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*Annual Report*  
2002

**intasy**



## Corporate Profile

Intasys Corporation is focused primarily on providing innovative on-line direct marketing services within the Internet search industry. Through its wholly owned subsidiary, Mamma.com Inc., Intasys is a leading provider of meta-search and on-line direct marketing services and technologies. Its wholly

owned subsidiaries, Intasys Billing Technologies, further provide global wireless Internet-compatible billing and customer care information systems. The Company also holds minority interests in analog integrated circuit products, new media and telecommunications sectors.

## Financial Highlights

(in thousand of US dollars, except per share data in accordance with generally accepted accounting principles in Canada)

	2002 \$	2001 \$	2000 \$	1999 \$	1998 \$
<b>Consolidated Statement of Earnings Data</b>					
Revenue	11,825	11,965	14,432	5,024	4,198
Net loss	(317)	(14,607)	(32,236)	(7,865)	(2,669)
Basic and diluted net loss per share	(0.07)	(4.55)	(11.97)	(4.95)	(3.26)
<b>Consolidated Balance Sheet Data</b>					
Cash & cash equivalents	3,804	2,555	3,775	11,123	5,754
Working capital	3,357	2,203	5,899	12,794	6,151
Total assets	9,971	7,140	23,643	45,262	9,471
Long-term debt (excluding current portion)	-	-	-	-	879
Shareholders' equity	6,701	4,436	16,801	40,914	7,708

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# Letter to Shareholders

## Keeping our eye on the ball!

In 2002, we remained focused on achieving success. The harsh reality for both the Internet and Telecommunications sectors provided a challenging environment for us. Nonetheless, we were dedicated to succeeding with the task of providing a sound foundation for growth, profitability, and enhanced shareholder value. While we still view ourselves as a Company in transition, we are encouraged by the progress which we made – a Company which in the space of two years has gone from a loss of \$32.2 million to a modest loss of \$316,994 with operating cash flow improving from (\$6.7) million in 2000 to (\$141,482) in 2001 to \$727,066 in 2002.

## Sound Fundamentals – A Springboard for Future Growth

We are moving deliberately to assure that each of our businesses is strategically positioned to seize growth opportunities. This is complimented by a healthy balance sheet, sound fundamentals, and a proven capacity to raise capital to support acquisitions that compliment our core expertise. In 2002, we completed a \$2.5 million equity placement enhancing our ability to move quickly and seize opportunities. As implementation of our businesses' strategic direction is at the top of our agenda, we have engaged an investment banker to assist us both in identifying opportunities and providing the expertise to finance them if necessary.

## Mamma.com ([www.mamma.com](http://www.mamma.com))

Mamma.com is a leading provider of Internet meta-search and on-line marketing services. To be successful, the meta-search business model requires partnerships with the most comprehensive and trusted sources on the Internet. Accordingly, we are continually adding indices, engines and deep content sites to the meta-search engine, which provides second to none search results. Mamma.com has secured partnerships with Google, Teoma, Business.com, About.com, Looksmart Directory, The Open Directory Project and more to be one of the most wide-ranging search engines on the Internet.

The on-line marketing industry is now strongly supporting the paid for placement model where advertisers drive qualified prospects by purchasing relevant keywords. Through our automated platform, ADS (Ad Delivery System), Mamma.com has more than doubled its keyword client base in the past year. Mamma.com has also leveraged its distribution network through major partnerships with some of the largest industry players such as Ask Jeeves, Copernic, and Jupiter Media to name a few. In 2002, we added to our extensive Ad Network with the acquisition of focusIN giving our advertisers access to more than one billion page impressions per month and doubling our media placement revenue to \$4 million based on a twelve month run-rate. We are establishing ourselves as a one-stop-shop and will further enhance our portfolio of services with the addition of database (e-mail) marketing services offering our advertisers access to targeted markets and an efficient market research tool. As consumers become increasingly comfortable with the Internet as both an information media and for commercial transactions, our objective is to offer to advertisers superior value through a broad portfolio of services.

## Intasys Billing Technologies

Intasys Billing Technologies (IBT) provides Billing & Customer Care software to small and medium wireless Service Providers, small network operators and mobile virtual network operators. With offices in Edinburgh (UK/Europe), Brisbane (Asia Pacific) and Montreal (North America), our software is used by twenty-four telecommunications companies, on three continents, to invoice over 1.75 million subscribers every month.

The telecommunications industry in our traditional markets is mature with existing customers concentrating on reducing costs. We are focusing on closely monitoring developments in a difficult industry environment, on improving our responsiveness to customer requirements, on supporting the ever-increasing wireless communications functionalities, and on attacking growth markets in the

Asia-Pacific and Eastern Europe regions. Our recent project for Nepal Telecommunications was a beachhead for us in providing a functioning, quick start-up, easily implementable billing and customer care solution in emerging markets.

## Corporate Governance

Your board of directors has been aggressive in responding to the issue of responsible corporate governance. In 2002, we revised and approved our governance document redefining the responsibilities of the board and its committees as well as our Code of Ethics and Policy on the Prevention of Insider Trading. Our efforts were not only to assure compliance with all regulations but, as well, to be conscious of and respond to current concerns regarding corporate responsibility.

We have had all of our employees sign copies of our Code of Ethics and Policy on the Prevention of Insider Trading as well as acknowledging receipt of Communications Guidelines.

## People

With businesses in the Internet and Telecommunications sectors, people are key to our success and are, indeed, our primary asset. The success we have had is due in large part to the efforts of a capable, dedicated and professional group of personnel. Each of them is critical to the implementation of our strategic direction and, on behalf of all shareholders, I thank them for their extraordinary efforts and am confident of their ability to successfully implement our growth strategy.

I assure you that we have an active, involved and dynamic board of directors. Directors are frequently consulted and willingly offer their insight and advice.

Bob Wieczorek resigned from the board during the year to focus on his career objectives. During his brief period as a board member, Bob assisted the businesses in developing their strategic direction and we thank him for his contribution and wish him much success in the future.

Sam Luft has advised us that due to his current business responsibilities, he will be unable to stand for re-election as a board member. Sam, among other contributions, was the pivotal board member in executing our equity placements. In addition, his acumen in financial markets has been invaluable to the Company. While leaving the board, he retains his belief in our Company's future and we look forward to an ongoing relationship with him.

To our customers, we – directors, officers, and employees – are committed to providing you with superior value and responding quickly and effectively to your concerns and requirements. We have gone through difficult times together and appreciate your confidence in us. We assure you that our transition is focused on satisfying your needs.

To you, our shareholders, our most sincere thanks for your patience and support as we repositioned the Company for success. We believe that we have defined a roadmap to meet your expectations.

**David Goldman**



*Chairman of the Board and Chief Executive Officer*

# Corporate Information

## Intasys Corporation

Creating value for shareholders by growing core businesses and strategic acquisitions/mergers or partnerships.

### Corporate Strategy

- Optimize core businesses: maximize capacity to provide a strong ongoing stream of cash flow
- Define competitive advantages of core businesses and differentiate:
  - Mamma.com provides an integrated portfolio of on-line marketing services.
  - Intasys Billing Technologies provides cost effective, responsive and quick implementation of billing and customer care solutions for wireless service providers
  - Each of the Company's core businesses has a strong skill base inventory and agility to rapidly adjust to and seize opportunities.
- Seek business opportunities which have sustained market growth prospects and are consistent with and complimentary to core businesses' expertise.

## Mamma.com

### Corporate Profile

Integrator of best of breed meta-search engine, an interactive Ad Network with unique interactive direct marketing programs.

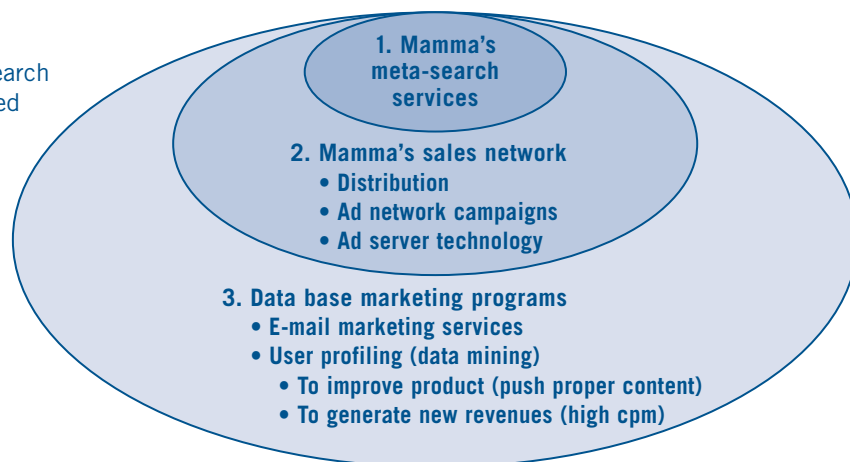
- Services:
  - Users:
    - Meta-search which provides search results to Internet users through multiple content sources
  - Clients:
    - Ad Network including paid search links, banner and interstitial sales.
    - Private label search solutions (i.e. 411.com using Mamma as search engine provider on it's site)
- Revenue Generation:
  - "Paid for" placement by key word search – advertisers pay for selection position on search and ranking – cost per click (CPC)
  - Banner and interstitial advertisements – cost per thousand (CPM)
- Ad Network business has an inventory of more than one billion page impressions per month.
- More than twenty-five thousand (25,000) registered publishers for promotion of Mamma.com's products & services.

### Strategic Direction

Mamma's improved search product is best of breed

FocusIN acquisition doubled Mamma's ad network

Develop partnerships Merger/Acquisition opportunities



**"One-stop-shop" in on-line marketing solutions**

## Industry Trends

The search engine industry has been a focal point of intense activity in 2002 and accelerating early in 2003. The paid for placement model is now being endorsed by two of the major industry companies:

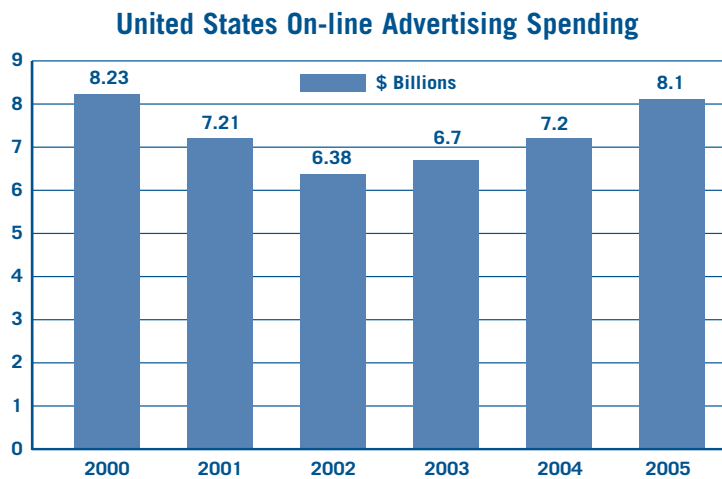
- Google entered the paid search syndication market mid-2002,
- Yahoo also entered the paid search market by signing a contract for Overture's paid results late in 2001, which began to deliver revenue in 2002.

In 2002, integrating paid search into search engine technology was highlighted by:

- Looksmart's acquisition of Wisenut,
- Ask Jeeves acquisition of Teoma,
- Yahoo's acquisition of Inktomi, a division of CGMI Inc.

In early 2003, this trend continued with:

- Google's acquisition of Blogger.com (Pyra Labs),
- Overture's acquisition of Altavista, a division of CGMI Inc.,
- Overture's acquisition of Fast search engine indexing technology from Fast Search and Transfer Inc.



Source: www.emarketer.com (December 2002)

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## Paid Search-Market Forecast

- Paid search is the fastest-growing online ad medium, with a market size of \$1.4 billion from 100,000 advertisers.
- By 2008, paid search on pay-per-click search engines is to reach \$5 billion.

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Source: Citigroup's Salomon Smith Barney

## Intasys Billing Technologies (IBT)

### Corporate Profile

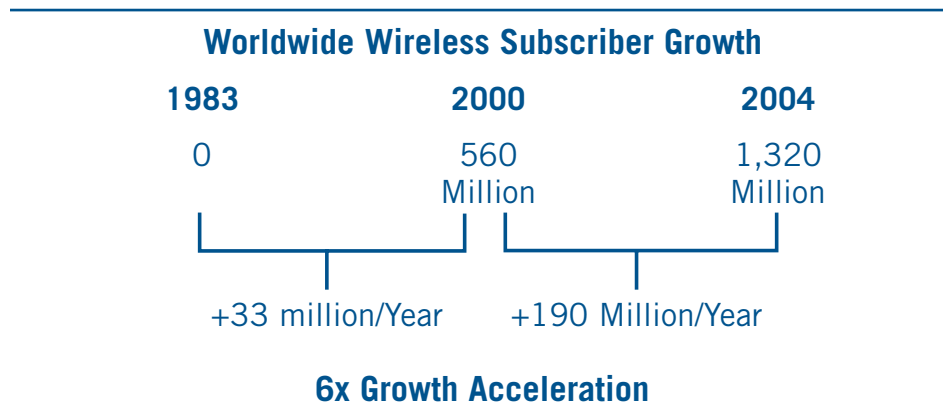
Provider of Billing and Customer Care (bcc) software to small and medium wireless Service Providers (Spa), small network operators and virtual network operators.

- Develops, markets, sells, installs and supports a complex software platform that is used by twenty-three wireless telecommunication companies (service providers and networks) to manage critical aspects of their business.
- IBT's billing and customer care (bcc) product is instrumental in many of the users' business critical business functions including service provisioning, inventory management, credit control and monthly invoicing.
- ViewBill, a web based Electronic Billing Presentment and Payment (EBPP) offering, is a rapidly implemented software package that can provide telecommunications companies with an immediate return on investment while making it possible for their web customers to easily manage their accounts on-line.

### Strategic Direction

- Continue to focus on opportunities in existing core markets and to provide existing customers with new services and increased functionalities required to meet the rapidly evolving wireless telecommunication industry.
- Strengthen existing key relationships with network operators, providers of complementary software platforms and telecommunications equipment vendors.
- Focus on the rapidly developing small network operator market in Asia-Pacific.
- Continue to leverage expertise and market position to build relationships with companies providing products in the telecommunications industry.

### Industry trends



Source: IDC

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

The following discussion and analysis of the consolidated financial condition and results of operations of Intasys Corporation for the fiscal years ended December 31, 2002, 2001 and 2000 should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report. Our consolidated financial statements are reported in U.S. dollars and have been prepared in accordance with generally accepted accounting principles in Canada, or Canadian GAAP. To the extent applicable to our consolidated financial statements included elsewhere in this annual report, these principles conform in all material respects with generally accepted accounting principles in the United States, or U.S. GAAP, except as described in note 28 to our consolidated financial statements.

## Overview

Intasys Corporation is focused primarily on innovative direct on-line Internet electronic marketing. Through its wholly owned subsidiary, Mamma.com Inc., Intasys is a provider of meta-search and on-line direct marketing services and technologies with customers located mainly in the United States. Its wholly owned subsidiaries, Intasys Billing Technologies, further provide global wireless Internet-compatible billing and customer care information systems with customers located in the United Kingdom, Australia, Asia, United States and Canada. The Company also holds minority interests in analog integrated circuit products, new media and telecommunications sectors. Equity investments are located in the United States and Canada.

The Company has five types of revenues throughout the entire organization as follows: Billing licenses and monthly subscriber fees, Billing services, Search services, Banner advertising and other.

## Results of Operations

### Revenues

The Company recorded revenues of \$11,824,982 in fiscal 2002, a decrease of 1% from its 2001 revenues of \$11,965,409, the latter having decreased by 17% from 2000 revenues of \$14,431,554. The stability in term of revenues in 2002 is due to the fact that revenue associated with the major contract signed in 2002 was not fully recognized during the year and the Internet media segment continued to be affected by a general slow-down of the industry during the first three quarters of 2002 with indications of a positive reversal in the last quarter of 2002. The 2001 decrease was due principally to significant adverse Internet market conditions.

### Cost of goods sold, selling and administrative expenses

As a percentage of revenues, the cost of goods sold, selling and administrative expenses decreased to 88% for fiscal 2002, from 96% for fiscal 2001, reflecting continuing cost reductions across all segments of the Company totalling \$1,378,830, excluding the effect of the settlement of litigation. There was a reduction in fiscal 2002 expenses compared to fiscal 2001 in most categories including: a \$513,953 reduction in total salaries, a \$419,515 reduction in bad debt expenses, a \$304,416 reduction in marketing expenses and a \$221,642 reduction in traveling expenses which were partially offset by the cost of settling outstanding litigation initiated in 1996 compared to fiscal 2001. For fiscal 2000, expenses represented 141% of revenues due to the Company's infrastructure related to strategic technology investment and technology incubation in wireless communications.

### Research and Development expenses (R&D)

R&D expenses, net of tax credits were \$1,567,351 in fiscal 2002, compared to \$1,773,233 in fiscal 2001 and \$2,212,218 in fiscal 2000. The reduction of \$205,882 in fiscal 2002 is attributable primarily to: significant discounted rates for Internet service provider fees contributing to a reduction of \$140,000, a reduction in salaries of approximately \$14,000 and reductions in other variable costs. The reduction in fiscal 2001 was due to a significant rationalization of R&D activities through a reduction in the number of employees.

### **Amortization and impairment of property, plant and equipment**

Amortization and impairment of property, plant and equipment was \$485,545 for fiscal 2002 compared to \$584,261 in fiscal 2001 and \$1,962,485 in fiscal 2000. The decrease in fiscal 2002 of \$98,716 was attributable primarily to a normal decrease of asset value and impairment of \$57,390. Acquisitions totalling \$93,844 in 2002 were minimal. The decrease of \$1,378,224 in fiscal 2001 was due to an impairment of software of \$784,637 recorded in 2000 and the fact that billing software had been totally depreciated by the end of 2000.

### **Restructuring charges**

In 2002, \$70,453 of charges were reversed because the expenses related to the restructuring program had been paid, and therefore, most of the remaining accrual was no longer needed. In fiscal 2001, restructuring charges were \$184,406 compared to \$1,029,167 in fiscal 2000. These charges in 2001 and 2000 included severance packages for terminated people, disposal of assets, a provision for facility closure costs, and impairment of property, plant and equipment related to facility closures.

### **Amortization and impairment of goodwill**

Effective January 1, 2002, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3062, "Goodwill and Other Intangible Assets". This new section requires the use of the non-amortization approach to account for all purchased goodwill and intangible assets with an indefinite life. Since the Company had no such goodwill or intangible assets as of the date of adoption of these recommendations, the initial adoption did not have any impact on the financial statements of the Company.

On November 27, 2002, the Company, through Mamma.com Inc., acquired certain of the assets of the focusIN business of ZAQ Inc. in exchange for total cash consideration amounting to \$1,625,151, including costs directly related to the acquisition. Goodwill of \$699,325 was recorded as part of the purchase price allocation.

No amortization or impairments of goodwill were recorded in fiscal 2002 due to the adoption of the new recommendations of CICA mentioned above and due to the fact that the goodwill occurred on the purchase transaction recently concluded. Management has selected November 30 as the date of its annual impairment test for goodwill. If the carrying value of such goodwill is determined to be in excess of its fair value, an impairment loss is recognized in the amount of the excess of the carrying value over the fair value. In fiscal 2001, amortization and impairment of goodwill was \$7,455,353, compared to \$16,313,528 in fiscal 2000 of which \$8,586,073 was related to an impairment loss. This impairment loss occurred due to the significant deterioration of the Internet market conditions and unclear forecasts for subsequent years. The goodwill in 2001 and 2000 related to the staged acquisition of Mamma.com.

### **Interest income**

Interest income decreased during the last three years with amounts of \$714,074, \$203,012 and \$72,003 for 2000, 2001 and 2002 respectively. This decrease was due to a constant reduction of yearly average cash and cash equivalents.

### **Non-controlling interest**

The non-controlling interest represented the minority interest in Mamma.com. In July 2001, the Company acquired the remaining minority shareholder's interest in Mamma.com. As a result of the transaction, the Company owns 100% of Mamma.com and non-controlling interest is no longer being recorded. The non-controlling interest was nil in 2002 and was \$177,698 in 2001 representing the six-month-period ended June 30, 2001. In fiscal 2000, the non-controlling interest recorded was \$1,436,096.

### Share of results of companies subject to significant influence

In fiscal 2000, the Company's strategic focus was technology investment and incubation in the wireless communications, Internet and e-commerce sectors of the new economy. In 2000 and 2001, the Company had a few investments subject to significant influence and recorded its share of results of companies subject to significant influence of \$2,007,415 and \$748,972 respectively. In 2001, due to poor performance of its investments, the Company decided to write down most of the investments subject to significant influence to nil except for one of them, which had been written-down to its net realizable value of \$50,000. In fiscal 2002, the latter investment was also written-down to nil; consequently no share of results of companies subject to significant influence was recorded in 2002.

### Unrealized loss on marketable securities, investments and write-down of advances

Based on its assessment of the economic value of its short-term marketable securities and an other than temporary decline in the value of its long-term investments, the Company recorded an unrealized loss on marketable securities, investments and write-down of advances totalling \$82,616 in fiscal 2002, \$4,903,899 in fiscal 2001 and \$4,015,987 in fiscal 2000.

As at December 31, 2002, all marketable securities were sold and all investments and advances were written-down to nil except for the investment in LTRIM Technologies Inc.

### Profit (Loss) for the year

The Company reported a consolidated net loss of \$316,994 (\$0.07 per share) in fiscal 2002, compared with \$14,606,683 (\$4.55 per share) in fiscal 2001, and \$32,236,492 (\$11.97 per share) in fiscal 2000.

In accordance with United States generally accepted accounting principles ('GAAP'), consolidated net loss was \$1,254,890 (\$0.29 per share) in fiscal 2002 compared with \$16,543,665 (\$5.16 per share) in fiscal 2001 and \$30,399,304 (\$11.29 per share) in fiscal 2000. Differences between Canadian GAAP and United States GAAP in fiscal 2002, 2001 and 2000 arise from different accounting treatments of stock-based compensation costs, unrealized losses on marketable securities, write-downs of investments and share of results of companies subject to significant influence.

### Segment Results

The Company has three reportable segments: Investment Management, Internet Media and Billing Systems. The Company evaluates each operating segment's performance based on revenue, expenses and net earnings (loss) for the year.

In general, the Company, across each of its segments, significantly reduced expenses during the last two years due to economic constraints and a change in its business strategy focusing on its operating subsidiaries in the Internet Media and Billing Systems segments.

The Investment Management unit generated no revenue and a net loss for the year of \$1,435,452 in fiscal 2002 compared to revenue of \$11,572 and a net loss of \$14,201,373 in fiscal 2001 and revenue of \$121,970 and a net loss of \$25,786,069 in fiscal 2000. The decrease in expenses of \$12,777,493 in 2002 was mainly due to: the fact that no amortization and impairment of goodwill was recorded in 2002 compared to \$7,455,353 of amortization in 2001; unrealized loss on marketable securities, investments and write-down of advances in 2002 was \$82,616 corresponding to \$51,612 of investment impairments and write-down of advances of \$31,004 compared to \$4,903,899 corresponding to investment impairments of \$3,356,667; unrealized loss on marketable securities of \$640,005 and write-down on advances of \$907,227. No share of results of companies subject to significant influence was recorded in 2002 due to the fact that most of the investments were at nil at the end of the year compared to \$748,972 in 2001. In 2002, expenses include the cost related to settling litigation as explained in note 25 a) to the consolidated financial statements and discussed in the section "Legal settlement" later in the document. The expense decrease of \$11,695,094 in 2001

was mainly due to: an impairment of goodwill recorded in 2000 of \$8,586,073; a reduction of the share of results of companies subject to significant influence of \$1,258,443 in 2001 compared to 2000; a reduction of amortization and impairment of \$1,340,137 of which \$784,637 is related to an impairment of a specific billing software and a reduction of \$555,510 due to an increase of asset-base fully amortized by the end of 2000.

The Internet Media unit generated revenue of \$4,222,352 and net earnings for the year of \$652,574 in fiscal 2002 compared to revenue of \$4,183,770 and a net loss of \$672,945 in fiscal 2001 and \$7,550,300 in revenue and a net loss of \$1,713,800 in fiscal 2000. The reduction of expenses in 2002 was \$1,286,937 attributable primarily to: marketing expenses reduced by \$263,655; bad debt expenses reduced by \$309,089 due to improved accounts receivable management; salaries reduced by \$100,569; legal fees reduced by \$198,591 due to elimination of problematic partner relationships; and a tax recovery of \$272,464 related to prior years' tax losses which are expected, based on the Company's budgeted taxable income, to be utilized in fiscal 2003. The reduction of expenses in 2001 was \$4,407,385 mainly due to a reduction of marketing expenses of \$3,684,552 and salaries of \$625,651 due to adverse Internet conditions in 2001.

The Billing Systems unit generated revenue of \$7,602,630 and net earnings of \$465,884 in fiscal 2002, compared to revenue of \$7,770,067 and net earnings of \$267,635 in fiscal 2001 and revenue of \$6,759,284 and a net loss of \$4,736,623 in fiscal 2000. The reduction of expenses in 2002 was \$365,686 attributable primarily to an overall cost reduction plan including: reduction of salaries by \$153,085, reduction of marketing expenses by \$120,087, reduction of legal fees by \$75,433. In 2001, the reduction of expenses was \$3,993,475 due to a restructuring plan including significant reductions such as: salaries of \$826,307, marketing expenses of \$439,618, traveling expenses of \$602,701, bad debt of \$237,997 and a reduction in loss on disposal of a subsidiary of \$898,550 related to 2000.

### **Liquidity and Capital Resources**

As at December 31, 2002, the Company had \$3,804,323 in cash and cash equivalents and working capital of \$3,357,422, compared to \$2,314,072 in cash and cash equivalents, \$240,643 in marketable securities and working capital of \$2,202,718 as at December 31, 2001.

In fiscal 2002, operating activities generated positive cash flow of \$727,066 compared to use of cash of \$141,482 in fiscal 2001 and \$6,726,558 in fiscal 2000.

Investing activities used cash of \$1,770,267 in fiscal 2002 primarily for Mamma.com's acquisition of focusIN for a cash consideration of \$1,625,151. In fiscal 2001 use of cash of \$2,121,089 was mainly due to the acquisition of the minority interest in Mamma.com for cash consideration of \$1,422,167 and the acquisition of preference shares of LTRIM Technology Inc. for cash consideration of \$588,594. In fiscal 2000, the use of cash of \$8,814,651 related to several investments totalling \$6,797,056 and the acquisition of fixed assets of \$2,408,079.

Financing activities generated \$2,475,251 in fiscal 2002, compared to \$896,790 in fiscal 2001 and \$8,302,996 in fiscal 2000. Financing activities consisted mainly of issuance of common shares and warrants through several private placements.

The Company considers that cash and cash equivalents as at December 31, 2002 will be sufficient to meet normal operating requirements throughout fiscal 2003. In the long term, the Company may require additional liquidity to fund growth, which could include additional equity offerings or debt financing.

The Company has no line of credit available.

### **Contractual obligations and commercial commitments**

The Company's contractual obligations and commercial commitments are limited to future rental payments under operating leases as disclosed in note 25 b) to the consolidated financial statements for the year ended December 31, 2002.

### **Legal settlement**

In April 2003, the Company settled a legal action filed against it in 1996 in Florida arising from its operations which the Company discontinued approximately eight years ago. Management maintains its belief that this claim is without merit, but has persistently attempted to mitigate legal costs by proposing a reasonable settlement, to no avail. Management has accepted the current settlement which it believes to be in the Company's best interests and to be reasonable considering the alternative costs of continued litigation. The amount agreed upon pursuant to such settlement agreement was recorded as a liability as at December 31, 2002 with a corresponding charge to the Company's 2002 results.

### **Dividend policy**

The Company has never paid dividends on any class of its Common Stock. The Company's management anticipates that earnings generated from the Company's operations will be used to finance the Company's working capital and market expansion opportunities and that for the foreseeable future, cash dividends will not be paid to holders of the Company's Common Stock.

### **Risks and Risk Management**

The Company's activities are highly competitive and are characterized by rapid technological change, shifting client preferences and new product and service development. The Company's strategy is to develop emerging specialty practices to support its growth and compensate for the maturity of certain activities.

The Company's revenue has been based on mainly internal expansion. Acquired business must be successfully combined with those of the Company to achieve the anticipated benefits. Moreover, the management of rapid growth requires, among other things, increased marketing activities, the hiring of personnel, and stringent management and financial controls. The success of the Company is also dependent upon its ability to continue to attract, retain, train and motivate qualified personnel at all levels of the organization.

The Company expects that its international activities will continue to account for a significant portion of its business, mainly through its foreign subsidiaries. However, since most of the Company's subsidiaries and business units transact mainly in their respective local currencies, fluctuations in the value of the U.S. dollar relative to foreign currencies are not expected to have a material adverse affect on operating results. The Company has not been hedging and does not intend to hedge currency risks in the future.

The Company has historically offered and will continue to offer products or services on contracts. The Company generally may not terminate these contracts unilaterally. Although the Company often relies on its proprietary tools and methodologies and its past experience to reduce the risks associated with estimating, planning and performing products or services, the Company generally bears the risks of cost overruns and inflation of them.

Our customers typically invest substantial time, money, and other resources when deciding to license our billing software products, in particular in situations where the Company is making large enterprise-wide sales. During this long sales cycle, events may occur that affect the size or timing of the order or even cause it to be cancelled. The time required for implementation of our billing software products varies among our customers and may last several months, depending on our customer's needs. Also, if a customer hires a third party to install our products, we cannot be sure that our products will be installed successfully.

The industries the Company engages in are subject to rapid technological change and there can be no assurance that the Company will be able to adapt to such change in a timely fashion or that the introduction of new products and services by others will not render the Company's copyrights, licenses, trade secrets, trademarks, products and services less competitive or obsolete. The Company expects to continue spending funds in an effort to enhance already technologically complex products and services and develop or acquire new products and services. Failure to develop and introduce new or enhanced products and services on a timely basis might have an adverse impact on the Company's results of operations, financial condition and cash flows. Unexpected costs and delays are often associated with the process of designing, developing and marketing enhanced versions of existing products and services and new products and services.

The Company relies upon a combination of trade secret, copyright and trademark laws to protect its intellectual property. It has entered into confidentiality agreements with its management and key employees with respect to such assets and limits access to, and distribution of these, and other proprietary information. However, the steps the Company takes to protect its intellectual property may not be adequate to deter misappropriation of the Company's proprietary information. In addition, the Company may be unable to detect unauthorized uses of and take appropriate steps to enforce its intellectual property rights. Although senior management believes that the Company's services and products do not infringe on the intellectual property rights of others, the Company is subject to the risk that such a claim may be asserted in the future.

The success of the Company is dependent upon the experience and abilities of its senior management. There is significant competition in the Company's industries for qualified personnel. There can be no assurance that the Company will be able to retain its existing personnel or will be able to recruit new personnel to support its business marketing objectives, goals and plans.

The Company does not believe that the relatively moderate rates of inflation experienced in the United States, Canada, the United Kingdom and Australia in recent years have had a significant effect on its revenues or profitability. Although higher rates of inflation have been experienced in a number of foreign countries in which the Company transacts business, the Company does not believe that such rates have had a material effect on the Company's results of operations, financial condition and cash flows. Nevertheless, in the future high inflation could have a material, adverse effect on the Company's results of operations, financial condition and cash flows.

The Company has, as described in the Company's financial statements for the year ended December 31, 2002, 3,127,409 warrants and 377,180 stock options outstanding. As at the date of this Annual Report, the exercise price of most warrants and almost all of stock options are below the market price of the Company's shares of common stock. To the extent that the market value of the Company's shares of common stock is above the respective exercise prices of the warrants and options, as the case may be, their exercise could result in the issuance of an additional 3,504,589 shares of Common Stock. To the extent such shares are issued, the percentage of Common Stock held by existing Intasys' stockholders will be reduced. Under certain circumstances the conversion or exercise of any or all of the warrants or stock options might result in dilution of the net tangible book value of the shares of existing Company stockholders. For the life of the warrants and stock options, the holders are given, at prices less than fair market value cost, the opportunity to profit from a rise in the market price of the Common Stock, if any. The holders of the warrants and stock options may be expected to exercise them at a time when the Company may be able to obtain needed capital on more favourable terms. In addition, the Company reserves the right to issue additional shares of Common Stock or securities convertible into or exercisable for Common Stock, at prices, or subject to conversion and exercise terms, resulting in reduction of the percentage of outstanding Common Stock they hold and, under certain circumstances, a reduction of the net tangible book value of existing stockholders' shares of Common Stock.

## Forward-Looking Statements

Information contained in this annual report includes forward-looking statements, which can be identified by the use of forward-looking terminology such as “believes,” “expects,” “may,” “desires,” “will,” “should,” “projects,” “estimates,” “contemplates,” “anticipates,” “intends,” or any negative such as “does not believe” or other variations thereof or comparable terminology. No assurance can be given that potential future results or circumstances described in the forward-looking statements will be achieved or occur. Such information may also include cautionary statements identifying important factors with respect to such forward-looking statements, including certain risks and uncertainties that could cause actual results to vary materially from the projections and other expectations described in such forward-looking statements. Prospective investors, customers, vendors and all other persons are cautioned that forward-looking statements are not assurances, forecasts or guarantees of future performance due to related risks and uncertainties, and that actual results may differ materially from those projected. Factors which could cause results or events to differ from current expectations include, among other things: the severity and duration of the adjustments in our business segments; the effectiveness of our restructuring activities, including the validity of the assumptions underlying our restructuring efforts; fluctuations in operating results; the impact of general economic, industry and market conditions; the ability to recruit and retain qualified employees; fluctuations in cash flow; increased levels of outstanding debt; expectations regarding market demand for particular products and services and the dependence on new product/ service development; the ability to make acquisitions and/or integrate the operations and technologies of acquired businesses in an effective manner; the impact of rapid technological and market change; the impact of price and product competition; the uncertainties in the market for Internet-based products and services; stock market volatility; the trading volume of our stock; the possibility that our stock may not satisfy our requirements for continued listing on the NASDAQ SmallCap Market including whether the minimum bid price for the stock falls below \$1; the adverse resolution of litigation. For additional information with respect to these and certain other factors that may affect actual results, see the reports and other information filed or furnished by the Company with the United States Securities and Exchange Commission (“SEC”) and/or the Ontario Securities Commission (“OSC”) respectively accessible on the internet at [www.sec.gov](http://www.sec.gov) and [www.sedar.com](http://www.sedar.com), or the Company’s website at [www.intasys.com](http://www.intasys.com). All information contained in this annual report is qualified in its entirety by the foregoing and reference to the other information the Company files with the OSC and SEC. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## Period-to-Period Comparisons

A variety of factors may cause period-to-period fluctuations in the Company's operating results, including business acquisitions, revenues and expenses related to the introduction of new products and services or new versions of existing products, new or stronger competitors in the marketplace as well as currency fluctuations. Historical operating results are not indicative of future results and performance.

## Quarterly Financial Highlights

(in thousand of US dollars, except per share data in accordance with generally accepted accounting principles in Canada)

	2002				2001			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	3,009	2,987	3,186	2,643	3,022	2,723	2,895	3,325
Net earnings (loss) for the period	(76)	(75)	33	(199)	(2,898)	(3,069)	(5,583)	(3,056)
Basic and diluted net earnings (loss) per share	(0.01)	(0.02)	0.01	(0.05)	(0.74)	(0.95)	(2.05)	(1.12)

## Critical accounting policies

The Company's significant accounting policies are presented in note 3 to the financial statements. The critical accounting policies described below are those that are both most important to the portrayal of the Company's financial condition and results and require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

### Goodwill

As reported in note 2, Accounting Changes, effective January 2002, goodwill is no longer amortized but is tested annually for impairment at the reporting unit level. Impairment is determined by comparing the fair value of the reporting unit to its carrying value. The fair value of a reporting unit, assets and liabilities within a reporting unit may be determined using alternative methods for market valuation, including quoted market prices discounted cash flows and net realizable values.

In estimating the fair value of a reporting unit, the Company may use a valuation method developed by outside consultants and make assumptions and estimates in a number of areas, including future cash flows and discount rates. The Company regularly assesses valuations of the assets and liabilities. The use of different judgments and estimates in the test for goodwill impairment may result in significantly different results.

### Revenue recognition

Revenue is recognized in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition," issued by the American Institute of Certified Public Accountants ("AICPA"), SOP 98-9, "Modification of 97-2, Software Recognition with Respect to Certain Transactions" and Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition in Financial Statements," issued by the Securities and Exchange Commission ("SEC").

Software licence, third party software and any other revenue are recorded when persuasive evidence of an arrangement exists, the software product has been delivered, there are no uncertainties regarding product acceptance, the fees are fixed or determinable, collection is considered probable and revenue is not subject to refund or concessions. Signed license agreements and related contracts are generally used as evidence of an arrangement with the customer.

Customization and modification of existing software is generally not considered to be essential to the functionality of the related software product. Accordingly, fees related to these activities are generally identified separately and the related revenue is recognized in accordance with percentage of completion method.

Maintenance revenue is recognized on a monthly basis over the duration of the contract.

Search and banner revenues are recognized when services are rendered, provided there is persuasive evidence of an arrangement, the fee is fixed or determinable, collection is considered probable and fees are not subject to forfeiture, refund or other concessions.

With respect to search and banner revenues, purchase orders or signed contracts are generally used as evidence of an arrangement.

Collection is based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. If it is determined that collection of a fee is not probable, management defers the fee and recognizes revenue at the time collection becomes probable, which is generally upon receipt of cash.

# Management's Report

Intasys Corporation's management is responsible for the preparation, integrity and objectivity of the consolidated financial statements and other financial information presented in this Annual Report. These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and include some amounts that are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

Intasys Corporation's policy is to maintain a system on internal accounting and administrative controls designed to provide reasonable assurance that the financial information is relevant, accurate and reliable, and that assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board and is composed of outside directors. The Committee meets periodically with management and the external auditors to review accounting, auditing and internal control matters. These consolidated financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, the external auditors, in accordance with Canadian and United States generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Audit Committee.



**David Goldman**  
Chairman of the Board and  
Chief Executive Officer



**Daniel Bertrand**  
Vice-President and  
Chief Financial Officer

## Auditors' Report

### To the Shareholders of Intasys Corporation

We have audited the consolidated balance sheets of **Intasys Corporation** as at December 31, 2002 and 2001 and the consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian and United States generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance 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.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2002 in accordance with Canadian generally accepted accounting principles.



**Chartered Accountants**  
Montreal, Quebec, Canada  
February 25, 2003, (except for note 25 a), which is as at March 26, 2003)

### Comments by Auditors for U.S. Readers on Canada-U.S. Reporting Difference

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there is change in accounting principles that has a material effect on the comparability of the Company's financial statements, such as the change described in note 2a) to the consolidated financial statements. Our report to the shareholders dated February 25, 2003, (except for note 25 a), which is as at March 26, 2003) is expressed in accordance with Canadian reporting standards which do not require a reference to such a change in accounting principles in the auditors' report when the change is properly accounted for and adequately disclosed in the financial statements.



**Chartered Accountants**  
Montreal, Quebec, Canada  
February 25, 2003

# Consolidated Balance Sheets

(expressed in U.S. dollars)

	As at December 31, 2002 \$	As at December 31, 2001 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	3,804,323	2,314,072
Marketable securities (note 5)	-	240,643
Accounts receivable (note 6)	2,377,888	2,081,081
Prepaid expenses and other assets (note 7)	174,976	271,063
Future income taxes (note 20)	270,254	-
	<b>6,627,441</b>	4,906,859
<b>Investments (note 8)</b>	<b>1,085,286</b>	1,101,809
<b>Property, plant and equipment (note 9)</b>	<b>656,435</b>	1,131,316
<b>Intangible assets (note 10)</b>	<b>907,217</b>	-
<b>Goodwill (note 10)</b>	<b>694,835</b>	-
	<b>9,971,214</b>	7,139,984
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 11)	2,813,351	2,124,330
Reserve for restructuring (note 12)	2,234	165,067
Deferred revenue	454,434	394,570
Income taxes payable	-	20,174
	<b>3,270,019</b>	2,704,141
<b>Contingencies and commitments (note 25)</b>		
<b>Shareholders' Equity</b>		
<b>Capital stock (note 13)</b>		
Authorized		
Unlimited common shares		
Issued and outstanding – 6,094,842 common shares (2001 – 4,058,858)	69,873,994	68,077,781
Additional paid-in capital (note 14)	750,111	339,550
Deferred stock-based compensation (note 14)	(10,667)	(418,727)
Cumulative translation adjustment	(275,693)	(243,205)
<b>Deficit</b>	<b>(63,636,550)</b>	<b>(63,319,556)</b>
	<b>6,701,195</b>	4,435,843
	<b>9,971,214</b>	7,139,984

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

Approved by the Board of Directors



**David Goldman**  
Chairman of the Board  
and Chief Executive Officer



**Irwin Kramer**  
Director

# Consolidated Statements of Operations

(expressed in U.S. dollars)

	For the years ended December 31,		
	2002	2001	2000
	\$	\$	\$
<b>Revenue</b> (note 16)	<b>11,824,982</b>	11,965,409	14,431,554
<b>Expenses</b>			
Cost of goods sold, selling and administrative	10,456,205	11,485,035	20,289,614
Net research and development (note 21)	1,567,351	1,773,233	2,212,218
Amortization and impairment of property, plant and equipment (note 22)	485,545	584,261	1,962,485
Amortization of intangible assets	31,404	-	-
Restructuring charges (note 12)	(70,453)	184,406	1,029,167
Amortization and impairment of goodwill (note 23)	-	7,455,353	16,313,528
Interest expense	8,476	14,501	12,347
Interest income	(72,003)	(203,012)	(714,074)
Share of results of companies subject to significant influence	-	748,972	2,007,415
Realized gain on disposal of marketable securities	(73,383)	(101,581)	(36,381)
Unrealized loss on marketable securities, investments and write-down of advances (note 17)	82,616	4,903,899	4,015,987
Non-controlling interest	-	(177,698)	(1,436,096)
Loss on disposal of a subsidiary	-	-	898,550
	<b>12,415,758</b>	26,667,369	46,554,760
<b>Loss before income taxes</b>	<b>(590,776)</b>	(14,701,960)	(32,123,206)
Provision for (recovery of) current income taxes	(2,318)	(95,277)	113,286
Recovery of future income taxes	(271,464)	-	-
<b>Net loss for the year</b>	<b>(316,994)</b>	(14,606,683)	(32,236,492)
<b>Basic and diluted net loss per share</b>	<b>(0.07)</b>	<b>(4.55)</b>	<b>(11.97)</b>
Following is a summary of reported net loss and per share figures adjusted to exclude amortization expense related to goodwill:			
Reported net loss	(316,994)	(14,606,683)	(32,236,492)
Amortization of goodwill	-	7,455,353	7,727,455
Adjusted net loss	(316,994)	(7,151,330)	(24,509,037)
Basic and diluted net (loss) per share:			
Reported net loss	(0.07)	(4.55)	(11.97)
Amortization of goodwill	-	(2.32)	(2.87)
Adjusted net loss	(0.07)	(2.23)	(9.10)

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

# Consolidated Statements of Shareholders' Equity

(expressed in U.S. dollars)

	Common shares #	Common shares \$	Additional paid-in capital \$	Deferred stock-based compensation \$	Cumulative translation adjustment \$	Deficit \$
<b>Balance, December 31, 1999</b>	2,466,465	54,020,074	3,369,825	-	-	(16,476,381)
Shares issued on private placement	19,600	550,760	9,240	-	-	-
Shares issued on exercise of warrants	186,070	8,192,350	(1,198,089)	-	-	-
Shares issued on exercise of employee options	45,825	739,588	-	-	-	-
Translation adjustment for the year	-	-	-	-	(170,304)	-
Net loss for the year	-	-	-	-	-	(32,236,492)
<b>Balance, December 31, 2000</b>	2,717,960	63,502,772	2,180,976	-	(170,304)	(48,712,873)
Shares issued for acquisition of minority interest of Mamma.com	436,898	1,092,245	38,975	-	-	-
Shares issued to a subsidiary's officer	100,000	164,000	-	-	-	-
Shares issued on private placement	600,000	825,000	69,000	-	-	-
Shares and warrants issued for brokerage fees	54,000	-	6,000	-	-	-
Shares issued for financial services	150,000	324,000	214,363	(418,727)	-	-
Expired warrants	-	2,169,764	(2,169,764)	-	-	-
Translation adjustment for the year	-	-	-	-	(72,901)	-
Net loss for the year	-	-	-	-	-	(14,606,683)
<b>Balance, December 31, 2001</b>	4,058,858	68,077,781	339,550	(418,727)	(243,205)	(63,319,556)
Effect of changes on shares and warrants issued for financial services	-	(54,114)	(214,363)	408,060	-	-
Shares and warrants issued on private placement	1,893,939	1,912,879	587,121	-	-	-
Shares and warrants issued for brokerage fees	142,045	143,465	44,034	-	-	-
Forfeited options	-	6,231	(6,231)	-	-	-
Share issue costs	-	(212,248)	-	-	-	-
Translation adjustment for the year	-	-	-	-	(32,488)	-
Net loss for the year	-	-	-	-	-	(316,994)
<b>Balance, December 31, 2002</b>	6,094,842	69,873,994	750,111	(10,667)	(275,693)	(63,636,550)

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

# Consolidated Statements of Cash Flows

(expressed in U.S. dollars)

	For the years ended December 31,		
	2002	2001	2000
	\$	\$	\$
<b>Cash flows from Operating activities</b>			
Net loss for the year	(316,994)	(14,606,683)	(32,236,492)
Adjustments for:			
Amortization and impairment of property, plant and equipment	485,545	638,412	2,448,027
Amortization and impairment of goodwill	-	7,455,353	16,313,528
Amortization of intangible assets	31,404	-	-
Realized loss (gain) on disposal of property, plant and equipment	1,141	(14,417)	(25,935)
Realized gain on disposal of marketable securities	(73,383)	(101,581)	(36,381)
Non-controlling interest	-	(177,698)	(1,436,096)
Interest income on investments and management fees	(33,477)	(33,080)	(231,933)
Loss on disposal of a subsidiary	-	-	898,550
Share of results of companies subject to significant influence	-	748,972	2,007,415
Unrealized loss on marketable securities, investments and write-down of advances (note 17)	82,616	4,903,899	4,015,987
Financial fees paid through issuance of capital stock	139,583	119,636	-
Advance to a public company subject to significant influence	-	(452,085)	-
Future income taxes	(271,464)	-	-
Decrease in non-cash working capital items (note 19)	682,095	1,377,790	1,556,772
Cash flows provided by (used in) operating activities	727,066	(141,482)	(6,726,558)
<b>Investing activities</b>			
Business acquisition	(1,625,151)	-	-
Purchase of intangible assets	(50,000)	-	-
Investments	(1,612)	(588,594)	(6,797,056)
Proceeds on disposal of investments	-	-	378,450
Proceeds on disposal of property, plant and equipment	340	85,577	12,034
Purchase of minority interest in Mamma.com	-	(1,422,167)	-
Purchase of property, plant and equipment	(93,844)	(195,905)	(2,408,079)
Cash flows used in investing activities	(1,770,267)	(2,121,089)	(8,814,651)
<b>Financing activities</b>			
Issuance (redemption) of equity of a subsidiary	-	(3,210)	9,147
Issuance of capital stock	2,500,000	900,000	8,293,849
Share issue costs	(24,749)	-	-
Cash flows provided by financing activities	2,475,251	896,790	8,302,996
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>	58,201	(95,353)	(110,135)
<b>Change in cash and cash equivalents</b>	1,490,251	(1,461,134)	(7,348,348)
<b>Cash and cash equivalents - Beginning of year</b>	2,314,072	3,775,206	11,123,554
<b>Cash and cash equivalents - End of year</b>	3,804,323	2,314,072	3,775,206
Cash and cash equivalents comprise:			
Cash	1,287,364	646,794	3,149,127
Short-term deposits	2,516,959	1,667,278	626,079
	3,804,323	2,314,072	3,775,206
<b>Supplemental disclosure of cash flow information</b>			
Cash paid for interest	7,136	20,989	24,270

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

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 1 Nature of business

Intasys Corporation is focused primarily on innovative direct on-line Internet electronic marketing. Through its wholly owned subsidiary, Mamma.com Inc., Intasys is a provider of meta-search and on-line direct marketing services and technologies with customers located mainly in the United States. Its wholly owned subsidiaries, Intasys Billing Technologies, further provide global wireless Internet-compatible billing and customer care information systems with customers located in the United Kingdom, Australia, Asia, the United States and Canada. The Company also holds minority interests in analog integrated circuit products, new media and telecommunications sectors. Equity investments are located in the United States and Canada.

## 2 Changes in accounting policies

### a) Goodwill

Effective January 1, 2002, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3062, "Goodwill and Other Intangible Assets". This new section requires the use of the non-amortization approach to account for all purchased goodwill and indefinite-lived intangible assets. In addition, goodwill must be tested for impairment at least annually. Since the Company had no such goodwill or intangible assets as of the date of adoption of these recommendations, the initial adoption did not have any impact on the financial statements of the Company. However, the Company must now provide certain additional disclosures regarding goodwill and amortization. In addition, this new section required changes to the presentation of amortization and impairment of goodwill in the statement of operations in 2002 and for comparative years.

### b) Impairment of long-lived assets

During 2002, the Company adopted, retroactive to January 1, 2002, the new recommendations of the CICA regarding impairments of long-lived assets (Handbook Section 3063, "Impairment of Long-Lived Assets"). These new recommendations require the impairment to loss be recognized if the carrying value of a long-lived asset exceeds its estimated undiscounted future cash flows expected from its use. The amount of impairment loss, if any, is determined as the excess of the carrying value of the assets over their fair value. Prior to these new recommendations, the amount of any impairment loss was determined as the excess of the assets' carrying value over their estimated undiscounted future cash flows. This change, which has been applied prospectively, did not have any impact on the Company's financial statements.

### c) Stock-Based Compensation and Other Stock-Based Payments

On January 1, 2002, the Company adopted the new recommendations of the CICA regarding stock-based compensation plans (Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments"). In connection with the adoption of these new recommendations, the Company elected not to apply the fair value method of accounting for stock-based compensation costs; therefore, the Company provides pro forma disclosures of net loss and related per share figures as if the fair value method had been used to account for stock-based compensation costs. For purposes of the pro forma disclosures, the Company has applied these new recommendations retroactively. Any stock-based compensation costs related to awards to non-employees are accounted for at fair value.

## 3 Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which, except as described in note 28, conform in all material respects with accounting principles generally accepted in the United States.

### a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All intercompany balances and transactions have been eliminated on consolidation.

### b) Cash and cash equivalents

Cash and cash equivalents consist of cash balances with banks and highly liquid investments with original maturities of ninety days or less from the date of acquisition.

### c) Marketable securities

Marketable securities are carried at the lower of cost and market value.

### d) Tax credits

Tax credits are accounted for using the cost reduction method. Under this method, tax credits relating to eligible expenditures are deducted from the cost of the related assets or included in the statement of operations as a reduction of the related expenses in the year in which the expenditures are incurred, provided there is reasonable assurance of realization.

### e) Investments

The Company's investment in non-controlled investee companies over which the Company has the ability to exercise significant influence are accounted for using the equity method. If the Company does not have the ability to exercise significant influence, the investment is accounted for using the cost method.

### f) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is calculated using the following annual rates or periods and methods:

Computer equipment and software	straight-line over 3 to 5 years
Furniture and fixtures	straight-line over 3 to 5 years
Leasehold improvements	straight-line over the duration of the lease
Billing technology software	straight-line over 5 years

### g) Intangible assets and amortization

Intangible assets with finite useful lives are recorded at cost, less accumulated amortization. The Company provides for the amortization of intangible assets over their estimated useful lives using the straight-line method at the following annual rates:

Brand names	20%
Acquired technology	20%
Customer list	10%

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 3 Summary of significant accounting policies (continued)

### h) Impairment of long-lived assets

The Company assesses the carrying value of its long-lived assets, which include property, plant and equipment and intangible assets, for future recoverability when events or changed circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized if the carrying value of a long-lived asset exceeds the sum of its estimated undiscounted future cash flows expected from its use. The amount of impairment loss, if any, is determined as the excess of the carrying value of the assets over their fair value.

### i) Goodwill

Goodwill represents the excess of purchase price of businesses acquired over the fair value of the underlying net identifiable assets acquired. Goodwill related to business combinations initiated or completed prior to July 1, 2001 was amortized on a straight-line basis over the estimated useful life of a maximum of three years. All goodwill related to such acquisitions was written off in 2001. Goodwill related to business combinations initiated or completed after June 30, 2001 is not amortized.

Goodwill is evaluated for impairment annually, or when events or changed circumstances indicate an impairment may have occurred. In connection with the goodwill impairment test, if the carrying value of the Company's reporting unit to which goodwill relates exceeds its estimated fair value, the goodwill related to that reporting unit is tested for impairment. If the carrying value of such goodwill is determined to be in excess of its fair value, an impairment loss is recognized in the amount of the excess of the carrying value over the fair value. Management has selected November 30 as the date of its annual impairment test for goodwill.

### j) Revenue recognition

The Company recognizes revenue from the sale of software licenses and related post-contract customer support and other related services in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition". Fees from arrangements involving licenses, post-contract customer support and other related services are allocated to the various elements based on vendor-specific objective evidence of fair value of each of the elements. Revenue from software licenses is recognized when persuasive evidence of an arrangement exists, the software product has been delivered, there are no uncertainties surrounding product acceptance, the related fees are fixed or determinable, and collection is considered probable. Revenue from post-contract customer support elements is recognized ratably over the related support period. Revenue from other related services is recognized as the services are performed.

The Company recognizes revenue from search services, banner advertising and sponsorships when the following criteria are satisfied:

- (a) the fee is fixed or determinable;
- (b) collectibility is probable;
- (c) the revenue is not subject to forfeiture, refund or other concessions; and
- (d) there is a signed contract.

Search service revenue is generated as users click on certain search results, giving rise to direct revenue or a revenue share earned by the Company. Revenue from such clicks is recognized as the clicks occur, provided the above criteria are met.

Banner advertising revenue is generated from advertising delivered on a Web page, at an agreed rate per thousand impressions delivered, or based on user clicks on displayed advertising banners. Revenue from advertising arrangements is recognized as the impressions are delivered or as clicks on displayed advertising banners occur, provided the above criteria are met and that no significant Company obligations or commitments relating to a minimum number of impressions remain.

Revenue from sponsorships is recognized ratably over the terms of the related contracts provided the above criteria are met.

### k) Research and development costs

Research costs, including research performed under contract by third parties, are expensed as incurred. Development costs are also generally expensed as incurred unless such costs meet the criteria under generally accepted accounting principles for deferral and amortization. To qualify for deferral, the costs must relate to a technically feasible, identifiable product which the Company intends to produce and market, there must be a clearly defined market for the product and the Company must have the resources, or access to the resources, necessary to complete the development. The Company has not deferred any such development costs during the years ended December 31, 2002 and 2001.

### l) Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

The Company establishes a valuation allowance against future income tax assets if, based upon available information, it is more likely than not that some or all of the future income tax assets will not be realized.

### m) Foreign currency translation

The functional and reporting currency of the Company is the U.S. dollar. The functional currency of the Company's subsidiaries is the local currency. Accordingly, the financial statements of the Company's subsidiaries have been translated into the reporting currency as follows: assets and liabilities have been translated at the exchange rate in effect at the balance sheet date and revenue and expenses have been translated at the average exchange rate for each year. All gains or losses resulting from the application of this translation method are included in the cumulative translation adjustment. Changes in the cumulative translation adjustment during the year result solely from the application of this translation method.

### n) Foreign currency transactions

Transactions concluded in currencies other than the functional currency have been translated as follows: monetary assets and liabilities have been translated at the exchange rate in effect at the balance sheet date and revenue and expenses have been translated at the average exchange rate for each period; non-monetary assets and liabilities have been translated at the rates prevailing at the dates of the respective transactions. Exchange gains and losses arising from such transactions are included in net earnings (loss) for the year.

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 3 Summary of significant accounting policies (continued)

### o) Employee future benefits

The Company maintains a number of defined contribution benefits plans which provide retirement, medical and group insurance benefits for current employees. An employee's entitlement to benefits ceases upon termination of employment with the Company. The amount of expense recognized in 2002, 2001 and 2000 for these plans is summarized as follows:

	2002	2001	2000
	\$	\$	\$
Plans providing retirement benefits	100,237	81,125	30,197
Plans providing other benefits	115,753	111,275	103,928
	<u>215,990</u>	<u>192,400</u>	<u>134,125</u>

### p) Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

### q) Loss per share

Basic loss per share is calculated using the weighted average number of shares outstanding post-consolidation (note 13) during the year.

Diluted earnings per share is calculated based on the weighted average number of common shares outstanding during the year plus the effects of dilutive potential common shares outstanding during the year. This method requires that the dilutive effect of outstanding options and warrants be calculated using the treasury stock method, as if all dilutive options and warrants had been exercised at the later of the beginning of the reporting period or date of issuance, and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of the common shares during the year.

### r) New accounting standards (Canadian)

#### i) Hedging relationships

The CICA has issued AcG 13, Hedging Relationships, which sets out the Accounting Standards Board's views on the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting as well as the discontinuance of hedge accounting. This guideline, which should be applied to hedging relationships in effect in fiscal years commencing on or after July 1, 2003, supplements and interprets certain existing requirements related to hedge accounting and establishes certain conditions as to when hedge accounting may be applied. This new guideline is not expected to have any significant impact on the Company's financial statements.

#### ii) Financial guarantees

The CICA has also issued a new accounting guideline requiring the disclosure of certain information regarding guarantees, including the nature, term, maximum potential exposure, current carrying amount and the nature of any collateral or recourse provisions held by the guarantor. The disclosures required by this guideline are to be applied to financial statements of interim or annual periods commencing on or after January 1, 2003. The Company has not yet determined the impact of this new standard on its financial statements.

### s) Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

## 4 Business acquisitions

### a) Purchase of focusIN assets

On November 27, 2002, the Company, through Mamma.com Inc., acquired certain of the assets of the focusIN business of ZAQ Inc. in exchange for total cash consideration amounting to \$1,625,151, including costs directly related to the acquisition. This acquisition has been accounted for using the purchase method. The net earnings of the business have been included in these financial statements from the above-noted date of acquisition. focusIN provides on-line media placement services.

The assets acquired were as follows:

Property, plant and equipment	\$ 31,287
Intangible assets:	
Brand name	291,156
Technology	252,208
Customer list	351,175
Goodwill	699,325
	<u>1,625,151</u>

Approximately \$521,000 of the above-noted goodwill is deductible for income tax purposes.

### b) Purchase of Mamma.com Inc.

In 2000, the Company wrote down \$8,586,073 of goodwill related to its 69% shareholder's interest in Mamma.com Inc.

On July 6, 2001, the Company acquired the remaining minority shareholder's interest in Mamma.com Inc. for a cash consideration of \$1,263,946 and issuance from treasury of 436,898 Intasys common shares valued at \$2.50 each. This step acquisition was accounted for using the purchase method. Simultaneously, the Company acquired all the outstanding options of Mamma.com Inc.'s interest for a cash consideration \$158,221 and issuance of 42,977 of Intasys Corporation options. The purchase price of the remaining shareholders' interest in Mamma.com Inc. resulted in recording an additional \$1,255,353 of goodwill. In December 2001, the Company wrote down all remaining goodwill related to Mamma.com.

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 5 Marketable securities

On January 20, 2000, the Company acquired 715,000 common shares of interWAVE at a price of \$1.00 per share by exercising 715,000 warrants. Also, in 2000, the Company sold 60,000 shares of interWAVE for cash proceeds of \$278,450.

In 2001, the Company sold 1,056,436 shares of interWAVE for cash proceeds of \$1,360,873. As well during 2001, the Company purchased 6,000 shares of interWAVE for \$5,470.

On December 31, 2001, the Company wrote down a portion of the value of its 319,564 common shares of interWAVE to their net realizable value, namely the market price of the shares at December 31, 2001.

In 2002, the remaining shares of interWAVE were sold for cash proceeds of \$314,026, resulting in a gain on disposal of \$73,383.

## 6 Accounts receivable

Accounts receivable comprise the following:

	2002	2001
	\$	\$
Trade accounts receivable	2,562,274	2,572,005
Allowance for doubtful accounts	(285,710)	(532,003)
	<b>2,276,564</b>	2,040,002
Other	101,324	41,079
	<b>2,377,888</b>	2,081,081

## 7 Prepaid expenses and other assets

Prepaid expenses and other assets comprise the following:

	2002	2001
	\$	\$
Prepaid expenses	113,986	117,485
Deposits on leased facilities	60,990	66,250
Other assets	-	87,328
	<b>174,976</b>	271,063

## 8 Investments

Investments comprise the following:

	2002	2001
	\$	\$
Tri-Link Technologies Inc. (note 8 a))	-	-
LTRIM Technologies Inc. (note 8 b))	1,085,286	1,051,809
UPath.com Inc. (note 8 c))	-	50,000
TECE, Inc. (note 8 d))	-	-
	<b>1,085,286</b>	1,101,809

a) On September 25, 2000, the Company acquired 1,501,224 preference shares of Tri-Link Technologies Inc. for \$1.35 million. In 2001, the Company wrote off the entire value of its investment due to an other than temporary decline in its value.

In 2002, the Company acquired 2,553,650 preference shares of Tri-Link Technologies Inc. for \$1,612 which was written off during the year. As at December 31, 2002, the Company held a total of 4,054,874 preference shares.

b) On May 4, 2000, the Company acquired a CA\$1 million (US\$635,880) 6% secured debenture which was convertible into 15% of the equity of LTRIM Technologies Inc. ("LTRIM"), a non-public company. Subsequently, the Company sold a portion of its debenture at cost for an amount of CA\$150,000 (US\$100,000) convertible into 2.25% of the equity of LTRIM.

On February 23, 2001, the Company acquired 207,323 preference shares of LTRIM for a cash consideration of \$588,594. These shares were subsequently split 10 for 1, resulting in 2,073,230 shares.

On December 13, 2002, LTRIM closed the first round of an intended two-round financing transaction with new investors. As part of the transaction, the Company converted all preference shares and the secured debenture of CA\$850,000 (US\$535,880) into 4,891,686 Class A common shares. Accrued interest on the debenture in the amount of CA\$137,014 (US\$80,038) was converted into 359,281 Class A preference shares.

c) On May 16, 2000, the Company acquired 2,783,505 Class "A" shares of uPath.com Inc. a non-public company, for CA\$1.0 million (US\$687,990). During 2001, the Company wrote off a portion of its investment to its net realizable value of \$50,000. During 2002, the Company wrote off the remaining balance to nil.

d) On March 30, 2000, the Company acquired a 6% secured debenture of \$2.625 million issued by TechnologyEvaluation.com ("TEC.com") for a cash consideration of \$1.625 million and in exchange for a \$1.0 million note receivable and accrued interest.

On November 9, 2000, TECE, Inc. ("TECE"), a publicly traded corporation listed on the OTC BB in the United States under the symbol TENC, acquired a controlling interest in TEC.com from certain of its major shareholders, including Intasys Corporation. As part of the transaction, the Company transferred its \$2.625 million secured convertible debenture plus accrued interest in an amount of \$114,538 in exchange for 6,522,710 shares of TECE's common stock. At the same time, the Company subscribed to a non-interest-bearing note receivable of \$344,914. The note receivable was issued for a cash consideration of \$250,000 and a fee of \$94,914. During 2001, the investment was entirely written down due to an other than temporary decline in its value. Moreover, the advances of \$907,227 were written down to nil.

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 8 Investments (continued)

In 2002, TECE restructured its capital. As part of this transaction, the Company converted its 6,522,710 shares of TECE's common stock, its non-interest-bearing note receivable of \$344,914 and all advances into 5,000,000 common shares representing approximately 7% of TECE's new capital structure.

### e) Master option agreement

Part of the compensation packages originally offered to the Company's former President and the former CEO and Chairman was provided under the terms of a Master Option Agreement, dated December 7, 1999, among Intasys Corporation, Intasys Capital Corporation and 3354717 Canada Inc., a company controlled by these former executives, (the "Master Option Agreement"). On several occasions, the terms of the Master Option Agreement for both former executives were amended. In August 2001, the former President assigned and transferred, to the former CEO and Chairman, all of his rights, title and interest in and to 3354717 Canada Inc. that he had related to the Master Option Agreement. On October 30, 2001 the former CEO and Chairman agreed to cancel the Master Option Agreement and the Company granted him an option to purchase up to 15% of Intasys' investment in Tri-Link Technologies Inc. and LTRIM up until December 31, 2002 for total cash consideration of \$410,425. Thereafter, this percentage and the exercise price are reduced to 5% and \$136,808, respectively through February 28, 2004, at which time the option will expire.

The fair value of these options was initially estimated using the Black-Scholes option pricing model and recorded as a liability. Since the terms of these options are variable, the fair value of these options is re-evaluated at each balance sheet date with any resulting adjustment to the fair value being included in the statement of operations. As a result, the statement of operations in 2002 includes a reversal of expenses recorded in previous years for an amount of \$195,134 and expenses of \$56,613 and \$143,387 in fiscal years 2001 and 2000 respectively.

## 9 Property, plant and equipment

	2002		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Computer equipment and software	1,699,738	1,218,569	481,169
Furniture and fixtures	423,883	366,858	57,025
Leasehold improvements	352,683	234,442	118,241
Billing technology software	5,302,801	5,302,801	-
	<b>7,779,105</b>	<b>7,122,670</b>	<b>656,435</b>
	2001		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Computer equipment and software	1,766,666	1,016,700	749,966
Furniture and fixtures	583,913	411,724	172,189
Leasehold improvements	673,617	468,298	205,319
Billing technology software	5,304,475	5,300,633	3,842
	<b>8,328,671</b>	<b>7,197,355</b>	<b>1,131,316</b>

## 10 Goodwill and other intangible assets

### a) Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2002 and 2001 are as follows:

	Investment Management	Internet Media	Total
	\$	\$	\$
Balance as of January 1, 2001	6,200,000	-	6,200,000
Goodwill resulting from 2001 business acquisition (note 4(b))	1,255,353	-	1,255,353
Amortization of goodwill	(7,455,353)	-	(7,455,353)
Balance as of December 31, 2001	-	-	-
Goodwill resulting from 2002 business acquisition	-	699,325	699,325
Currency translation adjustment	-	(4,490)	(4,490)
Balance as of December 31, 2002	-	694,835	694,835

### b) Intangible assets

	2002		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Brand names	338,973	17,096	321,877
Acquired technology	250,588	8,353	242,235
Customer list	348,920	5,815	343,105
	<b>938,481</b>	<b>31,264</b>	<b>907,217</b>

Intangible assets were nil in 2001.

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 11 Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	2002 \$	2001 \$
Trade accounts payable	1,715,956	1,313,364
Other		
Accrued employee costs	378,682	578,846
Directors and officers payable	130,743	6,287
Payable to companies owned by current and/or former directors and/or officers	30,946	20,594
Other (note 25 a))	557,024	205,239
	<b>2,813,351</b>	<b>2,124,330</b>

## 12 Restructuring charges

In 2001, the Company continued to reduce its fixed costs by terminating certain employees and moving its head office to premises occupied by its subsidiary Mamma.com Inc.

In 2000, as part of the Company's strategy of tailoring its billing solution to the wireless marketplace, the Company closed an office in the United Kingdom and a total of 10 employees were terminated. Also, in order to reduce its fixed costs in Montreal, the Company decided to sublease a portion of its facility. In 1999, the Company closed its Atlanta (Latitude), Ottawa and Mississauga offices and a total of 19 employees were terminated. The Company's North American billing software sales and consulting operations were consolidated in Montreal (Canada).

The following table summarizes the changes in the reserve for restructuring:

	Write-down of property, plant and equipment \$	Severance costs \$	Facilities' closure costs \$	Other costs \$	Total \$
Balance-December 31, 1999	-	123,603	135,618	113,039	372,260
Restructuring charges	485,542	193,625	350,000	-	1,029,167
Payments	-	(123,603)	(135,618)	(71,933)	(331,154)
Non-cash asset write-down	(485,542)	-	-	-	(485,542)
Balance-December 31, 2000	-	193,625	350,000	41,106	584,731
Restructuring charges	54,151	30,887	99,368	-	184,406
Payments	-	(174,436)	(350,813)	(24,670)	(549,919)
Non-cash asset write-down	(54,151)	-	-	-	(54,151)
Balance-December 31, 2001	-	50,076	98,555	16,436	165,067
Payments	-	(50,076)	(28,102)	(14,202)	(92,380)
Reversal of excess restructuring accruals to earnings	-	-	(70,453)	-	(70,453)
Balance-December 31, 2002	-	-	-	2,234	2,234

## 13 Capital stock

On July 11, 2001, the Board of Directors, upon approval of the shareholders, approved articles of amendment consolidating the Company's issued and outstanding common shares on a basis of one (1) post-consolidation common share for every ten (10) pre-consolidation common shares. The reverse stock split was effective immediately. All references in the financial statements and notes thereto regarding the number of shares and per share amounts, stock option data and market prices have been restated to reflect this reverse stock split. Any dividends, if and when declared, will be declared and payable in U.S. dollars.

### a) Stock options

The Company's stock option plan is administered by the Compensation Committee, which is a subcommittee of the Board of Directors. The Compensation Committee will designate eligible participants to be included under the plan, and will designate the number of options and the share price pursuant to the new options, subject to applicable securities laws and stock exchange regulations. The options, when granted, will have an exercise price of no less than the market price of shares at the date of grant and a life not exceeding 10 years. The number of options granted in any fiscal year shall not exceed 15% of the issued and outstanding common shares at the date of the grant.

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 13 Capital stock (continued)

Information with respect to stock option activity for 2000, 2001 and 2002 is as follows:

	Number of options	Weighted average exercise price \$
Outstanding – December 31, 1999	265,025	39.20
Granted	255,725	9.70
Exercised	(45,825)	16.10
Expired	(21,000)	51.30
Forfeited	(151,400)	51.30
Outstanding – December 31, 2000	302,525	11.10
Granted	451,750	2.29
Forfeited	(302,525)	11.10
Outstanding – December 31, 2001	451,750	2.29
Granted	135,000	1.14
Forfeited	(209,570)	2.56
Outstanding – December 31, 2002	377,180	1.76

On July 18, 2001, 141,250 options held by employees were repriced whereby the employees forfeited their existing options and received new options on the same date with different vesting periods and exercise prices. As at December 31, 2002, 40,725 repriced options were still outstanding.

Details of stock options outstanding as at December 31, 2002 are as follows:

Range of exercise prices \$	Outstanding options			Exercisable options	
	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
1.05-1.53	348,430	8.57	1.41	291,679	1.38
2.50	10,000	8.50	2.50	10,000	2.50
8.00	18,750	1.16	8.00	18,750	8.00
	377,180	8.20	1.76	320,429	1.80

As at December 31, 2001 and 2000, there were 315,825 and 54,500 options exercisable at weighted average exercise prices of \$2.67 and \$5.02, respectively.

### b) Pro forma stock-based compensation disclosures

Following is a summary of what the net loss and related per share figures would have been if the Company had adopted the fair value method of accounting for stock options granted to employees.

	2002	2001	2000
	\$	\$	\$
Pro forma net loss	(295,924)	(14,461,478)	(29,496,811)
Pro forma basic and diluted net loss per share	(0.07)	(4.51)	(10.96)

The fair values of all options granted during 2002, 2001 and 2000 were estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2002	2001	2000
Expected option life (years)	4.00	3.90	3.91
Volatility	76%	90%	90%
Risk-free interest rate	3.09%	6.00%	6.00%
Dividend yield	nil	nil	nil

The weighted average grant-date fair values for stock options granted during 2002, 2001 and 2000 were \$1.22, \$2.42 and \$6.20 per option, respectively.

## 14 Additional paid-in capital and deferred stock-based compensation

On August 15, 2001, the Company retained Global Capital Securities to render financial services for an 18-month period terminating on January 31, 2003. Consideration paid by the Company for these consulting services consisted of the issuance of 150,000 unvested common shares and 250,000 unvested warrants with an exercise price of \$2.75 per share. On April 19, 2002, all of these shares and warrants were transferred by Global to Lomond International Inc., which has agreed to continue providing the services in accordance with the original agreement. On June 19, 2002, all of the above warrants were returned to Intasys for cancellation.

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 14 Additional paid-in capital and deferred stock-based compensation (continued)

These unvested shares are earned evenly over the 18-month term of the agreement at a rate of 8,333 shares per month. The warrants vest in the same manner, with 13,889 becoming vested each month. In the event the agreement is terminated prior to the expiration of its 18-month term, any unvested shares and warrants remaining as of that date must be returned to the Company for cancellation. Since the terms of the unvested shares and the warrants are variable, the fair value of the unvested shares and warrants is remeasured at each balance sheet date, and deferred stock-based compensation and additional paid-in capital are adjusted accordingly. The cost of the services is recognized as an expense on a monthly basis as the warrants and shares vest, based upon the fair value of the Company's common shares at the end of each month.

On December 12, 2002, the Company completed a private placement of 1,893,939 units, each unit consisting of one common share and one A warrant, for total gross proceeds amounting to \$2,500,000, or \$1.32 per unit. Each A warrant vests immediately, expires on November 30, 2004 and permits the holder to purchase one additional common share of the Company at an exercise price of \$1.40 per share. The private placement agreement provides for a reload feature, whereby upon exercise of all of the A warrants, the holders are entitled to receive one new B warrant for each A warrant exercised. The B warrant vests immediately upon issuance, expires on November 30, 2006 and permits the holder to purchase an additional common share at an exercise price of \$1.50 per share. As at December 31, 2002, none of the 1,893,939 A warrants had been exercised.

The amounts allocated to the shares and warrants totalled \$1,912,878 and \$587,121, respectively. These amounts have been allocated based upon the relative fair values of the warrants and shares at the date the units were issued. The estimated fair value of the A and B warrants has been determined using the Binomial option pricing model and the following weighted average assumptions:

	A warrants	B warrants
Risk-free interest rate	3.09%	3.96%
Expected volatility	76%	76%
Expected life	2 years	4 years
Expected dividend yield	nil	nil

In addition, in connection with this private placement, the Company issued an additional 142,045 units to the principal agent involved in the transaction as compensation for its services. These additional units have been recorded as share issue costs and charged against capital stock at their fair value of \$187,499, or \$1.32 per unit. The fair value of each unit has been allocated between the shares and warrants, resulting in \$143,465 being credited to capital stock and \$44,034 being credited to additional paid-in capital on the same basis as described above.

Each warrant is convertible into one common share at exercise prices ranging from \$1.40 to \$30.80 per share. Information with respect to warrant activity for 2000, 2001 and 2002 is as follows:

	Number of warrants	Weighted average exercise price \$
Outstanding – December 31, 1999	715,345	39.60
Issued	19,600	35.00
Exercised	(186,071)	37.60
Expired	(82,000)	32.50
Outstanding – December 31, 2000	466,874	46.10
Issued	1,340,000	2.50
Expired	(465,449)	46.10
Outstanding – December 31, 2001	1,341,425	2.50
Issued (i)	2,035,984	1.40
Forfeited	(250,000)	2.75
Outstanding – December 31, 2002	3,127,409	1.78

(i) Does not include warrants to be issued in connection with the reload feature describe above.

For various price ranges, the weighted average characteristics of outstanding warrants at December 31, 2002 were as follows:

Range of exercise price \$	Warrants outstanding and exercisable		
	Number of warrants	Weighted average remaining contractual life (years)	Weighted average exercise price \$
1.40	2,035,984	1.91	1.40
2.40-2.50	1,090,000	0.98	2.44
30.80	1,425	0.50	30.80
	3,127,409	1.38	1.78

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 15 Loss per share

	2002	2001	2000
Weighted average number of shares – basic and diluted	4,356,751	3,206,996	2,692,364

Options to purchase 377,180 common shares (2001 – 451,750, 2000 – 302,525), warrants to purchase 3,127,409 common shares (2001 – 1,341,425, 2000 – 466,874) and 8,333 shares issued for brokerage fees have been excluded from the above calculations since they would have an anti-dilutive effect. In addition, since the Company was in a loss position in 2002, 2001 and 2000, there is no difference between basic and diluted earnings per share for these years.

## 16 Revenue

	2002	2001	2000
	\$	\$	\$
Billing licenses and monthly subscriber fees	5,017,833	5,336,346	4,478,484
Billing services	2,513,442	2,249,991	2,005,833
Search services	2,698,120	2,749,037	3,181,139
Banner advertising	1,488,399	1,324,463	4,138,355
Other	107,188	305,572	627,743
Total	11,824,982	11,965,409	14,431,554

## 17 Unrealized loss on marketable securities, investments and write-down of advances

	2002	2001	2000
	\$	\$	\$
Unrealized loss on:			
Marketable securities	-	640,005	3,387,305
Investments	51,612	3,356,667	628,682
Write-down of advances	31,004	907,227	-
Total	82,616	4,903,899	4,015,987

## 18 Statement of cash flows

In 2002, the Company's non-cash investing and financing activities consisted of: shares issued in lieu of fees related to private placement in the amount of \$187,499; shares issued in lieu of financial fees in the amount of \$98,667; interest income in the amount of \$33,477 which was recorded in investments.

In 2001, the Company's non-cash investing and financing activities consisted of: shares issued on the acquisition of the minority interest of Mamma.com Inc. in the amount of \$1,092,245; shares issued in lieu of fees related to a private placement in the amount of \$81,000; shares issued in lieu of compensation to a former officer in the amount of \$164,000; shares issued in lieu of financial fees in the amount of \$72,000 and interest income in the amount of \$33,080 which was recorded in investments. The write-down of property, plant and equipment of \$54,151 related to restructuring charges in the statement of operations is included in amortization and write-down of property, plant and equipment in the statement of cash flows.

In 2000, the Company's non-cash investing and financing activities consisted of interest in the amount of \$137,019 and fees of \$94,914 which were capitalized to investments. The write-down of property, plant and equipment of \$485,542 related to restructuring charges in the statement of operations is included in amortization and impairment of property, plant and equipment in the statement of cash flows.

## 19 Changes in non-cash working capital items

	2002	2001	2000
	\$	\$	\$
Decrease (increase) in assets:			
Marketable securities	314,026	1,360,873	-
Accounts receivable	(192,139)	2,127,188	(2,376,327)
Prepaid expenses and other assets	110,857	337,119	891,495
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	600,339	(932,161)	1,442,758
Income taxes payable	(20,856)	(93,310)	113,484
Deferred revenue	34,505	(1,002,255)	1,272,891
Reserve for restructuring	(164,637)	(419,664)	212,471
Change in non-cash working capital items	682,095	1,377,790	1,556,772

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 20 Income taxes

A reconciliation of the combined Canadian federal and provincial income tax rate with the Company's effective income tax rate is as follows:

	2002	2001	2000
	\$	\$	\$
Expected recovery of income taxes at the statutory rate	(206,890)	(4,557,608)	(9,958,194)
Unrecognized benefit of current year tax losses and undeducted research and development	754,178	-	-
Benefit of prior years' tax losses not previously recognized	(758,559)	-	-
Recognition of future benefit of prior years' tax losses	(271,464)	-	-
Permanent difference, including amortization and impairment of goodwill and non-controlling interest	12,664	2,529,406	4,681,717
Unrecognized benefit of temporary differences	131,375	2,049,639	3,121,921
Effect of change in income tax rate	34,574	-	2,044,139
Effect of foreign tax rate differences	30,340	(116,714)	223,703
<b>Provision for (recovery of) income taxes</b>	<b>(273,782)</b>	<b>(95,277)</b>	<b>113,286</b>

The major components of the net future income tax assets classified by the source of temporary differences are as follows:

	2002	2001
	\$	\$
<b>Canada</b>		
Property, plant and equipment	2,300,010	2,197,000
Non-capital losses (expiring 2002-2008)	4,319,204	4,760,100
Net capital losses (unlimited)	1,749,573	1,556,000
Unrealized impairment losses on investments	1,741,834	2,202,165
Research and development expenses	209,741	159,581
Restructuring expenses	-	40,405
Share of results of companies subject to significant influence	-	855,000
Goodwill and intangible assets	379,991	-
Share issue costs	177,433	-
Loss on equity disposal of a subsidiary	278,730	278,730
Other	108,570	-
	<b>11,265,086</b>	<b>12,048,981</b>
<b>United Kingdom</b>		
Net operating losses (unlimited)	96,259	308,000
Property, plant and equipment	127,629	-
Other temporary differences	4,988	-
	<b>228,876</b>	<b>308,000</b>
<b>United States</b>		
Net operating losses (expiring 2017)	1,516,030	1,537,000
<b>Australia</b>		
Net operating losses (unlimited)	456,219	37,332
Other temporary differences	17,849	-
	<b>474,068</b>	<b>37,332</b>
<b>Total</b>	<b>13,484,060</b>	<b>13,931,313</b>
Valuation allowance	(13,213,806)	(13,931,313)
<b>Net future income tax asset</b>	<b>270,254</b>	<b>-</b>

## 21 Net research and development

The following details the net research and development expenses included in the statements of operations:

	2002	2001	2000
	\$	\$	\$
Research and development expenses	1,588,321	1,775,113	2,279,616
Tax credits	20,970	1,880	67,398
<b>Net research and development expenses</b>	<b>1,567,351</b>	<b>1,773,233</b>	<b>2,212,218</b>

## 22 Amortization and impairment of property, plant and equipment

	2002	2001	2000
	\$	\$	\$
Amortization	428,155	584,261	1,177,848
Impairment loss	57,390	-	784,637
<b>Total</b>	<b>485,545</b>	<b>584,261</b>	<b>1,962,485</b>

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 23 Amortization and impairment of goodwill

	2002	2001	2000
	\$	\$	\$
Amortization	-	7,455,353	7,727,455
Impairment loss	-	-	8,586,073
	-	7,455,353	16,313,528

## 24 Segment information

The Company has three reportable segments: Investment Management, Internet Media and Billing Systems. The Company evaluates each operating segment's performance based on revenue, expenses and net earnings (loss) for the year.

A summary of the results by reportable segment for the years ended December 31, 2002, 2001 and 2000 is as follows. In addition, the table which follows summarizes revenues by country. Revenues have been allocated to individual countries/regions based upon the country of residence of the subsidiary providing the product or service.

Segmented assets

The following is a summary of assets by segment:

	2002	2001
	\$	\$
Total assets Investment Management	3,941,042	3,113,424
Total assets Internet Media	3,509,182	1,425,591
Total assets Billing System	2,520,990	2,600,969
Total consolidated assets	9,971,214	7,139,984

	Investment Management			Internet Media		
	2002	2001	2000	2002	2001	2000
	\$	\$	\$	\$	\$	\$
Revenue	-	11,572	121,970	4,222,352	4,183,770	7,550,300
Cost of goods sold, selling and administrative expenses	1,538,596	1,255,606	3,343,841	3,007,457	3,996,109	8,339,422
Net research and development expenses	-	-	-	661,718	776,607	915,696
Amortization and impairment of property, plant and equipment	10,854	63,911	1,404,048	144,373	175,901	170,530
Amortization of intangible assets	-	-	-	31,404	-	-
Restructuring charges	(70,453)	161,963	835,542	-	-	-
Amortization and impairment of goodwill	-	7,455,353	16,313,528	-	-	-
Interest expense	38	5,407	-	5,504	-	-
Interest income	(52,816)	(102,887)	(539,845)	(6,896)	(83,269)	(173,006)
Non-controlling interest	-	(177,698)	(1,436,096)	-	-	-
Share of result of companies subject to significant influence	-	748,972	2,007,415	-	-	-
Loss on disposal of a subsidiary	-	-	-	-	-	-
Realized gain on marketable securities	(73,383)	(101,581)	(36,381)	-	-	-
Unrealized loss on marketable securities, investments and write-down of advances	82,616	4,903,899	4,015,987	-	-	-
	1,435,452	14,212,945	25,908,039	3,843,560	4,865,348	9,252,642
Earnings (loss) before income taxes	(1,435,452)	(14,201,373)	(25,786,069)	378,792	(681,578)	(1,702,342)
Provision for (recovery of) current income taxes	-	-	-	(2,318)	(8,633)	11,458
Recovery of future income taxes	-	-	-	(271,464)	-	-
Net earnings (loss) for the year	(1,435,452)	(14,201,373)	(25,786,069)	652,574	(672,945)	(1,713,800)
Revenue						
Canada	-	11,572	121,970	4,222,352	4,183,770	7,550,300
United Kingdom	-	-	-	-	-	-
Australia	-	-	-	-	-	-
	-	11,572	121,970	4,222,352	4,183,770	7,550,300
Long-lived assets						
Canada	1,093,156	1,113,649	-	1,996,106	506,875	-
United Kingdom	-	-	-	-	-	-
Australia	-	-	-	-	-	-
	1,093,156	1,113,649	-	1,996,106	506,875	-

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

	Billing Systems			Total		
	2002 \$	2001 \$	2000 \$	2002 \$	2001 \$	2000 \$
	<b>7,602,630</b>	7,770,067	6,759,284	<b>11,824,982</b>	11,965,409	14,431,554
	<b>5,910,152</b>	6,233,320	8,606,351	<b>10,456,205</b>	11,485,035	20,289,614
	<b>905,633</b>	996,626	1,296,522	<b>1,567,351</b>	1,773,233	2,212,218
	<b>330,318</b>	344,449	387,907	<b>485,545</b>	584,261	1,962,485
	-	-	-	<b>31,404</b>	-	-
	-	22,443	193,625	<b>(70,453)</b>	184,406	1,029,167
	-	-	-	-	7,455,353	16,313,528
	<b>2,934</b>	9,094	12,347	<b>8,476</b>	14,501	12,347
	<b>(12,291)</b>	(16,856)	(1,223)	<b>(72,003)</b>	(203,012)	(714,074)
	-	-	-	-	(177,698)	(1,436,096)
	-	-	-	-	748,972	2,007,415
	-	-	898,550	-	-	898,550
	-	-	-	<b>(73,383)</b>	(101,581)	(36,381)
	-	-	-	<b>82,616</b>	4,903,899	4,015,987
	<b>7,136,746</b>	7,589,076	11,394,079	<b>12,415,758</b>	26,667,369	46,554,760
	<b>465,884</b>	180,991	(4,634,795)	<b>(590,776)</b>	(14,701,960)	(32,123,206)
	-	(86,644)	101,828	<b>(2,318)</b>	(95,277)	113,286
	-	-	-	<b>(271,464)</b>	-	-
	<b>465,884</b>	267,635	(4,736,623)	<b>(316,994)</b>	(14,606,683)	(32,236,492)
	<b>299,421</b>	384,834	305,042	<b>4,521,773</b>	4,580,176	7,977,312
	<b>5,225,605</b>	4,799,944	2,899,471	<b>5,225,605</b>	4,799,944	2,899,471
	<b>2,077,604</b>	2,585,289	3,554,771	<b>2,077,604</b>	2,585,289	3,554,771
	<b>7,602,630</b>	7,770,067	6,759,284	<b>11,824,982</b>	11,965,409	14,431,554
	<b>29,996</b>	74,767	-	<b>3,119,258</b>	1,695,291	-
	<b>112,203</b>	244,484	-	<b>112,203</b>	244,484	-
	<b>112,312</b>	293,350	-	<b>112,312</b>	293,350	-
	<b>254,511</b>	612,601	-	<b>3,343,773</b>	2,233,125	-

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 24 Segment information (continued)

### Major customers:

Sales to major customers (customers from which 10% or more of total revenue is derived during the specified year) are summarized as follows:

	2002	2001	2000
Customer 1 Billing Systems	1,592,119	N/A	N/A
Customer 2 Billing Systems	N/A	N/A	1,323,844

## 25 Contingencies and commitments

### a) Contingencies

In July 2000, Intasys and its wholly owned Delaware subsidiary, Intasys Management Systems, Inc., completed a series of transactions with Lamya Management Limited and related parties pursuant to which, inter alia, Intasys acquired rights in certain software, trademarks and other intellectual property rights. Pursuant to this, Intasys Management Systems, Inc. hired Sami Shamma as its President and CEO. In October 2000, Mr. Shamma was terminated for cause and in January 2001, Intasys and Intasys Management Systems, Inc. ("Claimants") initiated arbitration proceedings against Mr. Shamma and certain other persons and entities related to him ("Respondents"). The Claimants seek damages in excess of \$1,472,553 arising out of Mr. Shamma's alleged conduct, alleged breach of various duties and related matters, and such other relief as the Arbitrator deems appropriate. In addition and further to Mr. Shamma's termination, the Claimants were entitled to and did purchase the shares previously held by Mr. Shamma in Intasys Management Systems, Inc. As a result of his termination for cause and pursuant to the agreements entered into with Mr. Shamma, these shares were purchased at book value, a nominal amount, and Intasys is now the sole shareholder of Intasys Management Systems, Inc.

The Respondents have filed a statement of defence denying the Claimants' allegations and counterclaiming for damages in excess of \$22,880,000, including punitive damages, and such other relief as the Arbitrator deems proper. The Respondents' also claim that the purchase of the above-mentioned shares should be at their fair market value.

Arbitration was held the week of October 21, 2002 and is scheduled to resume and conclude the week of April 1, 2003. Management believes its positions are meritorious and intends to continue to prosecute its claim and defend the Respondents' counterclaim vigorously.

On May 6, 1996, a claim in an unspecified amount was filed in Florida in connection with the Company's previously discontinued operation of disinfectant products.

In accordance with Florida state law, a mediation hearing took place on December 9, 2002 and was inconclusive. The Company's motion for Summary Judgment was heard on March 18, 2003 and was denied. The Company re-filed its motion. The case was scheduled for a jury trial in May 2003. On March 26, 2003, the Company received a letter from the claimant offering to settle all claims related to this matter in exchange for a payment of \$350,000. Management has decided to accept this offer, pending preparation and execution of all necessary legal documents. Accordingly, an amount of \$350,000 has been provided for in these financial statements which amount has been included in other accounts payable as at December 31, 2002 (note 11).

### b) Commitments

The Company is committed under operating lease agreements. Future minimum payments under these leases as of December 31, 2002 are as follows:

	\$
Years ending December 31, 2003	308,394
2004	174,817
2005	11,145

## 26 Financial instruments

### Currency risk

The Company operates internationally and is exposed to market risks principally from changes in foreign currency rates. The Company does not hold any financial instruments that mitigate this risk.

### Credit risks

Financial instruments which potentially subject the Company to credit risk consist principally of cash, short-term deposit and accounts receivable. The Company's cash and short-term deposits are maintained at major financial institutions therefore, the Company considers the risk of non-performance on these instruments to be remote.

The Company is exposed to credit risk on accounts receivable from its customers. The Company and its subsidiaries are engaged primarily in the licensing of specialized computer software and meta-search engine distributing search results over the Internet. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers.

### Fair value of financial instruments

The carrying amounts reflected in the consolidated balance sheets for cash and cash equivalents, marketable securities, accounts receivable, accounts payable and accrued liabilities approximate their respective fair values due to the short maturities of those instruments.

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 26 Financial instruments (continued)

### Interest rate risks

As at December 31, 2002, the Company's exposure to interest rate risk is summarized as follows:

Cash	Non-interest bearing
Short-term deposits	Interest rates between 0.8% and 0.9%
Accounts receivable	Non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing

## 27 Related party transactions

Details of related party transactions not otherwise disclosed in the financial statements are as follows:

	2002	2001	2000
	\$	\$	\$
<b>Companies owned by current and/or former directors and/or officers</b>			
Disposal of investment	-	-	100,000
Revenue	-	(1,134)	9,668
General and administrative expenses	<b>203,975</b>	188,840	404,254
Reserve for restructuring	-	6,276	-
<b>Company subject to significant influence</b>			
Revenue	-	10,106	108,388
Interest revenue	<b>33,477</b>	30,894	106,738

All related party transactions occurred in the normal course of operations and were measured at the exchange amount, which represents the amount of consideration agreed upon by the parties.

## 28 United States generally accepted accounting principles

As a registrant with the Securities and Exchange Commission in the United States, the Company is required to reconcile its financial results for significant measurement differences between generally accepted accounting principles as applied in Canada (Canadian GAAP) and those applied in the United States (U.S. GAAP) as they specifically relate to the Company.

The following summary sets out the material adjustments to the Company's reported net loss and net loss per share which would be made to conform with U.S. GAAP:

	2002	2001	2000
	\$	\$	\$
Net loss for the year in accordance with Canadian GAAP	<b>(316,994)</b>	(14,606,683)	(32,236,492)
Stock-based compensation costs (a)	<b>92,000</b>	(92,000)	(1,673,694)
Non-controlling interest (a)	-	-	636,004
Share of results of companies subject to significant influence (a)	-	-	(512,427)
Write-down of investment (a)	-	512,427	-
Unrealized loss on marketable securities (b)	-	254,614	3,387,305
Realized portion of prior year unrealized loss on marketable securities (b)	<b>(1,029,896)</b>	(2,612,023)	-
Net loss for the year in accordance with U.S. GAAP	<b>(1,254,890)</b>	(16,543,665)	(30,399,304)
Basic and diluted net loss per share under U.S. GAAP	<b>(0.29)</b>	(5.16)	(11.29)
Other comprehensive income (loss)			
Unrealized holding loss on marketable securities (b)	-	(254,614)	(3,387,305)
Realized portion of prior year unrealized loss on marketable securities (b)	<b>1,029,896</b>	2,612,023	-
Foreign currency translation adjustment (c)	<b>(32,488)</b>	(72,901)	(170,304)
	<b>997,408</b>	2,284,508	(3,557,609)
Net loss in accordance with U.S. GAAP	<b>(1,254,890)</b>	(16,543,665)	(30,399,304)
Comprehensive loss	<b>(257,482)</b>	(14,259,157)	(33,956,913)

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 28 United States generally accepted accounting principles (continued)

The effects of these adjustments on the balance sheets of the Company are as follows:

### Balance sheets

	2002 \$	2001 \$ (restated)
<b>Capital stock</b>		
Capital stock in accordance with Canadian GAAP	69,873,994	68,077,781
Reduction of stated capital (d)	16,769,570	16,769,570
Capital stock in accordance with U.S. GAAP	86,643,564	84,847,351
<b>Additional paid-in capital</b>		
Additional paid-in capital in accordance with Canadian GAAP	750,111	339,550
Stock-based compensation costs (a)		
Cumulative effect of prior years	1,765,694	1,673,694
Current year	(92,000)	92,000
Acquisition of non-controlling interest acquired during year (a)		
Cumulative effect of prior years	(636,004)	-
Current year	-	(636,004)
Additional paid-in capital in accordance with U.S. GAAP	1,787,801	1,469,240
Deferred stock-based compensation costs in accordance with Canadian and U.S. GAAP	(10,667)	(418,727)
<b>Accumulated other comprehensive loss (c)</b>		
Cumulative translation adjustment in accordance with Canadian GAAP	(275,693)	(243,205)
Unrealized holding loss on marketable securities (b)		
Cumulative effect of prior years	(3,641,919)	(3,387,305)
Current year	-	(254,614)
Realized portion of previously unrealized holding loss (b)		
Prior year	2,612,023	-
Current year	1,029,896	2,612,023
Accumulated other comprehensive loss in accordance with U.S. GAAP	(275,693)	(1,273,101)
<b>Deficit</b>		
In accordance with Canadian GAAP	(63,636,550)	(63,319,556)
Reduction of stated capital to deficit (d)	(16,769,570)	(16,769,570)
Stock-based compensation costs (a)		
Cumulative effect of prior years	(1,642,117)	(1,550,117)
Current year	92,000	(92,000)
Unrealized holding loss on marketable securities (b)		
Cumulative effect of prior years	3,641,919	3,387,305
Current year	-	254,614
Realized portion of previously unrealized holding loss (b)		
Cumulative effect of prior years	(2,612,023)	-
Current year	(1,029,896)	(2,612,023)
Difference in write-down (a)		
Cumulative effect of prior years	512,427	-
Current year	-	512,427
Deficit in accordance with U.S. GAAP	(81,443,810)	(80,188,920)
Total shareholders' equity in accordance with U.S. GAAP	6,701,195	4,435,843

### Statement of cash flows

Under Canadian GAAP, statements of cash flows were prepared on a basis consistent with international accounting standards.

#### a) Stock-based compensation costs

##### Grant of options

Under U.S. GAAP, the Company has elected to measure stock-based compensation costs using the intrinsic value method (APB 25). Under this method, compensation cost is measured as the difference between the fair value of the stock at the date of the grant over the exercise price. Compensation cost is amortized to expense over the appropriate vesting period. Under Canadian GAAP, no such compensation cost is recognized. Any such adjustment related to the subsidiary of the Company also creates an adjustment in non-controlling interest, and share of results of companies subject to significant influence. In addition, any write-down of equity-accounted investments would result in lower write-down under U.S. GAAP as compare to Canadian GAAP.

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 28 United States generally accepted accounting principles (continued)

### Repricing of options

Under U.S. GAAP, the repricing of options requires the plan to be considered a variable plan. Variable plan accounting requires that compensation expense be recognized for the difference between the market price the day of repricing and the exercise price of the option. Compensation cost is amortized to expense over the appropriate vesting period and adjusted on subsequent financial reporting dates, based on the market price of the shares. Under Canadian GAAP, no such compensation expense is recognized.

### b) Short-term investments

Under U.S. GAAP, the short-term investments would be classified as "available-for-sale" securities. Consequently, these securities would be carried at fair value, with any unrealized holding gains or losses at each balance sheet date being reflected in other comprehensive loss on a net of tax basis. Under Canadian GAAP, short-term investments are carried at the lower of cost and market value.

### c) Comprehensive loss

U.S. GAAP requires disclosures of comprehensive loss which comprises loss and other components of comprehensive loss. Under Canadian GAAP, there is no requirement to report comprehensive loss. The Company has no items which require adjustment in this area.

### d) Reduction of stated capital

Under U.S. GAAP, the reduction of stated capital in the amount of US\$16,769,570 undertaken by the Company on June 28, 1995 would not be permitted.

### e) New accounting standards (U.S.)

On June 15, 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations", which is effective for fiscal years beginning on or after June 15, 2002. This new standard, which is substantially similar to the new guidance issued by the CICA (note 3r) is not expected to have a material impact on the Company.

In October 2001, the FASB issued SFAS 144, "Accounting for Impairment or Disposal of Long-Lived Assets", which supersedes SFAS 121 and the provisions of APB 30, "Reporting the Results of Operations, Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", with regard to reporting the effects of a disposal of a segment of a business. SFAS 144 retains many of the provisions of SFAS 121, but significantly changes the criteria that would have to be met to classify an asset as held for disposal such that long-lived assets to be disposed of other than by sale are considered held and used until disposed of. In addition, SFAS 144 retains the basic provisions of APB 30 for presentation of discontinued operations in the statement of operations but broadens that presentation to a component of an entity. This new standard is effective for fiscal years beginning on or after June 15, 2002. This new standard is not expected to have a material impact on the Company's financial statements.

In July 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities". The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination cost and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities – An Interpretation of ARB No. 51" ("FIN 46"), which sets out criteria to be used to identify the parent company of variable interest entities. FIN 46 requires that the party that has the majority of the risk exposure related to a variable interest entity (often referred to as a "special purpose entity") is presumed to control that entity and must consolidate it. These new rules which are effective for new structures created after January 31, 2003, and must be applied (by public companies) to existing structures no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. Since the Company does not currently have any such structures, this new interpretation is not expected to have any impact on the Company's financial statements.

## 29 Subsequent event

- a) Pursuant to the filing of a registration statement on Form S-8, which became effective January 29, 2003, the Company increased the number of common shares reserved for issuance under its stock option plan by 520,000 shares. As a result, the Company has 1,000,000 shares available for issuance under the plan as of January 29, 2003.

## Directors

(as at April 17, 2003)

### David Goldman

Chairman of the Board and Chief Executive Officer  
Intasys Corporation  
Montreal, Canada

### Claude Forget <sup>(1)</sup> <sup>(2)</sup>

Business Consultant  
Montreal, Canada

### Robert Raich <sup>(2)</sup>

Managing Partner  
Spiegel Sohmer  
Montreal, Canada

### Irwin Kramer <sup>(1)</sup>

President and Chief Executive Officer  
iCongo.com Inc.  
Montreal, Canada

### Sam Luft <sup>(2)</sup>

Managing Director  
Investment Allocation International Inc.  
Montreal, Canada

### David Schwartz <sup>(1)</sup>

Senior Lecturer  
Bar Ilan University Faculty of Social Sciences  
Ramat Gan, Israel

## Executive Officers

### David Goldman

Chairman of the Board and Chief Executive Officer

### Daniel Bertrand

Vice-President and Chief Financial Officer

### Michael Timmouth

President and Chief Executive Officer  
Intasys Billing Technologies

### Guy Fauré

President and Chief Executive Officer  
Mamma.com Inc.

<sup>(1)</sup> Member, Audit and Finance Committee

<sup>(2)</sup> Member, Human Resources, Nominating and Governance Committee

## Shareholder Information

### Transfer Agent

Equity Transfer Services Inc.  
120 Adelaide Street West  
Suite 420  
Toronto, Ontario  
M5H 4C3  
Telephone: (416) 361-0152  
Fax: (416) 361-0470

### Corporate Counsel-United States

Blair & Roach LLP  
2645 Sheridan Drive  
Tonawanda, New York 14150  
USA  
Telephone: (716) 834-9181  
Fax: (716) 834-9197

### Corporate Counsel-Canada

Spiegel Sohmer  
5 Place Ville Marie,  
Suite 1203  
Montreal, Quebec  
H3B 2G2  
Telephone: (514) 875-2100  
Fax: (514) 875-8237

### Independent Auditors

PricewaterhouseCoopers LLP  
1250 René-Lévesque Blvd. West  
Suite 2800  
Montreal, Quebec  
H3B 2G4  
Telephone: (514) 205-5000  
Fax: (514) 205-5675

### Annual Meeting

The annual meeting of shareholders will be held at 11:00 a.m. on May 29, 2003 at Spiegel Sohmer (Board Room number 6), 5 Place Ville Marie, Suite 1203, Montreal, Quebec Canada

### Public Marketplaces

Small Cap Market of the Nasdaq Stock Market  
Third Market Segment of the Frankfurt and  
Berlin Stock Exchanges

### Trading Symbols

Nasdaq: Intasys  
Frankfurt and Berlin Stock Exchanges: IYS

### 2002 Stock Listing and Prices

2002	High	Low
4 <sup>th</sup> Q	\$1.57	\$0.92
3 <sup>rd</sup> Q	\$1.55	\$1.02
2 <sup>nd</sup> Q	\$1.52	\$1.05
1 <sup>st</sup> Q	\$2.70	\$1.50

### Intasys Corporation

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