapcenter.com) financial web site.

The Company was incorporated under the laws of Colorado on December 6, 1994. The Company previously operated under the name Stockgroup.com Holdings, Inc. until its name was changed in accordance with the relevant provisions of the Colorado Business Corporations Act and pursuant to shareholder approval received at the Company's annual general meeting held September 20, 2001.

The 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 net loss of \$306,677 for the year ended December 31, 2002 [2001 - \$541,552], and had a working capital deficiency of \$211,045 as at December 31, 2002. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company experienced a significant reduction in cash used in operations from \$778,086 in 2001 to \$430,867 in 2002 as a result of cost restructuring activities initiated in 2002. The Company has negotiated the conversion of \$392,984 of its 8% convertible notes on January 28, 2003, thereby eliminating eight mandatory quarterly payments totaling \$42,012

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

and a maturity payment of \$350,972. Of the remaining principal of its 8% convertible notes, a total of \$137,988 will be paid in mandatory quarterly payments of \$15,332 until December 31, 2004, and the \$1,168,360 balance is due December 31, 2005. Although the Company has taken steps to achieve profitable operations in 2002, there are no assurances that the Company will be successful in achieving its goals.

24

### 1. NATURE OF BUSINESS AND BASIS OF PRESENTATION (CONT'D.)

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, if necessary, 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 accompanying financial statements.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Stockgroup Media Inc. (British Columbia, Canada), Stockgroup Systems Ltd. (Nevada, United States), Stockgroup Australia, Pty Ltd. and 579818 B.C. Ltd. (British Columbia, Canada). All significant intercompany accounts and transactions have been eliminated.

#### Use of estimates

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

#### Revenue recognition

The Company generates its revenues from two primary sources: Public Company Disclosure and Awareness Products and Financial Software and Content Systems. In 2001, the Company had a third source of revenue, E-Business Solutions, which was discontinued in 2002.

25

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Public Company Disclosure and Awareness Products consist of small-scale web site

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

development and maintenance, IntegratIR investor relations tools, monthly investor marketing programs, and online advertising. Revenue from small-scale web site development and periodic web site maintenance is recognized upon completion of the services provided no significant obligations remain and collection of the resulting receivable is probable. Revenues from IntegratIR, monthly investor marketing programs, and online advertising are recognized ratably over the contract life as the service is provided. Most of these services require an advance payment which is recorded as deferred revenue until the services have been provided.

Financial Software and Content Systems consists of real time, time delayed and wireless quotes and charts, company profiles, investment data and technical analysis. Revenue from set up fees, periodic maintenance fees and contractual monthly licensing fees for ongoing use of financial tools and content is recognized ratably over the contract term, which is typically twelve months.

### Foreign exchange

The reporting currency and the functional currency of the Company is the U.S. dollar. The accounts of the Company's Canadian subsidiary are translated into U.S. dollars such that monetary assets and liabilities are translated at exchange rates in effect at the balance sheet date and non-monetary items are translated at exchange rates prevailing at the transaction date. Operating revenues and expenses are translated at average exchange rates prevailing during the year. Any corresponding foreign exchange gains and losses are included in income.

Foreign currency transactions are translated into U.S. dollars at the rate of exchange in effect at the date of the transaction. Foreign currency balances of monetary assets and liabilities are translated using the rate of exchange in effect at the balance sheet date. Foreign exchange gains and losses on transactions during the year and on the year end translation of the accounts are included in income.

### Fair value of financial instruments

The Company's financial instruments consist of cash and cash equivalents, marketable securities, accounts receivable, bank indebtedness, accounts payable, notes payable, convertible notes, convertible debentures and capital lease obligations. Unless otherwise stated the fair value of the financial instruments approximates their carrying value.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term deposits with original maturities of ninety days or less and are recorded at amortized cost.

### Marketable securities

Marketable securities consist of equity instruments held for trading and are recorded at fair value based on quoted market prices. Both realized and unrealized gains and losses are included in the statement of operations.

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

### Deferred finance costs

Finance costs associated with the issuance of convertible notes and debentures are deferred and amortized over the term to earliest conversion. All finance costs have been amortized and included as interest expense in the statement of operations.

### Property and equipment

Property and equipment are carried at cost. Amortization is provided using the straight line method over the assets estimated useful lives as follows:

Computer equipment	5 years
Computer equipment under capital lease	2 years
Computer software	1 year
Website software	3 years
Office furniture and equipment	5 years
Leasehold improvements	Term of the lease

### Product development costs

Product development costs other than those incurred during the application development stage are expensed as incurred. Costs incurred during the application development stage are required to be capitalized and amortized over the estimated useful life of the software. Substantially all of the Company's product development costs are for ongoing operating and maintenance and have been expensed in the period incurred.

27

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### Income taxes

The Company utilizes the liability method of accounting for income taxes. Under this method, deferred taxes are determined based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates. A valuation allowance is provided against deferred tax assets for which it is more likely than not that the asset will not be realized.

### Stock-based compensation

The Company accounts for fixed stock-based awards to employees in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations and has adopted the disclosure-only alternative of FASB Statement No. 123, Accounting for Stock-Based Compensation. Accordingly, compensation expense for stock options issued to employees is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock.

### Earnings per share

Basic earnings (loss) per share is computed based on the weighted average number of common shares outstanding during each year. Diluted earnings (loss) per share reflects the dilutive potential of outstanding securities using the treasury stock method.

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

For the years ended December 31, 2001 and 2000, all of the Company's common shares issuable upon the exercise of stock options, warrants and other convertible securities were excluded from the determination of diluted loss per share as their effect would be anti-dilutive.

### Comprehensive income

Comprehensive income includes all changes in equity except those resulting from investments by owners and distributions by owners. Comprehensive income comprises only net income for all years presented.

28

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### Recent pronouncements

In December 2002, the Financial Accounting Standards Board issued Statement No. 148, ("SFAS 148"), "Accounting for Stock-Based Compensation-Transition and Disclosure-An amendment of FASB Statement No. 123". SFAS 148 amends FASB Statement No. 123, "Accounting for Stock Based Compensation" ("SFAS 123") and provides alternative methods for accounting for a change by registrants to the fair value method of accounting for stock-based compensation. Additionally, SFAS 148 amends the disclosure requirements of SFAS 123 to require disclosure in the significant accounting policy footnote of both annual and interim financial statements of the method of accounting for stock-based compensation and the related pro-forma disclosure when the intrinsic value method continues to be used. The statement is effective for fiscal years beginning after December 15, 2002. The Company will adopt the disclosure provisions of SFAS 148 beginning in the quarter ended March 31, 2003.

In April 2002, the Financial Accounting Standards Board issued Statement No. 145, (SFAS 145"), "Rescission of FASB Statements No. 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS 145 requires, among other things, gains or losses of extinguishments of debt to be classified as income (loss) from continuing operations rather than as an extraordinary items, unless such extinguishments is determined to be extraordinary pursuant to Accounting Principles Board Opinion No. 30 ("Opinion 30"), "Reporting the Results of Operations - Reporting the Effects of a Disposal of a Segment of a Business and Extraordinary, Unusual, and Infrequently Occurring Transactions". The provisions SFAS 145 are effective for fiscal years beginning after May 15, 2002. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in Opinion 30 for classification as an extraordinary item must be reclassified. The Company will early adopt the provisions of SFAS 145 for the year ended December 31, 2002 and accordingly, will reclassify the \$58,701 gain on convertible note redemptions for 2001 from extraordinary items to a separate component of income before taxes.

29

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

### 3. CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents and trade receivables.

The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses. No customer owed greater than 10% of the outstanding receivables in 2002. Amounts owing from two customers represented 12% and 12% respectively of the total accounts receivable balance in 2001.

### 4. PROPERTY AND EQUIPMENT

	ACCUMULATED COST \$	NET BOOK AMORTIZATION \$	VALUE \$
-----			
2002			
Computer equipment . . . . .	514,541	389,184	125,357
Computer equipment under capital lease	154,254	46,195	108,059
Computer software . . . . .	147,747	111,070	36,677
Website software [note 9]. . . . .	347,122	46,680	300,442
Office furniture and equipment . . . . .	141,047	102,780	38,267
Leasehold improvements . . . . .	62,434	32,571	29,863
	1,367,145	728,480	638,665
-----			
2001			
Computer equipment . . . . .	531,682	299,841	231,841
Computer equipment under capital lease	24,646	6,097	18,549
Computer software . . . . .	110,698	110,698	-
Office furniture and equipment . . . . .	146,187	76,621	69,566
Leasehold improvements . . . . .	42,197	20,465	21,732
	855,410	513,722	341,688
-----			

30

### 5. CAPITAL LEASE OBLIGATION

The Company has capital lease agreements for computer equipment with lease obligations as follows:

	2002 \$
-----	
Total future lease payments . . . . .	156,823

Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

Less interest (effective rate during 2002 - 17%) . . . . .	(21,774)
-----	
	135,049
Less current portion . . . . .	(103,205)
-----	
	31,844
-----	

The following capital lease payments are required over the next two years:

	\$
-----	
2003	123,685
2004	33,138
-----	
	156,823
-----	

6. NOTES PAYABLE

The following table summarizes the activity under various agreements:

	PRINCIPAL	ACCRUED INTEREST	TOTAL
	\$	\$	\$
-----			
2002			
16% Notes payable, no specified maturity date	35,000	9,301	44,301
17% Notes payable, maturing January 31, 2004.	159,787	1,794	161,581
25% Notes payable, maturing January 21, 2003.	47,000	2,276	49,276
-----			
Total Notes payable . . . . .	241,787	13,371	255,158
-----			
2001			
16% Notes payable, maturing July 30, 2002 . .	100,347	8,490	108,837
-----			
Total Notes payable . . . . .	100,347	8,490	108,837
-----			

On May 8, 2001 the Company entered into a Securities Purchase Agreement with an individual related to a Director and Officer of the Company to issue \$32,375 (Cdn\$50,000) of secured unregistered 16% notes. The notes had an original maturity of July 30, 2002 that was informally extended until November 18, 2002, at which time the investor agreed to an amendment to extend the maturity date to January 31, 2004 and increase the interest rate to 17%. The note has been collateralized by a second floating charge over all of the Company's Canadian subsidiary's property, assets, and rights.

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

On May 10, 2001, the Company entered into a Securities Purchase Agreement with an unrelated investor to issue \$35,000 of secured unregistered 16% notes. The notes had an original maturity of July 30, 2002. The notes were extended beyond the original maturity by an informal agreement for an undetermined period. All accrued interest to December 31, 2002 was paid in January 2003.

On July 16, 2001, the Company entered into a Securities Purchase Agreement with a Director and Officer of the Company to issue \$32,972 (Cdn\$50,000) of secured unregistered 16% notes. The notes had an original maturity of July 30, 2002 that was informally extended until November 18, 2002, at which time the investor agreed to an amendment to extend the maturity date to January 31, 2004 and increase the interest rate to 17%. The note has been collateralized by a second floating charge over all of the Company's Canadian subsidiary's property, assets, and rights.

32

### 6. NOTES PAYABLE (CONT'D.)

On July 23, 2002, the Company issued a \$97,034 (Cdn \$152,400) promissory note to an unrelated party that bears interest at 17% interest and matures on June 30, 2003. On November 18, 2002, the noteholder agreed to extend the maturity date to January 31, 2004. The note is collateralized by a General Security Agreement, which places a floating charge over all of the Company's Canadian subsidiary's property, assets, and rights.

On October 22, 2002, the Company issued a \$47,000 promissory note to an unrelated party that bears interest at 25.5% and matures on January 21, 2003. The note is collateralized by a General Security Agreement, which places a floating charge over all of the Company's Canadian subsidiary's property, assets, and rights, but which is subordinated to the 16% and 17% notes. The principal plus accrued interest was paid on January 21, 2003.

### 7. CONVERTIBLE NOTES

	2002	2001
	\$	\$
-----		
8% Convertible notes, maturing December 31, 2005		
Principal . . . . .	1,704,000	1,924,000
Prepayment premium . . . . .	-	288,600
Accrued interest . . . . .	-	296,636
Unamortized debt discount . . . . .	(135,866)	-
	-----	-----
	1,568,134	2,509,236
-----		
Current portion . . . . .	81,328	2,509,236
Long term portion . . . . .	1,486,806	-
	-----	-----
	1,568,134	2,509,236



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

33

7. CONVERTIBLE NOTES (CONT'D.)

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, \$20,000 was paid on October 1, 2002, and \$20,000 was paid on January 2, 2003. Separate payments of \$20,000 are due at the end of each of the next eight 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 \$500,000 in 2003.

The restructuring resulted in a 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.

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.

On January 28, 2003, one of the lenders agreed to convert its entire principal balance of \$392,984 into 1,228,075 common shares of the Company at \$0.32 per common share. This conversion reduces the mandatory quarterly cash payments to \$15,332 from \$20,000.

8. CONVERTIBLE DEBENTURES

	2002	2001
	\$	\$
-----		
3% Convertible debentures, maturing December 31, 2003		
Principal . . . . .	-	200,000
Unamortized warrants discount . . . . .	-	(84,013)
Unamortized beneficial conversion feature . . . . .	-	(51,490)
Accrued interest . . . . .	-	6,198
		-----
		- 70,695
-----		

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 of 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.

9. 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 consisted of program source codes underlying the website for \$347,122, and prepaid operating costs of \$77,198.

The prepaid operating costs of \$77,198 were expensed fully in the current year.

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

The website software is being amortized over a three year period commencing on the date of acquisition.

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 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 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.

As of February 24, 2003, the Company has not exercised its option to acquire the remaining 35%.

36

### 10. WARRANTS LIABILITY AND CUMULATIVE CHANGE IN ACCOUNTING PRINCIPLE

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. Since the number of shares issuable in the event of exercise of the callable warrants is not currently subject to an explicit limit, the Company's 300,000 callable and 800,000 other warrants were presented as a liability at their fair value as at June 30, 2001. The fair value of the warrants liability was estimated using the Black-Scholes option pricing model. The \$413,546 difference between the previous carrying value of the warrants in additional paid in capital of \$765,546 and their fair value at June 30, 2001 of \$352,000 has been recorded as the cumulative effect of a change in accounting principle on prior periods. This \$413,546 change in accounting principle has decreased the net loss per share for the year ended December 31, 2001 by \$0.04.

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.

### 11. SHARE CAPITAL

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

[a] Authorized

The Company is authorized to issue up to 75,000,000 shares of common stock and 5,000,000 shares of preferred stock. No preferred stock are issued and outstanding in the years presented.

37

### 11. SHARE CAPITAL (CONT'D.)

[b] Common stock

2002

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 [Note 7].

On February 25, 2002, the Company issued 33,000 common shares with a fair value of \$7,500 to an employee for services rendered.

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 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 current year.

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 [Note 8].

On March 28, 2002, the Company completed a private 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 and legal fees were \$7,195, resulting in net cash proceeds of \$383,725. 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.

38

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

### 11. SHARE CAPITAL (CONT'D.)

On November 20, 2002, a consultant exercised options resulting in the issuance of 100,000 common shares for exercise proceeds of \$12,000.

On November 25, 2002, an employee exercised options resulting in the issuance of 105,000 common shares for exercise proceeds of \$1,050.

On December 31, 2002, the Company completed a private placement of 3,403,750 units at \$0.16, each unit consisting of one common share and one warrant, for gross proceeds of \$544,600. Financing fees were \$50,960 and legal fees were \$4,046, resulting in net cash proceeds of \$489,594. Each two warrants entitle the holder to acquire one common share at \$0.22 per share until December 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. In addition, 150,000 warrants were issued to a placement agent with each warrant entitling the holder to acquire one common share at \$0.16 per share until December 31, 2003. The fair value of the \$0.16 warrants was allocated to common stock and warrants based on the relative fair value of each security at the time of issuance.

2001

The Company issued an aggregate of 960,640 common shares pursuant to conversions of convertible notes and debentures.

On January 19, 2001, the Company issued warrants to purchase 800,000 common shares. The fair value of the warrants issued, net of financing costs, amounted to \$298,778 and was recorded as an increase to additional paid-in capital.

The Company issued an aggregate of 92,944 common shares directly to employees in consideration for past services resulting in a compensation expense and an increase in share capital of \$27,260.

The Company issued an aggregate of 600,000 common shares to employees pursuant to the exercise of stock options for total proceeds of \$173,993.

The Company issued 10,000 common shares in exchange for consulting services. The transaction was recorded at a fair value of \$9,690 for the common shares based on the closing stock price on the January 18, 2001 date of the agreement.

39

### 11. SHARE CAPITAL (CONT'D.)

[c] Stock options

1999, 2000, 2001 AND 2002 INCENTIVE STOCK OPTION PLANS (COLLECTIVELY THE "PLANS")

The following table sets out the authorized shares under each plan:

COMMON

Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

	SHARES EFFECTIVE DATE	AUTHORIZED
1999 Incentive Stock Option Plan	March 11, 1999	2,000,000
2000 Incentive Stock Option Plan	November 10, 2000	500,000
2001 Incentive Stock Option Plan	September 20, 2001	1,000,000
2002 Incentive Stock Option Plan	March 25, 2002	1,500,000
Total authorized . . . . .		5,000,000

The Plans entitle directors, employees and consultants to purchase common shares of the Company.

Options immediately become exercisable once vested. Any options that do not vest as the result of a grantee leaving the Company are forfeited and the common shares underlying them are returned to the reserve. The Board has the authority to vary the vesting provisions of grants at its discretion.

Activity under the Plans is set forth below:

	SHARES AVAILABLE FOR GRANT	OPTIONS OUTSTANDING		
		NUMBER OF SHARES	PRICE PER SHARE	WEIGHTED AVERAGE EXERCISE PRICE
Balance at December 31, 2000	514,000	1,986,000	\$0.01 - 4.44	\$ 1.70
Additional shares authorized	1,000,000	-	-	-
Options granted . . . . .	(2,184,644)	2,184,644	\$0.12 - 3.58	\$ 0.29
Options forfeited . . . . .	1,061,800	(1,061,800)	\$0.20 - 4.44	\$ 1.49
Options exercised . . . . .	-	(692,944)	\$0.14 - 3.58	\$ 0.34
Balance at December 31, 2001	391,156	2,415,900	\$0.01 - 2.75	\$ 0.91
Additional shares authorized	1,500,000	-	-	-
Options granted . . . . .	(2,238,078)	2,238,078	\$0.15 - 0.40	\$ 0.18
Options forfeited . . . . .	1,245,200	(1,245,200)	\$0.20 - 2.75	\$ 1.57
Options exercised . . . . .	-	(806,078)	\$0.01 - 0.25	\$ 0.06
Balance at December 31, 2002	898,278	2,602,700	\$0.12 - 0.59	\$ 0.20

11. SHARE CAPITAL (CONT'D.)

The number of options granted and options exercised for 2002 include 601,078 direct awards of common shares.

The weighted average remaining contractual life and weighted average exercise

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

price of options outstanding and of options exercisable as of December 31, 2002 are as follows:

EXERCISE PRICE	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OF SHARES OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	SHARES EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
0.12	200,000	4.72	\$ 0.12	200,000	\$ 0.12
0.15	812,000	5.68	\$ 0.15	735,100	\$ 0.15
0.17	300,000	5.37	\$ 0.17	300,000	\$ 0.17
0.22	1,033,200	4.83	\$ 0.22	926,560	\$ 0.22
0.31	157,500	3.33	\$ 0.31	157,500	\$ 0.31
0.40	50,000	5.75	\$ 0.40	20,000	\$ 0.40
0.59	50,000	4.02	\$ 0.59	10,000	\$ 0.59
	2,602,700	5.06	\$ 0.20	2,349,160	\$ 0.19

For the year ended December 31, 2002 the Company recorded \$240,091 [2001 - \$122,668] in stock based compensation expense. Of this total, \$54,879 [2001 - \$95,408] is a result of options granted to an employee in 1999 with an exercise price less than the market price of the common stock on the date of grant. A total of \$17,712 relates to stock bonuses granted to an employee measured at the market price on the date of the grant. A total of \$167,500 relates to shares and warrants granted to consultants in exchange for services which have been measured at fair value on the commitment date [2001 - \$27,260].

### 11. SHARE CAPITAL (CONT'D.)

#### PRO FORMA DISCLOSURE OF STOCK BASED COMPENSATION

Pro forma information regarding results of operations and earnings (loss) per share is required by FASB Statement No. 123 ("SFAS 123") for stock-based awards to employees as if the Company had accounted for such awards using a valuation method permitted under SFAS 123.

The fair value of the Company's stock-based awards granted to employees in 2002 and 2001 was estimated using the Black-Scholes option pricing model. The option pricing assumptions include a dividend yield of 0%, a weighted average expected life of 4.5 years [2001 - 4.5 years], a risk free interest rate of 3.83% [2001 - 4.45%] and an expected volatility of 214% [2001 - 216%]. The weighted average fair value of options granted during 2002 was \$0.18 [2001 - \$0.12]. For pro forma purposes, the estimated value of the Company's stock-based awards to employees is amortized over the vesting period of the underlying options. The

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

effect on the Company's net loss and loss per share of applying SFAS 123 to the Company's stock-based awards to employees would approximate the following:

	2002 \$	2001 \$
Net loss. . . . .	(306,677)	(541,552)
Compensation expense. . . . .	(306,406)	(380,148)
Pro forma net loss. . . . .	(613,083)	(921,700)
 BASIC AND DILUTED LOSS PER SHARE		
As reported . . . . .	(0.02)	(0.06)
Pro forma . . . . .	(0.04)	(0.10)

42

### 11. SHARE CAPITAL (CONT'D.)

[d] Warrants

As at December 31, 2002, common stock issuable pursuant to warrants outstanding is as follows:

	OUTSTANDING AT JANUARY 1 #	ISSUED #	EXERCISED #	CANCELLED #	OUTSTANDING AT DECEMBER 31 #
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
Series 6.	-	1,701,875	-	-	1,701,875
Series 7.	-	150,000	-	-	150,000
	1,100,000	4,101,875	-	18,182	5,183,693

	OUTSTANDING AT JANUARY 1 #	ISSUED #	EXERCISED #	CANCELLED #	OUTSTANDING AT DECEMBER 31 #
--	----------------------------------	-------------	----------------	----------------	------------------------------------



Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

2001					
Series 1 warrants.	272,727	27,273	-	-	300,000
Series 2 warrants.	100,000	-	-	100,000	-
Series 3A warrants	-	500,000	-	-	500,000
Series 3B warrants	-	300,000	-	-	300,000
	372,727	827,273	-	100,000	1,100,000

43

12. SEGMENTED INFORMATION

The Company operates in one industry segment and derives its revenue from the following services:

	2002 \$	2001 \$
Public company solutions . . . . .	1,209,164	1,643,023
Financial software and content systems . . . . .	755,535	580,409
E-business solutions . . . . .	-	633,719
	1,964,699	2,857,151

Revenue from external customers, by country of origin, is as follows:

	2002 \$	2001 \$
Canada . . . . .	1,870,521	2,655,477
United States. . . . .	94,178	201,674
	1,964,699	2,857,151

During 2002, the Company had no customers whose revenue represented greater than 10% of total revenue. During 2001, the Company had one customer whose revenue represented 20% of total revenue.

Substantially all of the Company's property and equipment is located in Canada.

## 13. INCOME TAXES

The Company is subject to United States federal and state income taxes at an approximate rate of 35%. The reconciliation of the provision (recovery) for income taxes at the United States federal statutory rate compared to the Company's income tax expense as reported is as follows:

	2002 \$	2001 \$
Tax expense (recovery) at U.S. statutory rates . . . .	(107,000)	(190,000)
Lower (higher) effective income taxes of		
Canadian subsidiary . . . . .	(31,000)	(26,000)
Change in valuation allowance . . . . .	158,000	(852,000)
Change in opening valuation allowance for the reduction in future enacted tax rates . . . . .	-	1,004,000
Non-deductible expenses . . . . .	279,000	64,000
Non-taxable income . . . . .	(381,000)	-
Non-taxable portion of capital loss realized during the year . . . . .	82,000	-
Income tax provision (recovery) . . . . .	-	-

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's deferred tax assets as of December 31, 2002 are as follows:

	2002 \$	2001 \$
Net operating loss carryforwards . . . . .	2,997,000	3,091,000
Net capital loss carryforwards . . . . .	82,000	-
Property and equipment . . . . .	205,000	149,000
Other . . . . .	114,000	-
Total deferred tax assets . . . . .	3,398,000	3,240,000
Valuation allowance . . . . .	(3,398,000)	(3,240,000)
Net deferred tax assets . . . . .	-	-

The Company has recognized a valuation allowance for the deferred tax assets for which it is more likely than not that realization will not occur.

13. INCOME TAXES (CONT'D.)

The net operating loss carryforwards expire as follows:

	\$
-----	
CANADA	
2006. . . . .	2,576,000
2007. . . . .	2,289,000
2008. . . . .	459,000
	-----
	5,324,000
-----	
U.S.	
2019. . . . .	1,173,000
2020. . . . .	1,494,000
2021. . . . .	135,000
2022. . . . .	342,000
	-----
	3,144,000
-----	
TOTAL. . . . .	8,468,000
-----	

The Company also has net capital losses of \$230,000 available to offset future taxable capital gains in Canada.

Pursuant to Section 382 of the Internal Revenue Code, use of the Company's net operating loss carryforwards may be limited if the Company experiences a cumulative change in ownership of greater than 50% in a moving three year period. Ownership changes could impact the Company's ability to utilize net operating losses and credit carryforwards remaining at the ownership change date. The limitation will be determined by the fair market value of common stock outstanding prior to the ownership change, multiplied by the applicable federal rate. The Canadian non-capital loss carryforwards may also be limited by a change in Company ownership.

14. COMMITMENTS AND CONTINGENCIES

[a] The Company has operating lease commitments with respect to office premises with minimum annual payments as follows:

Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

	\$
2003. . . . .	180,000
2004. . . . .	247,000
2005. . . . .	281,000
2006. . . . .	157,000
	865,000

Rental expense included in general and administrative expenses for the year ended December 31, 2002 was \$191,000 [2001 - \$289,000].

[b] 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 lead generation 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. As of December 31, 2002, no further action had been taken by either party and no court date has been set. 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 and any settlement or final award will be reflected in the statement of operations as the litigation is resolved.

15. SUPPLEMENTAL CASH FLOW INFORMATION

Net changes in operating assets and liabilities are as follows:

	2001 \$	2001 \$
Marketable securities . . . . .	20,616	(4,729)
Accounts receivable . . . . .	54,895	73,004
Prepaid expenses. . . . .	(41,653)	55,662
Accounts payable. . . . .	(60,819)	(437,160)
Accrued payroll liabilities . . . . .	(45,458)	(46,706)
Accrued interest on notes payable . . . . .	4,881	8,490
Accrued interest on convertible notes and debentures.	-	170,834
Deferred revenue. . . . .	195,956	(57,043)

Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

128,418 (237,648)

Non-cash investing and financing activities are as follows:

	2002	2001
	\$	\$
Computer equipment acquired under capital lease. . . . .	129,608	24,646
Asset acquisition completed with the issuance of common stock.	424,320	-

Cash amounts paid for interest are as follows:

	2002	2001
	\$	\$
Cash paid for interest.	39,586	24,170

48

Part III

Item 9. Directors, executive officers, promoters and control persons; compliance with section 16(a) of the exchange act.

The following table sets forth, as of December 31, 2002, the name, age and position of our directors, executive officers and other significant employees.

Name	Age	Director/ Director/ Officer Since	Position with the Company
Marcus A. New . . . . .	33	May 1995(3)	Chairman of the Board, CEO
Leslie Landes . . . . .	58	August 1998(4)	Director, President
David Gillard . . . . .	33	November 2001	Chief Financial Officer
Craig Faulkner . . . . .	32	May 1995(5)	Director
David Caddey . . . . .	53	June 1999	Director
Louis de Boer II . . . . .	50	August 1998	Director
Jeffrey Berwick . . . . .	32	July 2002	Director

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

There are no other significant employees, family relationships, or legal proceedings in regard to the disclosed individuals above which require inclusion in this item.

The backgrounds of the our Directors, Officers and significant employees are as follows:

Marcus New, B.A., Founder, Chairman of the Board and CEO

Marcus New is the founder, and has been Chairman and Chief Executive Officer since May 1995, of Stockgroup. Mr. New formed the vision for Stockgroup in 1995 and developed the company from an idea to the goal of becoming a leader in information solutions for financial services companies and a leading provider of investor relations products for public companies on the Internet. Over the last five years he has grown the company by re-investing internally generated capital and has successfully built a substantial corporate client roster. Similar to other successful Internet pioneers, Mr. New created Stockgroup based on identification of the ways in which the Internet could be used to provide services that were not otherwise available. Prior to that, Mr. New was VP of AmCan Public Relations Group and is currently a director of Iwave.com Inc., an online information company. Mr. New earned a Bachelor of Arts degree majoring in business from Trinity Western University.

Leslie A. Landes, Director, President and Chief Operating Officer

Leslie Landes has served as Stockgroup's President and Chief Operating Officer since August 1998 and has been an advisor to Stockgroup since shortly after its inception. Since January 1992, Mr. Landes has served as the President and as a director of Landes Enterprises Limited, which he founded, and which is an interim turnaround management consulting company that advised and counseled clients in several industries, including telecommunications and technology on issues ranging from mergers and acquisitions to international marketing campaigns. Prior to forming Landes Enterprises in 1992 Mr. Landes spent 13 years with the Jim Pattison Group, Canada's third largest privately held company with sales in excess of CDN\$3 Billion, with over 13,000 employees. He served as President of The Jim Pattison Sign Group, Outdoor Group, and Communications Group, which included radio and television stations and paid subscription print publications. Ultimately he was appointed President of Jim Pattison Industries

-----  
3 Mr. New was a founding member and CEO of Stock Research Group Ltd., which was incorporated in May, 1995, and became a director of Stockgroup in March, 1999.

4 Mr. Landes became President in August, 1998, but was not a director until June, 1999

5 Mr. Faulkner was a founding member and Chief Technology Officer of Stock Research Group Ltd., which was incorporated in May, 1995, and became a director of Stockgroup in March, 1999.

Ltd. and Senior Vice President of the parent Jim Pattison Group, responsible for the Group's acquisitions and divestitures, and with involvement in the management of the Group's 50 diversified companies. He successfully initiated and completed the acquisitions of other companies in a number of diverse industries in which the Group was active. Under his direction the Sign Group was built into the largest electric sign company in the world. Mr. Landes is also a director of TIR Systems Ltd., a lighting technology company, which is a public company.

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

David Gillard, CGA, Chief Financial Officer

Mr. Gillard has been Chief Financial Officer of Stockgroup since November 2001, and prior to that he had been with the Company in the capacity of Controller since March 2000. From 1993 to 2000, prior to joining Stockgroup, he gained extensive finance and accounting experience with Maynards Industries Ltd., one of the largest asset conversion companies in North America. He is a graduate of the British Columbia Institute of Technology, and has been a Certified General Accountant since 1996.

Craig Faulkner, B.A., Director

Mr. Faulkner is one of the founding partners of Stockgroup. Mr. Faulkner's skill and knowledge of database-to-Web solutions brings a history of innovative and dynamic solutions. Early in his career, Mr. Faulkner led Stockgroup to co-develop one of the first portfolio tracking tools, LivequoteSRG, fully based on the use of Java. Mr. Faulkner managed the programming and information management team at Stockgroup, initiated solutions with data and hardware vendors, while maintaining a senior management role and board membership. Under Mr. Faulkner's direction, Stockgroup implemented a sophisticated blend of both Sun Solaris and Microsoft solutions. Mr. Faulkner is also part of the advisory boards for Brand Fidelity an online service addressing the commercial naming and branding business, and Serveyor, a leading Managed Service Provider (MSP) for Internet Availability Monitoring, Performance Measurement and Quality testing. On March 28, 2002, Craig resigned as Chief Technology Officer of Stockgroup but he remains on the board of directors.

David N. Caddey, B.Sc., M.Sc., Director

David Caddey has been a Director of Stockgroup since June 1999 and has over 26 years experience in the business and program management field. Since July 1998 he has served as an Executive Vice President of MacDonald Dettwiler and Associates Ltd., a space technology and satellite services company that designs, manufactures, operates and markets a broad range of space products and services. During this period he has also served as the General Manager of that company's Space Missions Group where he is responsible for managing the construction of the Radarsat-2 spacecraft and associated ground infrastructure program, valued at over \$350 million, as well as the construction of the Space Station Mobile Servicing System. From July 1994 to June 1998, Mr. Caddey worked as a Vice President and General Manager of the Space and Defense Systems Business Area of MacDonald Dettwiler and Associates Ltd. In this capacity he was responsible for marketing and sales, project management, technical management and post delivery support. From 1990 to 1994 he served as Vice President and General Manager of Geo-information Systems of MacDonald Dettwiler and Associates Ltd., where he managed the development of Radarsat I Ground Segment Program.

Louis de Boer II, Director

Louis de Boer has served as a director of Stockgroup since October 1999. Since May of 1998, he has served as President of MediaFutures, Inc., which provides consulting services to clients in the Internet and cable broadcasting industries, including such companies as Hearst New Media, Cox Enterprises, Rainbow Programming as well as several emerging growth companies. From July 2000 through June 2001, he also served as CEO of Automatic Media Incorporated, and Internet media and software firm based in New York City. From June 1996 to April 1998, he was Chief Executive Officer at New Century Network, an online company formed by a consortium of the nine leading US newspaper organizations, including, Advance Communications, Cox Communications, The Chicago Tribune, Hearst, Gannett, Knight-Ridder, Inc., The New York Times, The Washington Post

and Times-Mirror. From 1977 to December 1994, Mr. de Boer was employed at HBO culminating in the positions of Executive Vice President of HBO Inc. and President of its International division, where he played an instrumental role in helping negotiate and broker deals that significantly increased that company's presence in its international markets. Mr. de Boer is also a director of Click TV, a television production company in the UK and Priva Technologies, both of which are private companies.

Jeff Berwick has served as a director of Stockgroup since July 2002. He began programming and designing software applications independently in the early 1980's and has since become one of the foremost innovators in Internet services, technology and marketing. From 1991 to 1995, he was involved in the financial industry as an investment specialist for CIBC. During this time, Mr. Berwick identified a growing need within the financial industry. Combining his knowledge of information technology and the investment industry, Mr. Berwick established StockHouse Media Corporation in 1995. StockHouse grew to a size of 250 employees in 8 countries worldwide at its peak, providing financial information through its portals to over a million unique customers. Mr. Berwick held the position of CEO and Chairman of the Board for StockHouse Media Corporation from its inception.

Item 10. Executive Compensation

The following summary compensation table reflects all compensation awarded to, earned by, or paid to the Chief Executive Officer and the President for all services rendered to us in all capacities during each of the years ended December 31, 2001 and 2002. No executive officer received salary and bonus exceeding \$100,000 during those years.

SUMMARY COMPENSATION TABLE

(a)	(b)	(c)	Annual Compensation		Long Term Compensation	
			(d)	(e)	(f)	(g)
Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Restricted Stock Award(s) (\$)	Securities Underlying Options/SARs (#)
Marcus New, CEO	2001	97,194	0	0	0	100,000
	2002	93,441	0	0	0	375,000
Leslie Landes, President	2001	97,194	0	0	0	533,200
	2002	93,441	0	0	0	(233,200)



Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

Option Grants In the Last Fiscal Year To Named Executive Officers

Name	Securities Underlying Options Granted (1) (2)	% Of Net Options Granted to Employees In Year (3)	Exercise Price \$	Expiration Date
Marcus New	400,000	40.3%	0.22	04-Mar-08
Marcus New	300,000	30.2%	0.17	12-May-08
Marcus New	(325,000)	(32.7%)	2.50	cancelled
Leslie Landes	(533,200)	(53.7%)	0.94	cancelled
Leslie Landes	300,000	30.2%	0.15	20-Oct-08

(1) All of the above options are subject to the terms of our Stock Option Plan and are exercisable only as they vest. The options have a term of 6 years from date of grant.

51

(2) All options were granted at an exercise price equal to or greater than the fair market value of our common stock on the date of grant.

(3) Denominator is total options granted less total options forfeited during the year.

No Bonuses were paid to named executive officers in any of the above years. No Restricted Stock Awards (RSAs), Stock Appreciation Rights (SARs), or Long Term Incentive Plans (LTIPs) were awarded to named executive officers in any of the above years.

The following table summarizes the option holdings of the named executive officers as at December 31, 2002:

AGGREGATED OPTION EXERCISE IN LAST FISCAL YEAR AND FISCAL YEAR END OPTION VALUES						
Name	Shares acquired on Exercise	Value Realized	Number of Shares underlying Unexercised Options At December 31, 2002		Value of Unexercised In-the-Money Options at December 31, 2002	
			Exer-cisable	Unexer-cisable	Exer-cisable	Unexer-cisable
Marcus New	0	0	800,000	0	\$49,000	\$0
Leslie Landes	105,000	1,050	726,560	106,640	\$42,797	\$3,199

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

### Directors' Compensation

Stockgroup compensates its outside Directors by issuing options to acquire shares of common stock which fully vest after one year of service on the board of directors. Mr. David Caddey and Mr. Lee de Boer were each granted 50,000 such options on August 10, 2001 that have an exercise price of \$0.22 per share and will fully vest on August 10, 2002. On October 22, 2002, Mr. Caddey and Mr. De Boer were each granted a further 50,000 options with an exercise price of \$0.15 and full vesting immediately. Mr. Craig Faulkner was also granted 50,000 options on October 22, 2002 with an exercise price of \$0.15 and full vesting immediately, as director compensation.

### Employment and Severance Agreement

We have an employment agreement with our President, Leslie Landes. This agreement was signed on August 4, 1998 and has a term of 5 years. Under the agreement Mr. Landes is scheduled to receive a minimum compensation of CDN\$150,000 per annum, however, he has consented to receive only CDN\$135,000 per annum until further notice, with no provision for a retro-active increase back to CDN\$150,000. The agreement may be terminated by us or Mr. Landes on 30 days notice, and if early termination is initiated by Stockgroup, Mr. Landes is to receive a severance payment equal to 12 months compensation.

### Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth as of December 31, 2002 the beneficial ownership of common stock of each person known to us who owns more than 5% of issued and outstanding common stock.

Name and address* of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Marcus New	3,016,500	15.43%
Yvonne New	2,214,500	11.33%
518464 B.C. Ltd.	1,945,000	9.95%

\*Unless otherwise referenced, the address for each of the above mentioned parties is c/o Stockgroup Information Systems Inc., Suite 500 - 750 West Pender Street, Vancouver, B.C. Canada V6C 2T7.

On March 11, 1999, Stockgroup entered into a Share Exchange and Share Purchase Agreement with 579818 B.C. Limited, a British Columbia corporation; Stock Research Group, Inc., a British Columbia corporation; and all of the shareholders of Stock Research Group. Under that Agreement the Company acquired all of the issued and outstanding shares of Stock Research Group, in consideration of which 579818 B.C. Limited issued to the Stock Research Group shareholders 3,900,000 Class A Exchangeable Shares. Stockgroup also issued to Stock Trans, Inc., its transfer agent, 3,900,000 shares of common stock, to hold

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

as trustee for the benefit of the Stock Research Group shareholders. The exchangeable shares may be converted, at the option of the holder, into an equal number of shares of common stock held by the trustee. Pending any such conversion, each holder of the exchangeable shares may direct the trustee to vote an equivalent number of shares of common stock. The trustee has no discretion as to voting or disposition of common stock.

As a result of these transactions, each of the former Stock Research Group shareholders has the right to vote, or to direct the trustee to vote on their behalf, a number of shares of common stock equal to the number of exchangeable shares held of record by them. In the aggregate, as of December 31, 2002, the 2,808,000 shares of common stock held by the trustee represent approximately 14% of issued and outstanding shares of common stock.

The trust created by these transactions will continue until the earliest to occur of the following events:

- no outstanding exchangeable shares are held by any former Stock Research Group shareholder;
- each of 579818 B.C. Limited and Stockgroup acts in writing to terminate the trust and such termination is approved by the holders of the exchangeable shares; and
- December 31, 2098.

Of the amount shown for Marcus New, 36% (or 1,072,500 shares) of the shares are owned by Yvonne New, Mr. New's wife.

Mr. Marcus New owns directly 169,500 Exchangeable Shares and his wife, Yvonne New, owns directly 19,500 exchangeable shares. They both indirectly, through 518464 B.C. Ltd., a British Columbia company owned by Mr. New as to 50% and his wife Yvonne New as to 50%, 1,945,000 exchangeable shares. Accordingly, Marcus and Yvonne New beneficially own 2,134,000 Exchangeable Shares of common stock, which represent approximately 11% of issued and outstanding common stock.

Mr. New also owns 2,000 shares of common stock which were purchased in the open market. Yvonne New owns directly 80,500 common shares. On September 18, 2001, Mr. New was granted options to purchase 100,000 shares of common stock at an exercise price of \$0.12 per share. These options fully vested on March 18, 2002, and expire on September 17, 2007. On March 5, 2002, Mr. New was granted options to purchase 400,000 shares of common stock at an exercise price of \$0.22 per share, with full vesting on grant date and an expiry date of March 4, 2008. On May 13, 2002, Mr. New was granted options to purchase 300,000 shares of common stock at an exercise price of \$0.17 per share, with full vesting on grant date and an expiry date of May 12, 2008. In combination with Mr. New's 2,134,000 exchangeable shares, his wife's 80,500 common shares, his 800,000 vested options, and 2,000 shares of common stock, Mr. New holds a beneficial ownership position in the company of 3,016,500 shares representing approximately 15.43% of issued and outstanding common stock as of December 31, 2002.

### Security Ownership of Management

The tables below and the paragraphs that follow present certain information concerning directors, executive officers and significant employees. Mr. David Caddey is Mr. Marcus New's wife's uncle. Other than this relationship, none of our directors, executive officers or significant employees has any family relationship with any other director, executive officer or significant employee.

Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

Name	Age	Position with Company	Executive Officer / Director Since	Shares Beneficially Owned Dec 31 2002	Percentage of Class
<b>Directors:</b>					
Marcus A. New	32	Chairman of the Board, Chief Executive Officer, Director	05/04/95	3,016,500	15.0%
Craig D. Faulkner	32	Director	05/04/95	784,000	4.0%
Leslie Landes	58	President, Chief Operating Officer, Director	08/04/98	726,560	3.6%
David Caddey	53	Director	05/04/95	160,000	0.8%
Louis de Boer II	50	Director	10/07/99	100,000	0.5%
David Gillard	33	Chief Financial Officer	11/16/01	100,000	0.5%
Jeffrey Berwick	32	Director	07/19/02	437,230	2.2%
All Directors, Executive Officers and Significant employees as a group				5,324,290	27.1%

Of the amount shown for Craig Faulkner, Mr. Faulkner owns directly 169,000 exchangeable shares and indirectly, through 569358 B.C. Ltd., a British Columbia company owned by Mr. Faulkner, 465,000 exchangeable shares. On September 18, 2001, Mr. Faulkner was granted options to acquire 100,000 shares of common stock at an exercise price of \$0.12 per share, full vesting on the March 18, 2002, and an expiry date of September 17, 2007. On October 22, 2002, Mr. Faulkner was granted options to acquire 50,000 shares of common stock at an exercise price of \$0.15 per share, full vesting on the grant date and an expiry date of October 21, 2008. Mr. Faulkner, through his direct and indirect holdings, and 150,000 vested options, beneficially owns 784,000 shares representing 4.01% of the issued and outstanding common stock as of December 31, 2002.

Of the amount shown for Mr. Caddey, 50% (or 30,000 shares) are owned by Ms. Donna Caddey, Mr. Caddey's wife.

Mr. David Caddey and his wife, Donna Caddey, each own directly 20,000 exchangeable shares. In addition, 20,000 shares of common stock are owned jointly by David and Donna Caddey. On August 10, 2001, Mr. Caddey was granted options to purchase 50,000 shares of common stock at an exercise price of \$0.22 per share, full vesting on August 10, 2002, and an expiry date of August 9, 2007. On October 22, 2002, Mr. Caddey was granted options to purchase 50,000 shares of common stock at an exercise price of \$0.15 per share, full vesting on grant date, and an expiry date of October 21, 2008. In combination with his direct and indirect holdings of 40,000 exchangeable shares and direct and indirect holdings of 20,000 shares of common stock, and 100,000 vested options, Mr. Caddey beneficially owns 160,000 shares representing approximately 0.82% of issued and outstanding common stock.

Leslie Landes acquired 105,000 common shares by exercising 105,000 options on November 26, 2002. On August 10, 2001 Mr. Landes was granted 533,200 options at an exercise price of \$0.22 and an expiry date of August 9, 2007, of which 426,560 had vested by the end of 2002. On October 22, 2002, Mr. Landes was granted options to purchase 300,000 shares of common stock at an exercise price of \$0.15 per share, full vesting on grant date, and an expiry date of October

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

21, 2008. As at December 31, 2002, Mr. Landes' common shares and vested options provide him with beneficial ownership of 831,560 shares of issued and outstanding common stock, representing 4.25% of issued and outstanding common stock.

Mr. Louis de Boer II was granted, on August 10, 2001, options to purchase 50,000 shares of common stock at an exercise price of \$0.22 per share, with a six year term and full vesting on August 10, 2002. On October 22, 2002, Mr. de Boer was granted options to purchase 50,000 shares of common stock at an exercise price

54

of \$0.15 per share, full vesting on grant date, and an expiry date of October 21, 2008. As at December 31, 2002, Mr. de Boer's vested options provide him with beneficial ownership of 100,000 shares, representing 0.51% of issued and outstanding common stock.

### Item 12. Certain Relationships and Related Transactions

During the last two years, there have been no transactions or proposed transactions to which we were or are to be a party, in which any persons as set out by Item 404 of Regulation S-B had or is to have a direct or indirect material interest.

### Item 13. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT AND FILING REFERENCE
2.1	Share Exchange and Share Purchase Agreement dated March 11, 1999 effecting a change in control of Registrant - incorporated by reference to Form 8K filed March 19, 1999, Form 8K/A filed March 24, 1999 and Form 8K/A filed May 10, 1999.
3.1	Articles of Incorporation & Bylaws - incorporated by reference to Form 10SB12G filed January 29, 1998.
4.1	1999 Incentive Stock Option Plan - incorporated by reference to Form S-8 filed November 16, 1999.
4.2	Convertible Notes and Warrants Agreement dated March 31, 2000 - incorporated by reference to Form 8-K filed April 18, 2000.
4.3	Securities Purchase Agreement dated January 19, 2001 - incorporated by reference to Form 8-K filed January 30, 2001.
4.4	2000 Incentive Stock Option Plan - incorporated by reference to Form S-8 filed May 15, 2001.
4.5	Securities Purchase Agreement dated February 6, 2002 - incorporated by reference to Form 8-K filed February 20, 2002.
4.6	Securities Purchase Agreement dated March 26, 2002 - incorporated by reference to Form 8-K filed March 26, 2002.
4.7	2001 and 2002 Incentive Stock Option Plan - incorporated by reference to Form S-8 filed May 13, 2002.
4.8	Joint Venture Development and Operating Agreement - incorporated by reference to Form 8-K filed July 11, 2002.
9.1	Exchange and Voting Agreement incorporated by reference to

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

- Form 8K filed March 19, 1999
- 12.1 Subsidiaries of the Registrant - filed herewith below as Exhibit 12.1
- 13.1 Forms 10QSB for the quarters ended March 31, 2002, June 30, 2002 and September 30, 2002 - incorporated by reference to filings made on May 15, 2002, August 14, 2002, and November 8, 2002 respectively.
- 13.2 Form 10KSB for the year ended December 31, 2001 incorporated by reference to the filing made on March 29, 2002. 23.1 Consent of Independent Auditors - filed herewith below as Exhibit 23.1.
- 99.1 Section 906 Certification of CEO
- 99.2 Section 906 Certification of CFO

No reports on Form 8-K have been filed within the last quarter of the period covered by this report.

55

### Item 14. Controls and Procedures

In February, 2003, we carried out an evaluation, under the supervision and with the participation of the company's management, including the company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the company in the reports that the company files under the Exchange Act is accumulated and communicated to management, including the company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

However, since our evaluation, we have taken steps to further strengthen and formalize our controls. We have adopted a formal Corporate Governance Program, consisting of a Code of Business Conduct and Ethics and Compliance Program, An Insider Trading Policy, and the appointment of a Nominating and Corporate Governance Committee. We have also reconfirmed the appointment of our Audit Committee and Compensation Committee.

56

### Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Stockgroup Information Systems, Inc.  
(Registrant)

Dated: March 18, 2003

By:

Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

/s/ Marcus A. New

-----  
Marcus A. New, Chairman, Chief Executive Officer

/s/ David Gillard

-----  
David Gillard, Chief Financial Officer,  
Secretary and Treasurer

/s/ Leslie Landes

-----  
Leslie Landes, Director, President  
& Chief Operating Officer

/s/ Craig Faulkner

-----  
Craig Faulkner, Director

/s/ David Caddey

-----  
David Caddey, Director

/s/ Louis de Boer II

-----  
Louis de Boer II, Director

/s/ Jeffrey Berwick

-----  
Jeffrey Berwick, Director

57

CERTIFICATIONS

CERTIFICATION

I, Marcus New, CEO, certify that:

1. I have reviewed this annual report on Form 10-KSB of Stockgroup Information Systems Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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

## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

- 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 annual 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 annual report (the "Evaluation Date"); and
  - c) presented in this annual 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 annual 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: March 18, 2003

/s/ Marcus New

-----

Marcus New  
Chief Executive Officer

58

### CERTIFICATION

I, David Gillard, CFO, certify that:

1. I have reviewed this annual report on Form 10-KSB of Stockgroup Information Systems Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial



## Edgar Filing: STOCKGROUP INFORMATION SYSTEMS INC - Form 10KSB

information included in this annual 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 annual 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 annual 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 annual report (the "Evaluation Date"); and
  - c) presented in this annual 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 annual 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: March 18, 2003

/s/ David Gillard

-----

David Gillard, CGA  
Chief Financial Officer