



# Mamma.com Inc.

(formerly Intasys Corporation)

Annual Report  
2003

the only click that counts™  
**mamma**  
MEDIA SOLUTIONS



## Corporate Profile

Mamma.com Inc. is focused on providing first-rate quality information retrieval on the Internet through its metasearch engine and is a leading provider of integrated marketing solutions to on-line advertisers and publishers. The Mamma.com — The Mother of All Search Engines® search engine is one of most popular metasearch engines on the Internet, as it makes it easier and faster for people to find information by gathering the most relevant results from the best search engines on the Internet. The Company is equally focused on being one of the leading providers of on-line marketing solutions to advertisers as its integrated offer includes keyword search listings and numerous sizes of graphic ad units. To support the advertiser offering, Mamma Media Solutions™ maintains a large publisher network on which it distributes search results, paid links, and graphic ad units.

For more information about Mamma Media Solutions™, visit our corporate website: [www.mammamediasolutions.com](http://www.mammamediasolutions.com)



Corporate Website ([www.mammamediasolutions.com](http://www.mammamediasolutions.com))



Metasearch Engine ([www.mamma.com](http://www.mamma.com))

## Financial Highlights

<b>Consolidated Earnings (in U.S. dollars) (in Canadian GAAP)</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
Revenue	8,938,863	4,222,352	4,195,342	7,672,270	474,486
Net earnings (loss) from continuing operations	88,990	-782,878	-14,874,318	-27,499,869	-3,288,362
Results of discontinued operations	-300,053	465,884	267,635	-4,736,623	-4,576,311
Net loss of the year	-211,063	-316,994	-14,606,683	-32,236,492	-7,864,673

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# Letter to the Shareholders

## 2003: A cornerstone year for Mamma.com Inc. (formerly Intasys Corporation)

Mamma.com Inc. had a cornerstone year. Your company delivered on several major points in its strategic corporate plan, which resulted in: reinforcing financial strength, improving value proposition to shareholders, offering integrated solutions to advertisers and publishers<sup>1</sup>, and strengthening our metasearch engine, www.mamma.com. Overall, in 2003, Mamma.com Inc. continued to differentiate itself in the marketplace with the objective of offering uniquely integrated solutions that will provide a strong platform for growth. Mamma.com Inc. reported net earnings from continuing operations of \$88,990, a loss from results of discontinued operations of \$300,053 related to the billing systems subsidiaries and a net loss for the year of \$211,063. The Media Solutions unit of Mamma.com Inc. reported net earnings from continuing operations of \$1,544,545. The investment management division (which includes costs of the public Company and minority interests in analog integrated circuit products, new media and telecommunications sectors) reported a loss from continuing operations of \$1,455,555. The company had cash and cash equivalents at year-end of \$4,489,077.

## From Intasys Corporation to Mamma.com Inc.

To create a strong financial base and to improve our value proposition to shareholders, we redefined our strategic priorities and directed our attention to re-energizing the Company as a pure play in the search engine industry. We recognised that the Company could not achieve acceptable growth rates if we continued to operate in both the media solutions and telecommunications sectors. The Board of Directors decided that the Company would devote all its resources to the online advertising industry<sup>2</sup> and shareholders approved the name change of the Company from Intasys Corporation to Mamma.com Inc. We sold our billing technologies subsidiaries to fully exploit what we believe to be growing opportunities in the online advertising industry. Consequently, we have been able to devote all of our energy to implementing our strategic objectives, which has focused our effort on a dynamic industry and allowed us to execute our strategy in a timely fashion in order to develop a uniquely integrated offering in the marketplace.

## Mamma Media Solutions™: Integrated Online Marketing Solutions for Advertisers and Publishers and Mamma.com — The Mother of All Search Engines®

As a result of the divestiture of our billing technologies subsidiaries in early 2004, and to reinforce the Company's new strategic direction and positioning, we created a new brand: Mamma Media Solutions™. This new brand acts as an all-encompassing brand for all of our advertiser and

publisher solutions and reflects the company's integrated offering of solutions across two distinct forms (Pay-Per-Click and Graphic) of advertising.

### The Meaning of Integration:

Under the Mamma Media Solutions™ brand, we provide advertisers and publishers with one stop access to pay-per-click search listings and graphic ad units. Advertisers are therefore able to attract customers while they are actively searching for products with keywords or are able to reinforce their brand image by targeting them with graphic ads. In

addition to our destination site, we maintain a large publisher network for distribution of search and graphic ad units for our advertisers creating a virtual market place by meeting both the demand and supply. Our objective is to expand our integrated online marketing portfolio of services to include another vehicle for advertisers to connect to their target markets as well as for publishers to establish another revenue stream. To that end, in the first quarter of 2004, we announced that the Company had signed a letter of intent to acquire Digital Arrow LLC, a private opt-in e-mail marketer, and due diligence is in progress.

Mamma.com – The Mother Of All Search Engines®, provides Internet users with a fast, efficient, and effective means for gathering the most relevant information from the best search engines on the Internet. www.mamma.com had a monumental year. Many enhancements were made to the engine including its algorithm, support for advanced search functionalities, upgrades on the power

search page, image search functionality, as well as the user interface and the loading time. For the first time in more than two years we have seen our usership grow on the Mamma.com property. Due to increased usership and these enhancements, the engine became recognized in the industry as one of the best metasearch engines on the Internet (Annual Search Engine Watch Awards, February 2004).

## Growth – Organic and Acquisitions

Expectations are for strong growth in the media solutions sector over the next few years (see Industry Trends in Corporate Information). We believe that the Company has favourably positioned itself to achieve strong organic growth rates. We are one of very few to offer integrated online marketing solutions for both advertisers and publishers combined with first-rate quality information retrieval on the Internet. The online advertising industry continues to grow strongly, and we believe that this growth is sustainable.



Mamma.com Inc.'s new brand, reflecting the company's integrated offering to advertisers and publishers.



Mamma.com's well-known search engine achieved significant growth in the number of users in 2003.

<sup>1</sup>A publisher is an organization that owns and operates a website and through a revenue share agreement with Mamma.com Inc. will allow the latter to serve ad units on their property (an ad unit can be paid search results, paid links, graphic ad units).

<sup>2</sup>Online advertising industry: provides advertising space in exchange for revenue on Internet properties. The revenue is usually CPC (cost per click) or CPM (cost per thousand impression) based.

Whether large or small, companies that have a unique offering can compete and therefore sustain their growth in the industry. Mamma.com Inc. has built a strategic plan that differentiates itself from the competition and which we believe will result in healthy organic growth rates above industry averages through proper execution. Our objective is to accelerate this growth in 2004. With a strong balance sheet, we are able to pursue a more aggressive M&A strategy that should rapidly add value to our offerings and contribute positively to our revenue and earnings.

### Corporate Governance

Responsible corporate governance is at the top of Mamma.com Inc.'s agenda. Our Board of Directors recognises that the Company, its directors, officers, employees and shareholders all benefit from a clear corporate governance policy which is understood and adhered to. To that end, we have a policy document, which summarizes the responsibilities of the Board and its committees, and contains a Policy on the Prevention of Insider Trading, a Code of Ethics and a Communications Policy. These have recently been revised as a result of the corporate restructuring following the sale of our billing technologies subsidiaries. For the information of shareholders, the Policy on the Prevention of Insider Trading and the Code of Ethics are reproduced on the inside back cover of this report.

The revised policies are now being submitted for execution by employees and any individual who requires clarification or is not certain about how to act in specific circumstances is asked to contact either of the undersigned.

Four of our six directors are independent. Our audit committee is composed entirely of unrelated directors and our Chief Financial Officer reports directly to the Chair of the


audit committee. The Company's audit committee selects and has the responsibility to oversee the performance of the Company's independent auditors. All of our directors are actively involved in the affairs of the Company and each of our independent directors frequently communicates with the undersigned to keep abreast of current matters. Their advice and assistance is welcomed by management.

### People

We have been able to perform as well as we did this year because of excellent execution of our business plan and strategy by the Mamma.com team. We are a tight knit group that values employee loyalty. Every member of the Mamma team understands our strategic plan and supports its execution so that we deliver as promised. It is their expertise, professionalism and devotion that will contribute strongly to the achievement of our goals. We believe the experience of our employees in the online advertising industry is second to none and is a major reason for our competitive advantage and success in the industry.

On behalf of the shareholders, we extend our thanks to the employees of Mamma.com who individually and through a team effort have been the ones that have successfully taken this Company to the next level. They are dedicated to offering our customers a superior integrated portfolio of online marketing solutions to satisfy their requirements.

To you, our shareholders, our assurance that we — directors, officers, and employees — are committed to building the premier media solutions company.



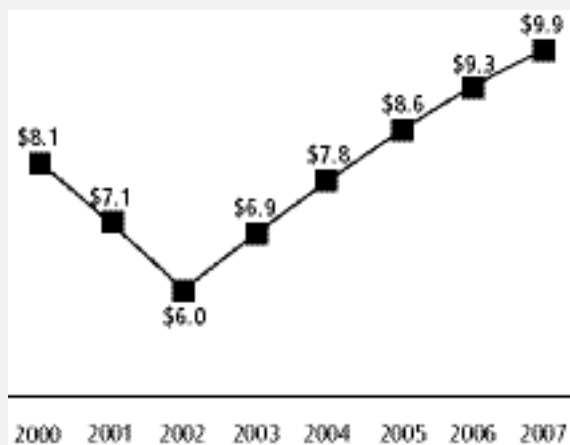
David Goldman  
Executive Chairman of the Board



Guy Fauré  
President and Chief Executive Officer

## Corporate Information

**US Online Advertising Spending, 2000-2007  
(in billions)<sup>3</sup>**



online advertising spending is projected to be in a growth stage through to 2007. In a rebound from the 2002 dot-com trough, online ad spending is making a comeback as more advertisers flock to the Internet to deploy their marketing campaigns.

<sup>3</sup>Source: eMarketer, December 2003; eMarketer benchmarks its US online ad spending projections against the Interactive Advertising Bureau (IAB) — PricewaterhouseCoopers (PwC) data, for which the last period measured was Q3 2003.

***Our mission is to be a premier online integrator of advertiser and publisher solutions and to lead the metasearch industry in information retrieval by offering Internet users the best metasearch engine tool on the web.***

**Our plan** is to differentiate the Company by offering an integrated portfolio of online advertising services to achieve accelerated growth, continue to improve our metasearch property (www.mamma.com), and be an industry leader.

Our strategy relies on a strong organic growth plan supported by future, appropriate mergers and/or acquisitions that will make Mamma.com a company with larger critical mass and more market reach. A significant part of our organic growth plan will partially be accomplished by capitalizing on the technological and marketing synergies that exist within our Pay-Per-Click and Graphic advertiser solutions. To achieve accelerated growth objectives, Mamma.com has a strong

balance sheet, sufficient cash on hand, and has successfully integrated the focusIN Specialty Web Network. Mamma.com is poised to pursue its growth by acquiring other companies that operate in one of the three main targeted areas (search, ad network and e-mail marketing space) for possible future acquisitions.

Finally, investing in technologies and human resources to improve our metasearch property in order to be at the forefront of innovation in metasearch is a strategic part of our plan for the upcoming year.

# Mamma.com Inc. Business

Mamma.com Inc.'s business focuses on two macro offerings, web search functionality to Internet users and integrated solutions for advertisers and publishers.

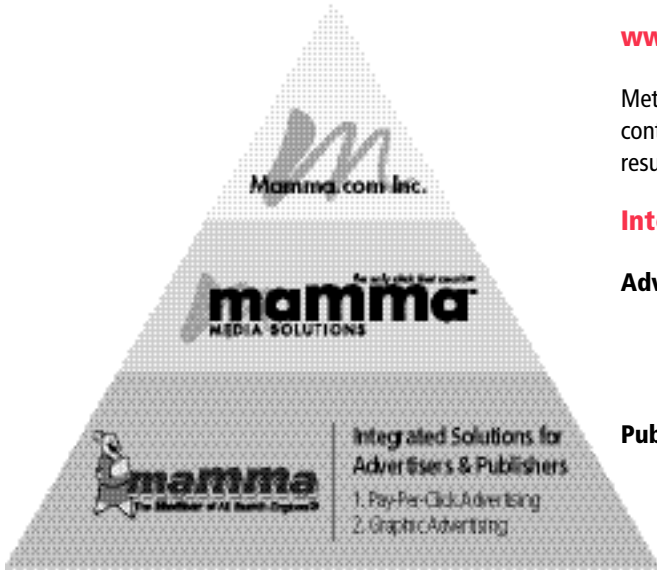


Illustration of Mamma.com Inc's business model.

## www.mamma.com

Metasearch engine that provides search results to Internet users by compiling the top content sources on the Internet and applying an algorithm to determine the most relevant results to the users' query string.

## Integrated Solutions for Advertisers & Publishers

### Advertisers:

Graphic Ad Units: purchased for direct response and brand awareness objectives.  
 Pay-Per-Click Search Listings: purchased for website (via search listing) presence on major Internet sites and search engines.

### Publishers:

Graphic Ad Units displayed on publishers website.  
 Paid Links displayed on publishers website.  
 Search Results supplied as either branded, co-branded or white label search solutions to publishers.

## Revenue Generation:

1) Pay-Per-Click: search listing placement — advertisers pay for position on search listing advertisements on www.mamma.com and within the Mamma Media Solutions™ Publisher Network. Mamma.com's publishers participate in the revenue generation from ads served on their sites.

2) Graphic Ad Units: are priced on a CPM (Cost-Per-Thousand) and CPC (Cost-Per-Click) basis and are distributed through the Mamma Media Solutions™ Publisher Network. Mamma.com's publishers participate in the revenue generation from ads served on their sites.

### Mamma.com Inc. Market Valuation:

Market cap at \$131M (May 14, 2004)

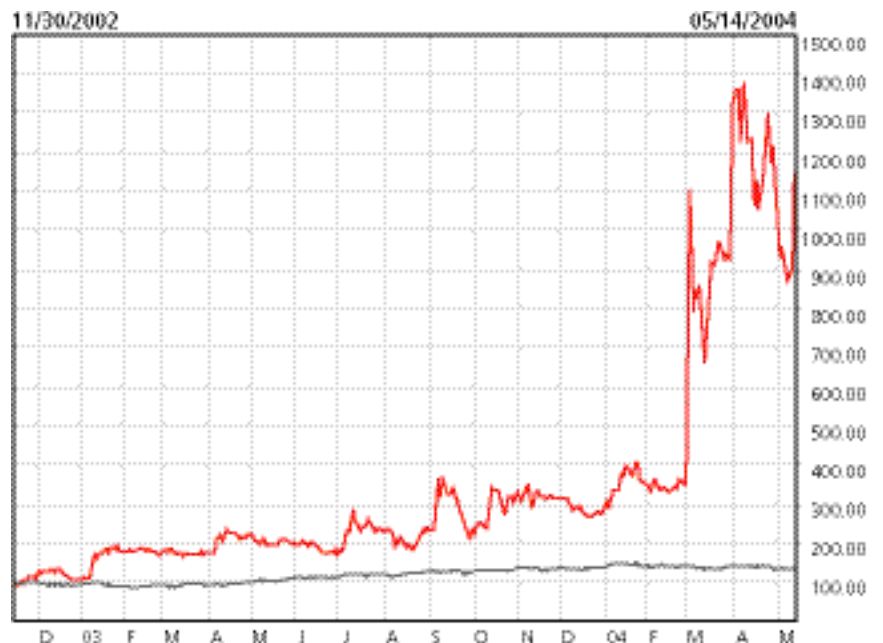
### Nasdaq Composite Index:

The Nasdaq Composite Index measures all Nasdaq domestic and non-U.S. based common stocks listed on The Nasdaq Stock Market. The Index is market-value weighted. This means that each company's security affects the Index in proportion to its market value. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

N.B. November 2002 = 100.00

■ MAMA  
 ■ COMP

## Mamma.com Inc. 18 Month stock trend compared to Nasdaq Composite



Nicholas Accad • Rick Arkell • Martha Bailey • Ryan Berkofsky • Daniel Bertrand • Shannon Cleary • Jason Cobbler • John Consalvo • Nick Dauchez • Maria Elena Di Fruscia • Mara Di Staulo • Guy Fauré • Vladimir Fessenko • Patrick Gagné • André Goddard • David Goldman • Patrick Hopf • Deborah Kilpatrick • Joel Lamantia • Stuart MacDougall • Dan Morgan • Pavel Natapov • Qing Yu Pang • Christopher Patheiger • R.J. Pauloski • Julie Petrusa • Sun Qinghe • Mélanie Ritche

• Jaime Rodriguez • Sharon Rustin • Allison Ryan • Noam Schnitzer • Jennifer Shulman • Mathieu St-Pierre • Andrea Tritton • Karen Wang • Sam Zehlawi • Nicholas Accad • Rick Arkell • Martha Bailey • Ryan Berkofsky • Daniel Bertrand • Shannon Cleary • Jason Cobbler • John Consalvo • Nick Dauchez • Maria Elena Di Fruscia • Mara Di Staulo • Guy Fauré • Vladimir Fessenko • Patrick Gagné • André Goddard • David Goldman • Patrick Hopf • Deborah Kilpatrick • Joel Lamantia • Stuart MacDougall • Dan Morgan • Pavel Natapov • Qing Yu Pang • Christopher Patheiger • R.J. Pauloski • Julie Petrusa • Sun Qinghe • Mélanie Ritche



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

The following discussion and analysis of the consolidated financial condition and results of operations of Mamma.com Inc. (formerly Intasys Corporation) for the fiscal years ended December 31, 2003, 2002 and 2001 should be read in conjunction with its consolidated financial statements and the related notes included elsewhere in this annual report. The Company's consolidated financial statements are reported in US dollars and have been prepared in accordance with generally accepted accounting principles in Canada, or Canadian GAAP. 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 as described in note 25 to its consolidated financial statements.

## Overview

Mamma.com Inc. is focused on providing information retrieval on the Internet through its metasearch engine, [www.mamma.com](http://www.mamma.com), The Mother of All Search Engines®. The Company is equally focused on being a provider of online marketing solutions to advertisers as its integrated offer includes keyword search listings and numerous sizes of graphic ad units. Mamma.com Inc. maintains a publisher network on which it distributes search and graphic ad units for its advertisers. The Company has two types of revenues: Search services and Banner advertising services with customers mainly located in the United States and Canada. The Company also holds minority interests in companies which develop and market analog integrated circuit products, and in the new media and telecommunication sectors through LTRIM Technologies Inc., Tri-Link Technologies Inc. and TECE, Inc.

### The revenue model of the Company is based on:

Pay-Per-Click search listing placement – advertisers pay for position on search listing advertisements on [www.mamma.com](http://www.mamma.com) and within the Mamma Media Solutions™ Publisher Network.

Graphic Ad Units are priced on a CPM (Cost-Per-Thousand) and CPC (Cost-Per-Click) basis and are distributed through the Mamma Media Solutions™ Publisher Network.

The Mamma Media Solutions™ Publisher Network has over 7,500 publishers (combined search and graphic ad publishers).

### Search

Approximately 65% of Mamma.com Inc.'s revenues come from its search-based business. The revenue model in this sector is simply a pay-per-click fee that is charged to the advertiser when a user clicks on a sponsored link. The business model consists of advertisers buying keywords.

When these keywords are searched by a user, the advertiser's web site will be listed in a premium position in the search results (it will be identified as a sponsored result). Mamma.com aggregates advertisers from other search-based businesses and from its own direct sales efforts (through direct sales and automated online marketing initiatives). Mamma.com then distributes these paid links onto its search publisher network which consists of its own search property (Mamma.com – The Mother of All Search Engines) and third party search properties. Revenue from advertisers that are pushed on third party search properties are shared with that search publisher. Higher margins are obtained through the Company's property because there are no associated payout costs.

### Ad Network

The remaining 35% of the Company's revenues come from its Ad Network business. The revenue model is mainly CPM based (cost per one thousand impressions pushed). The business model is one where advertisers buy impressions for ad campaigns (these are creative based campaigns: different size banners, pop-ups, rich media advertising) and can target them through the Company's network of publishers. These campaigns can be targeted in several ways: geo-targeting (by region), by site category (ex: travel, entertainment, finance, etc.). The publisher network consists of about 5,000 small to medium sized web sites that subscribe to the Company's service (through an online contract) and give us access to their advertising inventory on their property. Mamma.com recruits publishers through a direct sales force and through online initiatives. Mamma.com Inc. then shares the advertising revenue with the publishers.

Trends of the industry have been released in recent publications such as:

1. US Online Advertising Spending is expected to increase by 43% over the next 4 years increasing from \$6.9 billion in 2003 to \$9.9 billion in 2007 (eMarketer, December 2003).
2. Search industry will reach \$7 billion in worldwide revenues by 2007 – US Bancorp Piper Jaffray Senior Analyst Safa Rashtchy (US Bancorp Piper Jaffray, March 20, 2003).
3. Internet advertising totalled an estimated \$1.745 billion in the third quarter of 2003. Q3 2003 represents a 20% increase over Q3 2002 (\$1.451 billion) and a 5% increase over Q2 2003. (Interactive Advertising Bureau (IAB) and PricewaterhouseCoopers (PwC), December 9, 2003). Reference for the IAB/PWC statistics: Joint press release, December 9th 2003. (URL: [http://www.iab.net/news/pr\\_2003\\_12\\_09.asp](http://www.iab.net/news/pr_2003_12_09.asp))

In July 2003, the board of directors decided to divest Intasys Billing Technologies ("IBT"). In September 2003, the

Company accepted a verbal offer for the asset sale of its wireless billing subsidiaries, IBT. Consequently, the results of operations and cash flows for IBT have been reported separately as discontinued operations in the consolidated statements of operations and cash flows, and the assets and liabilities of IBT have been reclassified on the consolidated balance sheets. Comparative figures for the years ended December 31, 2002 and 2001 have been reclassified in order to comply with this new basis of presentation. The transaction was completed on February 12, 2004.

Since IBT is classified as discontinued operations, the discussion that follows focuses on the results of operations, financial position and cash flows of the remaining business, excluding IBT.

## Results of Operations

### Revenues

The Company generated revenue of \$8,938,863 and net earnings for the year from continuing operations of \$88,990 in fiscal 2003 compared to revenue of \$4,222,352 and net loss from continuing operations of \$782,878 in fiscal 2002 and \$4,195,932 in revenue and a net loss from continuing operations of \$14,874,318 in fiscal 2001. In 2003, the Internet market conditions improved and the Company's two main types of revenues increased. Search services increased by \$3,078,587 or 114% to \$5,776,707 in 2003 compared to \$2,698,120 in 2002. Banner advertising services increased by \$1,662,484 or 112% to \$3,150,883 in 2003 compared to \$1,488,399 in 2002 by fully integrating the focusIN business acquisition. In 2002 revenues were almost at the same level as 2001 due to the downturn post September 2001 with recovery of the industry in 2003.

### Cost of revenues, selling and administrative expenses

As a percentage of revenues, the cost of revenues, selling and administrative expenses decreased to 88% for fiscal 2003, from 110% for fiscal 2002, from 131% for fiscal 2001. For detailed information, please refer to Segment results.

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

R&D expenses, net of tax credits were \$599,379 in fiscal 2003, compared to \$534,332 in fiscal 2002 and \$505,076 in fiscal 2001. The increase of \$65,047 in fiscal 2003 is attributable primarily to: an increase in salaries of approximately \$35,902 due to increased needs on improving new features, normal salary increase and minor increases in other variable costs. The increase of \$29,256 in fiscal 2002 was entirely related to normal salary increase and improving features. For detailed information, please refer to Segment results.

### Amortization of property, plant and equipment

Amortization of property, plant and equipment was \$140,090 for fiscal 2003 compared to \$148,435 in fiscal 2002 and \$232,460 in fiscal 2001. The constant decrease was attributable to a normal decrease of asset value. Acquisitions of property, plant and equipment were minimal and comparable during these years totalling \$47,432 in

2003, \$48,875 in 2002 and \$75,348 in 2001.

### Restructuring charges

In 2002, \$70,453 of charges related to the restructuring of the investment management segment were reversed due to an over-accrual of estimated sub-leasing charges of the principal executive offices that were not needed due to the cancellation of corporate obligations. In fiscal 2001, the Company announced a moratorium on new investments in the incubator activities under the investment segment, three people were terminated and principal executive offices were ultimately relocated to Mamma.com Enterprises Inc. The restructuring charges totalling \$161,963 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

Due to the adoption of the new recommendations of the CICA regarding goodwill, no amortization of goodwill was recorded in 2002 or 2003. In addition, since the recorded goodwill on the balance sheet at the end of 2003 related solely to the acquisition of the FocusIN business of ZAQ, which occurred shortly before year end, management determined there was no impairment in goodwill in 2003. In fiscal 2001, amortization and impairment of goodwill was \$7,455,353 related to the step acquisition of Mamma.com Enterprises Inc. At the end of fiscal 2001, the carrying value of the goodwill related to the acquisition of the remaining minority shareholders' interest of Mamma.com Enterprises for an amount \$1,255,353 was entirely in excess of its net recoverable amount.

### Amortization of intangible assets with definite life

On November 27, 2002, the Company, through Mamma.com Enterprises Inc., acquired the focusIN Brand name, technology and customer lists of which \$894,539 was allocated to intangible assets. The amortization for 2003 and 2002 primarily relates to these intangibles which are being amortized on a straightline basis over 5 years for brand names and acquired technology, and 10 years for customer lists.

### Interest income

Interest income decreased during the last three years with amounts of \$16,197, \$59,712 and \$186,156 for 2003, 2002 and 2001 respectively. This decrease was due to a decline in annual interest rates and fluctuations of average cash and cash equivalents.

### Non-controlling interest

The non-controlling interest represented the minority interest in Mamma.com Enterprises Inc. In July 2001, the Company acquired the remaining minority shareholder's interest in Mamma.com Enterprises Inc. As a result of the transaction, the Company owns 100% of Mamma.com Enterprises Inc. and a non-controlling interest is no longer being recorded. The non-controlling interest was nil in 2003 and 2002 and was \$177,698 in 2001 representing the six-month-period ended June 30, 2001.

### **Losses of companies subject to significant influence**

In 2001, the Company had various investments subject to significant influence and recorded its share of results of those companies of \$748,972 under Equity Accounting. In 2001, due to poor performance, the Company decided to write down certain of the investments subject to significant influence to nil. One of these investments was written down to a net realizable value of \$50,000. In fiscal 2002, the \$50,000 investment was further written-down to nil as a result of further deterioration of operating results. The carrying value of the Company's one remaining equity investment in LTRIM Technologies Inc. was transferred at cost following conclusion of a new financing transaction which diluted the Company's investment and brought additional funds into LTRIM Technologies Inc. After the financing transaction, the Company owns 12% of LTRIM Technologies Inc. and no longer has significant influence. In fiscal 2002 and 2003, the Company had no investment subject to significant influence.

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

Based on its assessment of the economic value of its 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 and \$4,903,899 in fiscal 2001.

As at December 31, 2002, all marketable securities had been sold and all investments and advances had been written-down to nil except for the investment of \$1,085,286 in LTRIM Technologies Inc.

### **Results of discontinued operations**

As mentioned earlier, in July 2003, the board of directors of the Company approved and committed to a plan to divest its telecommunications segment in order to concentrate exclusively on its profitable and growing media solutions segment. Therefore, IBT is presented as discontinued operations. IBT generated revenue \$6,493,986 and had expenses before taxes of \$6,526,206 in fiscal 2003 compared to revenue of \$7,602,630 and expenses before taxes of \$7,136,746 in fiscal 2002 and revenue of \$7,770,067 and expenses before taxes of \$7,589,076 in fiscal 2001. In 2003, no new contract had been signed explaining the reduction of revenue and during the same year, IBT terminated employees and reduced expenses in response to lower revenue activities. In 2003, IBT recorded a tax provision of \$267,833 to reflect a likely reassessment of R&D deductions claimed by the UK operation in prior years. The results of discontinued operations has been presented under a one line item in Statements of Operations.

### **Earnings (loss) for the year**

In accordance with Canadian generally accepted accounting principles ('GAAP'), net earnings from continuing operations of \$88,990 (\$0.01 per share) in fiscal 2003, compared with a net loss from continuing operations of \$782,878 (\$0.18 per share) in fiscal 2002, and \$14,874,318

(\$4.63 per share) in fiscal 2001. For 2003, there is no difference between net earnings from continuing operations or net earnings under US GAAP as compared to Canadian GAAP. For 2002 and 2001, differences between Canadian GAAP and US GAAP arise from different accounting treatments of stock-based compensation costs, unrealized losses on marketable securities, write-downs of investments and share of losses of companies subject to significant influence.

### **Segment results**

The Company has two reportable segments for continuing operations: Investment Management and Media Solutions. The Company evaluates each operating segment's performance based on revenue, expenses and net earnings (loss) for the year.

The Investment Management unit, which includes costs of the public Company and minority interests in companies which develop and market analog integrated circuit products, in the new media and telecommunication sectors, generated no revenue and a net loss for the year of \$1,455,555 in fiscal 2003 compared to no revenue and a net loss of \$1,435,452 in fiscal 2002 and revenue of \$11,572 and a net loss of \$14,201,373 in fiscal 2001.

The total expenses of \$1,455,555 in 2003 were almost at the same level as \$1,435,452 in 2002. The increase of \$20,103 in 2003 versus 2002 was mainly attributable to consulting fees increased by \$86,871 reflecting a full year's compensation for the board members in 2003 and an increase of the CEO's fees in 2003, directors and officers insurance increased by \$41,232 in 2003 due to higher risk for corporations listed on the NASDAQ, salaries increased by \$63,860 mainly due to expensing stock-based compensation in 2003, a reduction of \$410,400 in legal fees in 2003 due to settlements of two outstanding legal claims for an aggregate amount of \$575,000. This amount had been accrued as liabilities in the 2002 balance sheet as explained on note 22 a) and a reduction of expenses in 2002 of master option agreement for \$195,134. The decrease in expenses of \$12,777,493 in 2002 was mainly due to: the fact that no amortization 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 loss 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 22 a) to the consolidated financial statements and discussed in the section "Settlements of two outstanding claims" later in the document.

The Media Solutions unit generated revenue of \$8,938,863

and net earnings for the year of \$1,544,545 in fiscal 2003 compared to revenue of \$4,222,352 and net earnings of \$652,574 in fiscal 2002 and \$4,183,770 in revenue and a net loss of \$672,945 in fiscal 2001. In 2003, the Internet market conditions improved, the Company's main two types of revenues increased, search services increased by \$3,078,587 or 114% to \$5,776,707 in 2003 compared to 2,698,120 in 2002. Revenue from one customer amounted to \$2,851,005 in 2003 compared to \$670,722 in 2002. In order to limit its exposure on this customer, management is being more aggressive in recruiting its own advertiser base of customers. Banner advertising services increased also by \$1,662,484 or 112% to \$3,150,883 in 2003 compared to \$1,488,399 in 2002 by fully integrating its acquisition of the assets of the focusIN business of ZAQ Inc. made on November 27, 2002. In 2002 revenues were almost at the same level as 2001 due to the down turn hitting bottom before recovering of the industry.

As a percentage of revenues, the cost of revenues, selling and administrative expenses decreased to 71% for the 2003 fiscal year, from 74% for 2002 and from 101% in 2001. The improvement in 2003 was a result of the absorption of fixed costs over a higher revenue base even though payouts to partners represented 41% of the revenue in 2003 compared to 35% in 2002. Payout costs increased due to competitive landscape, business partners require higher payouts in order to maintain their relationship by providing user traffic or content on the Company's online media properties. As mentioned previously, for 2002 and 2001, revenues were almost at the same level but in 2002 the cost of revenues, selling and administrative expenses were reduced by \$1,112,728. This is due to cost reduction such as: bad debt expenses were reduced by \$303,955 due to significant collection problems in 2001 in relation with Internet market conditions and marketing expenses were reduced by \$710,876 by realigning marketing programs with actual revenue size of the segment.

R&D expenses, net of tax credits were \$599,379 in fiscal 2003, compared to \$534,332 in fiscal 2002 and \$505,076 in fiscal 2001. The increase of \$65,047 in fiscal 2003 is attributable primarily to: an increase in salaries of approximately \$35,902 and minor increases in other variable costs. In 2003, an amount of \$50,232 of refundable tax credits was recorded in relation to prior years and an amount of \$77,925 representing non-refundable tax credits of prior years which were not recognized in those years since the company did not have reasonable assurance of realizing these credits. The increase in fiscal 2002 was mainly due to normal salary increase compared to 2001. For 2002 and 2001, refundable tax credits were \$20,970 and \$1,880 respectively.

As previously mentioned, on November 27, 2002, the Company, through Mamma.com Enterprises Inc., acquired the focusIN Brand name, technology and customer lists of which \$894,539 was allocated to intangible assets. The amortization of intangible assets for 2003 and 2002 is primarily attributable to these intangibles.

In 2003, the media solutions segment which represents a separate legal entity (Mamma.com Enterprises Inc.) recorded a net future recovery of income taxes of \$77,636 which included a standard tax provision on earnings of \$460,456 (representing earnings for 2003 of \$1,466,909 at a current taxable rate of 31.4%) and a tax recovery of \$538,092 which represents the total outstanding amount of prior year losses that the media solutions segment expects to use in the future. After two consecutive years of profitability for the segment and profitability expectations forecasted for fiscal 2004, management determined that it was more likely than not that the future tax assets would be realized.

In 2002, the media solutions segment recorded a future recovery of income taxes of \$271,464, which represented the tax value of prior year losses that the segment expected to realize in the next twelve months based on the 2003 budget. These losses were finally absorbed against the tax provision of 2003 mentioned in the previous paragraph. It is appropriate under Canadian and US GAAP to record this asset if the more likely than not criteria is met.

Mamma.com Inc. has also incurred substantial losses in the current and prior years, against which a full valuation allowance has been provided. Management has determined the realization of these losses is not more likely than not due to the fact that Mamma.com does not have any on-going revenue generating activities. In addition, Canadian income tax laws do not allow for the filing of income tax returns on a consolidated basis which would allow the losses in Mamma.com Inc. to be used to offset taxable income expected to be generated in Mamma.com Enterprises Inc.

Management is currently investigating the possibility of winding-up Mamma.com Enterprises Inc., thus allowing for the offset of income generated in Mamma.com Enterprises Inc. against existing losses in Mamma.com Inc.

#### **Liquidity and capital resources**

As at December 31, 2003, the Company had \$4,489,077 in cash and cash equivalents and working capital of \$4,351,746 compared to \$3,804,323 in cash and cash equivalents and working capital of \$3,357,422 as at December 31, 2002.

In fiscal 2003, operating activities used cash of \$541,809 mainly due to the fact that the accounts receivable increased by \$1,048,337 during the year due to increased revenues. In fiscal 2002, operating activities used cash of \$14,871 compared to positive cash flow of \$100,812 in fiscal 2001.

Investing activities used cash of \$ 16,760 in fiscal 2003 compared to use of cash of \$1,726,533 in fiscal 2002 primarily for Mamma.com Enterprises Inc.'s acquisition of focusIN for a cash consideration of \$1,625,151. In fiscal 2001 use of cash of \$2,011,030 was mainly due to the acquisition of the minority interest in Mamma.com Enterprises Inc. for cash consideration of \$1,422,167 and the acquisition of preference shares of LTRIM Technology Inc. for cash consideration of \$588,594.

Financing activities generated \$585,598 in fiscal 2003 compared to \$2,475,251 in fiscal 2002 and compared to \$896,790 in fiscal 2001. Financing activities consisted mainly of issuance of common shares and warrants through several private placements and exercised options.

The Company considers that cash and cash equivalents as at December 31, 2003 will be sufficient to meet normal operating requirements throughout fiscal 2004. 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**

Subsequent to December 31, 2003, due to an increase in market value of the Company's common shares, a significant number of warrants and options have been exercised. As at April 16, 2004, 1,893,939 A warrants have been exercised. Consequently, 1,893,939 B warrants have been granted and all of them have been exercised. The exercise of the A and B warrants resulted in the issuance of 3,787,878 shares for a cash consideration of \$5,492,423. For the same period, 168,061 options have been exercised for a total cash consideration of \$265,872. Consequently, as at April 16, 2004, the Company had 10,464,549 common shares issued and outstanding.

On January 20, 2004, the Company paid \$225,000 as final settlement for a legal action against a subsidiary's former officer.

On February 12, 2004, the Company concluded the sale of IBT's assets which include contracts, customer lists, intellectual property, fixed assets and tangible and intangible assets relating to the business. The proceeds on disposal amounted to \$1,699,185 subject to certain adjustments and contingent consideration. The maximum amount of any contingent consideration is \$250,000. In the first quarter of 2004, the Company recorded a gain on the disposal of discontinued operations of \$1,588,923 and interim net costs from January 1 up to February 12, 2004 for an amount of \$614,354 including closing costs.

#### **Concentration of credit risk with a customer**

The media solutions unit has one customer who generated \$2,851,005 of revenue in 2003, resulting in a significant concentration of credit risk. As at the date of this annual report, the customer has paid all receivables as per the commercial agreement. The Company monitors the other accounts receivable and there is no indication of credit risk deterioration.

#### **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 22 b) to the consolidated financial statements for the year ended December 31, 2003.

#### **Settlements of two outstanding legal claims**

In April 2003, the Company settled a legal action filed against it in 1996 in Florida. The settlement of \$350,000 was paid in the 2003 fiscal year. The amount of \$350,000 had been accrued in the 2002 and consolidated financial statements in other accounts payable.

On January 20, 2004, the Company settled and paid \$225,000 for a legal action against a subsidiary's former officer. The amount had been accrued for in the 2002 and the 2003 consolidated financial statements in other accounts payable.

#### **Informal SEC inquiry**

On March 18, 2004, the United States Securities and Exchange Commission ("SEC") notified the Company that it was conducting a non-public informal inquiry entitled "In the Matter of Trading in the Securities of Mamma.com Inc.", and requested that the Company produce documents concerning, among other things, trading in the Company's stock, the Company's acquisition activities and related reporting matters. The SEC notification advises that the existence of the inquiry should not be construed as an indication by the SEC that any violations of law have occurred. To date, management believes it has cooperated fully with all of these requests.

The Company's independent auditors in Canada have also received a request from the SEC in connection with the above-referenced inquiry seeking the production of documents concerning the Company. The independent auditors have advised the Company that they are cooperating fully with the SEC's request.

#### **Change of functional currency for Mamma.com Enterprises Inc.**

Effective January 1, 2004, the Company's subsidiary, Mamma.com Enterprises Inc., changed its functional and reporting currency from the Canadian dollar to the US dollar due to a change in facts and circumstances related to the primary economic environment in which the subsidiary operates. Most of the revenues and a majority of the expenses are incurred in US dollars. Effective January 1, 2004, exchange, gains and losses arising from transactions denominated in currencies other than the functional currency will be included in net earnings (loss) for the year compared to gains or losses resulting from the application of the translation method which are included in the cumulative translation adjustment in the shareholders' equity.

#### **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 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's revenue has been based on internal expansion and business acquisition. Acquired businesses 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 Company does not believe that the relatively moderate rates of inflation experienced in the United States and Canada 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 is exposed to credit risk on accounts receivable from its customers. The Company and its subsidiary are engaged primarily on providing information retrieval on the Internet and on being a provider of online marketing solutions to advertisers. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers.

The Company has one major customer in the Media Solutions segment, from which 10% or more of total revenue is derived. Revenue from this customer amounted to \$2,851,005, \$670,722 and \$803,308 in 2003, 2002 and 2001 respectively. There can be no assurance that the

Company will be able to retain this customer in the future. As at the date of this Annual Report, there has been no negative impact with this specific customer. The revenue stream of this customer, for the beginning of 2004, has been in fact increased. It is a very active relationship and management does not see credit risks at this point.

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 had, as described in the Company's financial statements for the year ended December 31, 2003, 1,998,939 warrants (of which 1,893,939 A warrants have a reload feature, whereby upon exercise of A warrant, the holders are entitled to receive one new B warrant) and 446,645 stock options outstanding. As at April 16, 2004, all A and B warrants have been exercised and 168,061 options have been also exercised. 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 383,584 shares of Common Stock. To the extent such shares are issued, the percentage of Common Stock held by existing Mamma.com Inc.'s 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, 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.mammainc.com](http://www.mammainc.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<sup>4</sup>

	2003				2002			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	3,056	1,983	2,110	1,789	1,344	887	1,232	760
Net earnings (loss) from continuing operations	798	(118)	(285)	(306)	(34)	(310)	(196)	(242)
Results of discontinued operations, net of income taxes	(713)	332	(134)	215	(42)	235	229	43
Net earnings (loss) for the period	85	214	(419)	(91)	(76)	(75)	33	(199)
Basic and diluted earnings (loss) per share from continuing operations	0.09	(0.02)	(0.05)	(0.05)	(0.01)	(0.08)	(0.05)	(0.06)
Basic and diluted net earnings (loss) per share	0.01	0.03	(0.07)	(0.01)	(0.01)	(0.02)	0.01	(0.05)

<sup>4</sup>(in thousand of US dollars, except per share data in accordance with generally accepted accounting principles in Canada)

### Critical accounting policies and estimates

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in Canada. In doing so, management has to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses, as well as related disclosure of contingent assets and liabilities. In many cases, management reasonably has used different accounting policies and estimates. In some cases changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ materially from our estimates. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations will be affected. Management bases its estimates on past experience and other assumptions that it believes are reasonable under the circumstances, and it evaluates these estimates on an ongoing basis. Management refers to accounting estimates of this type as critical accounting policies and estimates, which are discussed further below. Management has reviewed its critical accounting policies and estimates with its board of directors. Refer to Note 3 to the Consolidated Financial Statements for additional information on our accounting policies and to Note 25 to the Consolidated Financial Statements for additional information on Canadian-U.S. GAAP differences.

### Revenue recognition

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.

### Stock-based compensation and other stock-based payments

During the fourth quarter of 2003, the Company adopted, retroactive to January 1, 2003, the fair value method of accounting for stock options granted to employees. Under this method, the fair value of options granted to employees is charged to expense over the future vesting period. In accordance with the transitional provisions of CICA Section 3870, "Stock-based Compensation and Other Stock-based Payments", the Company has elected to apply this new method prospectively to options granted to employees on or after January 1, 2003. Consequently, prior period financial statements have not been restated; however, the Company continues to provide pro forma disclosures for these prior years as if the fair value method of accounting had been applied.

### 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 substantively enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse. The realization of income tax assets is dependent upon attaining the forecasted levels of future profitability. Future adverse changes in profitability could result in an inability to recover tax assets, thereby possibly requiring an increased valuation allowance in the future.

### Accounting for investments

The Company holds interests in various companies. Management records an investment impairment charge when it believes an investment has experienced a decline in value that is judged to be other than temporary.

Management monitors its investments for impairment by considering current factors including economic environment, market conditions and the operational performance and other specific factors relating to the business underlying the investment. Future adverse changes in these factors could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future. As at December 31, 2003, the Company had an investment in LTRIM Technologies Inc. which is presented at cost for an amount of \$1,085,286, all the other ones were written down to nil.

### **Goodwill**

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.

### **For discontinued operations:**

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.

# Management's Report

Management is responsible for the integrity and objectivity of the information contained in this annual report and for the consistency between the financial statements and other financial and operating data contained elsewhere in the report. The accompanying financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, using policies and procedures established by management, and reflect the Company's financial position, results of operations and cash flow.

Management has established and maintains a system of internal controls which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that financial information is reliable and accurate.

The financial statements have been examined by external auditors appointed by the shareholders. Their examination provides an independent view as to management's discharge of its responsibilities insofar as they relate to the fairness of reported operating results and financial condition. They obtain an understanding of the Company's accounting systems and procedures and conduct such tests and related procedures as they deem necessary to arrive at an opinion on the fairness of the financial statements.

Ultimate responsibility to the shareholders for the financial statements rests with the Board of Directors. An Audit Committee is appointed by the Board to review the financial statements in detail and to report to the Directors prior to such statements being approved for publication. The Audit Committee meets regularly with management and the external auditors to discuss their evaluation of internal accounting controls, audit results and the quality of financial reporting. The external auditors have free access to the Audit Committee, without management's presence, to discuss the results of their audit.



Guy Fauré  
President and Chief Executive Officer



Daniel Bertrand  
Executive Vice President and Chief Financial Officer

# Independent Auditors' Report

## To the Shareholders of Mamma.com Inc.

We have audited the consolidated balance sheets of Mamma.com Inc. (formerly Intasys Corporation) as at December 31, 2003 and 2002 and the consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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, 2003 and 2002 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2003 in accordance with Canadian generally accepted accounting principles.



### Chartered Accountants

Montréal, Quebec, Canada  
February 24, 2004, (except for note 26, which is as of April 15, 2004)

## 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 a 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 2 to the consolidated financial statements. Our report to the Shareholders dated February 24, 2004, (except for note 26, which is as of April 15, 2004) 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

Montréal, Quebec, Canada  
February 24, 2004, (except for note 26, which is as of April 15, 2004)

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PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

# Consolidated Balance Sheets

(expressed in U.S. dollars)

	As at December 31, 2003 \$	As at December 31, 2002 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	4,489,077	3,804,323
Accounts receivable (note 6)	2,303,212	962,618
Prepaid expenses	89,739	80,835
Future income taxes (note 19)	264,014	270,254
Current assets of discontinued operations (note 4)	921,980	1,509,411
	8,068,022	6,627,441
<b>Future income taxes</b> (note 19)	232,968	–
<b>Assets of discontinued operations</b> (note 4)	200,802	254,511
<b>Investments</b> (note 7)	1,085,286	1,085,286
<b>Property, plant and equipment</b> (note 8)	367,464	385,606
<b>Intangible assets</b> (note 9)	935,562	923,535
<b>Goodwill</b> (note 9)	846,310	694,835
	11,736,414	9,971,214
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 10)	2,252,242	1,916,099
Deferred revenue	140,727	115,196
Liabilities of discontinued operations (note 4)	1,323,307	1,238,724
	3,716,276	3,270,019
<b>Contingencies and commitments</b> (note 22)		
<b>Shareholders' Equity</b>		
<b>Capital stock</b> (note 12)		
Authorized		
Unlimited common shares		
Issued and outstanding – 6,508,610 common shares (2002 – 6,094,842)	70,522,179	69,873,994
<b>Additional paid-in capital</b> (note 13)	1,166,814	750,111
<b>Deferred stock-based compensation</b> (note 13)	(262,806)	(10,667)
<b>Cumulative translation adjustment</b>	441,564	(275,693)
<b>Deficit</b>	(63,847,613)	(63,636,550)
	8,020,138	6,701,195
	11,736,414	9,971,214

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

Approved by the Board of Directors



David Goldman  
Executive Chairman of the Board



Irwin Kramer  
Director and Chair of the Audit Committee

# Consolidated Statements of Operations

(expressed in U.S. dollars)

For the years ended December 31,

	2003	2002	2001
	\$	\$	\$
<b>Revenue</b> (note 15)	8,938,863	4,222,352	4,195,342
<b>Expenses</b>			
Cost of revenues, selling and administrative	7,847,339	4,660,903	5,495,593
Net research and development (note 20)	599,379	534,332	505,076
Amortization of property, plant and equipment	140,090	148,435	232,460
Amortization of intangible assets	178,509	38,196	7,352
Amortization and impairment of goodwill	—	—	7,455,353
Restructuring charges (recovery) (note 11)	—	(70,453)	161,963
Interest income	(16,197)	(59,712)	(186,156)
Interest expense	—	5,542	5,407
Losses of companies subject to significant influence	—	—	748,972
Realized gain on disposal of marketable securities	—	(73,383)	(101,581)
Unrealized loss on marketable securities, investments and write-down of advances (note 16)	—	82,616	4,903,899
Non-controlling interest	—	—	(177,698)
Loss on foreign exchange	210,888	12,536	27,653
Realized gain on disposal of investment	(32,499)	—	—
	8,927,509	5,279,012	19,078,293
<b>Earnings (loss) from continuing operations before income taxes</b>	11,354	(1,056,660)	(14,882,951)
<b>Recovery of income taxes</b> (note 19)			
Current	—	(2,318)	(8,633)
Future	(77,636)	(271,464)	—
<b>Net earnings (loss) from continuing operations</b>	88,990	(782,878)	(14,874,318)
<b>Results of discontinued operations</b>	(300,053)	465,884	267,635
<b>Net loss for the year</b>	(211,063)	(316,994)	(14,606,683)
<b>Basic and diluted earnings (loss) per share from continuing operations</b>	0.01	(0.18)	(4.63)
<b>Basic and diluted earnings (loss) per share from discontinued operations</b>	(0.04)	0.11	0.08
<b>Basic and diluted net loss per share</b>	(0.03)	(0.07)	(4.55)

Following is a summary of reported net loss and per share figures adjusted to exclude amortization expense related to goodwill:

Reported net loss	(211,063)	(316,994)	(14,606,683)
Amortization of goodwill	—	—	6,200,000
Adjusted net loss	(211,063)	(316,994)	(8,406,683)
Basic and diluted net loss per share:			
Reported net loss	(0.03)	(0.07)	(4.55)
Amortization of goodwill	—	—	(1.93)
Adjusted net loss	(0.03)	(0.07)	(2.62)

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

# Consolidated Statements of Shareholders' Equity

(expressed in U.S. dollars)

	Number of common shares #	Common shares \$	Additional paid-in capital \$	Deferred stock-based compensation \$	Cumulative translation adjustment \$	Deficit \$
<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 in Mamma.com Enterprises	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	756,881	69,000	—	—	—
Shares and warrants issued for brokerage fees	54,000	68,119	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 financial services	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)
Effect of changes on shares and warrants issued for financial services	—	6,333	—	10,667	—	—
Warrants issued for financial services	—	—	84,566	—	—	—
Options granted	—	—	388,391	(376,171)	—	—
Amortization of deferred stock-based compensation	—	—	—	113,365	—	—
Options exercised	129,678	185,887	(12,220)	—	—	—
Warrants exercised	284,090	455,965	(44,034)	—	—	—
Translation adjustment for the year	—	—	—	—	717,257	—
Net loss for the year	—	—	—	—	—	(211,063)
<b>Balance, December 31, 2003</b>	6,508,610	70,522,179	1,166,814	(262,806)	441,564	(63,847,613)

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

# Consolidated Statements of Cash Flows

(expressed in U.S. dollars)

	<b>For the years ended December 31,</b>		
	<b>2003</b>	<b>2001</b>	<b>2000</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Cash flows from</b>			
<b>Operating activities</b>			
Net earnings (loss) from continuing operations	88,990	(782,878)	(14,874,318)
Adjustments for			
Amortization of property, plant and equipment	140,090	148,435	232,460
Amortization of intangible assets	178,509	38,196	7,352
Amortization and impairment of goodwill	–	–	7,455,353
Impairment of property, plant and equipment	–	–	54,151
Realized loss (gain) on disposal of property, plant and equipment	(455)	784	(14,417)
Realized gain on disposal of marketable securities	–	(73,383)	(101,581)
Realized gain on disposal of investment	(32,499)	–	–
Employee stock-based compensation	94,654	–	–
Former Board member compensation paid by issuance of capital stock	12,220	–	–
Non-controlling interest	–	–	(177,698)
Interest income on investments and management fees	–	(33,477)	(33,080)
Losses of companies subject to significant influence	–	–	748,972
Unrealized loss on marketable securities, investments and write-down of advances (note 16)	–	82,616	4,903,899
Financial fees paid by issuance of capital stock and warrants	101,566	139,583	119,636
Advance to a public company subject to significant influence	–	–	(452,085)
Future income taxes	(77,636)	(271,464)	–
Non-refundable tax credits	(77,925)	–	–
Change in non-cash working capital items (note 18)	(969,323)	736,717	2,232,168
Cash from (used for) operating activities from continuing operations	(541,809)	(14,871)	100,812
Cash from (used for) operating activities from discontinued operations (note 4)	473,635	741,937	(242,294)
	(68,174)	727,066	(141,482)
<b>Investing activities</b>			
Business acquisitions	–	(1,625,151)	(1,422,167)
Purchase of intangible assets	(3,026)	(51,086)	(10,498)
Investments	–	(1,612)	(588,594)
Proceeds on disposal of investments	32,499	–	–
Proceeds on disposal of property, plant and equipment	1,199	191	85,577
Purchase of property, plant and equipment	(47,432)	(48,875)	(75,348)
Cash used for investing activities from continuing operations	(16,760)	(1,726,533)	(2,011,030)
Cash used for investing activities from discontinued operations (note 4)	(65,973)	(43,734)	(110,059)
	(82,733)	(1,770,267)	(2,121,089)
<b>Financing activities</b>			
Redemption of equity of a subsidiary	–	–	(3,210)
Issuance of capital stock	585,598	2,500,000	900,000
Share issue costs	–	(24,749)	–
	585,598	2,475,251	896,790
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>			
	250,063	58,201	(95,353)
<b>Change in cash and cash equivalents during the year</b>	<b>684,754</b>	<b>1,490,251</b>	<b>(1,461,134)</b>
<b>Cash and cash equivalents – Beginning of year</b>	<b>3,804,323</b>	<b>2,314,072</b>	<b>3,775,206</b>
<b>Cash and cash equivalents – End of year</b>	<b>4,489,077</b>	<b>3,804,323</b>	<b>2,314,072</b>
Cash and cash equivalents comprise:			
Cash	2,265,000	1,287,364	646,794
Short-term deposits	2,224,077	2,516,959	1,667,278
	4,489,077	3,804,323	2,314,072
<b>Supplemental disclosure of cash flow information</b>			
Cash paid for interest – continuing operations	–	4,268	13,891

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

Mamma.com Inc. (formerly Intasys Corporation) (the "Company") is focused on innovative direct online Internet electronic marketing, with customers located mainly in the United States, through its wholly owned subsidiary, Mamma.com Enterprises (formerly Mamma.com Inc.) ("Mamma"). Its wholly owned subsidiary, Intasys Billing Technologies ("IBT"), provides 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 decided to sell IBT in 2003 and the divesture was completed on February 12, 2004. Therefore, IBT has been presented as discontinued operations (see note 4). The Company also holds minority interests in companies operating in the analog-integrated circuit products, new media and telecommunications sectors.

On January 6, 2004, the Company changed its name from Intasys Corporation to Mamma.com Inc.

## 2 Change in accounting policy

### Stock-based compensation and other stock-based payments

During the fourth quarter of 2003, the Company adopted, retroactive to January 1, 2003, the fair value method of accounting for stock options granted to employees. Under this method, the fair value of options granted to employees is charged to expense over the future vesting period. In accordance with the transitional provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments", the Company has elected to apply this new method prospectively to options granted to employees on or after January 1, 2003. Consequently, prior period financial statements have not been restated; however, the Company continues to provide pro forma disclosures for these prior years as if the fair value method of accounting had been applied.

## 3 Significant accounting policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). There are certain measurement differences between Canadian GAAP and U.S. GAAP. Differences which relate to the Company are summarized in note 25.

### 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) 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates in these financial statements include the allowance for doubtful accounts, recovery of future income taxes, annual goodwill impairment test, impairment of long-lived assets, stock-based compensation costs and valuation of investments. Actual results could differ from those estimates.

### c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and highly liquid investments with original terms to maturity of 90 days or less as of the date of acquisition.

### 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. The refundable portion of tax credits is recorded in the year in which the expenditures are incurred. The non-refundable portion of tax credits is recorded in the year in which the related expenditures are incurred, provided there is reasonable assurance of realization.

### e) Investments

The Company's investments 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 applicable tax credits and accumulated amortization. Amortization is calculated using the following methods and annual rates or period:

Computer equipment	Declining balance	30%
Furniture and fixtures	Declining balance	20%
Leasehold improvements	Straight-line	Duration of lease

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 3 Significant accounting policies (continued)

### g) Intangible assets

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%
Software	30%

### h) 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 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.

### i) 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.

### j) Revenue recognition

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

- i) the fee is fixed or determinable;
- ii) collectibility is probable;
- iii) the revenue is not subject to forfeiture, refund or other concessions; and
- iv) 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.

IBT recognizes revenue from the sale of software licences 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 licences, 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 licences 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.

### k) Research and development costs

Research costs are expensed as incurred. Development costs are also 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, 2003 and 2002.

### 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 substantively 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.

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 3 Significant accounting policies (continued)

### 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.

### o) Employee future benefits

The Company maintains a defined benefits plan which provides group medical, dental and insurance benefits for current employees. Under this plan, the Company pays a fixed annual premium per employee. An employee's entitlement to benefits ceases upon termination of employment with the Company. The amount of expense recognized in 2003, 2002 and 2001 for these plans is summarized as follows:

	2003 \$	2002 \$	2001 \$
Benefit expense	50,552	38,802	33,585

### p) Loss per share

Basic loss per share is calculated using the weighted average number of shares outstanding post-consolidation (note 12) 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.

### q) New accounting standards (Canadian)

#### i) Revenue recognition

In December 2003, the Emerging Issues Committee of the CICA issued three interrelated revenue recognition abstracts outlining guidance to recognizing revenue from arrangements with multiple deliverables and accounting for separately priced extended warranty and product maintenance contracts, as well as highlighting principles set forth in SAB 101 that are generally appropriate as interpretive guidance on the application of the current CICA recommendations related to revenue recognition. This new guidance, which applies to the Company for fiscal 2004, and may be applied prospectively, is not expected to have any significant impact on the Company's revenue recognition policies or practices.

#### ii) 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.

#### iii) Variable interest entities

The CICA has also issued AcG-15, "Consolidation of Variable Interest Entities", which sets out criteria to be used to identify the parent company of variable interest entities. AcG-15 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 intended to harmonize Canadian guidance with existing guidance in the U.S., are effective for interim or annual reporting periods beginning on or after November 1, 2004. 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.

### r) Comparative figures

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

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 4 Discontinued operations

On September 9, 2003, the Company announced that it had received and accepted, subject to completion of due diligence, an offer for the sale of its wireless billing subsidiary, IBT. The Board of Directors had previously approved the plan to divest IBT in order to concentrate exclusively on its profitable and growing metasearch engine and online marketing business, Mamma.com Enterprises. Consequently, the results of operations and cash flows for IBT have been reported separately as discontinued operations in the consolidated statements of operations and cash flows, and the assets and liabilities of IBT have been segregated on the consolidated balance sheets. Comparative figures for the year ended December 31, 2003 have been reclassified in order to comply with this new basis of presentation. The transaction was completed on February 12, 2004 (note 26(b)).

### Summary of assets and liabilities of discontinued operations

	As at December 31,	
	2003 \$	2002 \$
Current assets		
Accounts receivable	831,310	1,415,270
Other current assets	90,670	94,141
	<hr/> 921,980	<hr/> 1,509,411
Assets		
Property, plant and equipment	200,802	254,511
Liabilities		
Accounts payable and accrued liabilities	982,452	897,252
Deferred revenue	49,611	339,238
Reserve for restructuring	—	2,234
Income taxes payable	291,244	—
	<hr/> 1,323,307	<hr/> 1,238,724

### Summary of discontinued operations

	2003 \$	2002 \$	2001 \$
Revenue	6,493,986	7,602,630	7,770,067
Earnings (loss) before income taxes	(32,220)	465,884	180,991
Net earnings (loss)	<hr/> (300,053)	<hr/> 465,884	<hr/> 267,635

## 5 Business acquisitions

### a) Purchase of focusIN assets

On November 27, 2002, the Company acquired through its subsidiary Mamma.com Enterprises 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 online 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
	<hr/> 1,625,151

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

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 5 Business acquisitions (continued)

### b) Purchase of Mamma.com Enterprises

On July 6, 2001, the Company acquired the remaining 31% minority shareholder's interest in Mamma.com Enterprises for a cash consideration of \$1,263,946 and issuance from treasury of 436,898 common shares of the Company 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 Enterprises' interest for a cash consideration of \$158,221 and issuance of 42,977 options of the company. The purchase price of the remaining shareholders' interest in Mamma.com Enterprises resulted in recording an additional \$1,255,353 of goodwill. In December 2001, the Company wrote off all remaining goodwill related to Mamma.com Enterprises.

## 6 Accounts receivable

Accounts receivable comprise the following:

	2003 \$	2002 \$
Trade accounts receivable	2,433,064	971,436
Allowance for doubtful accounts	(203,129)	(61,537)
	2,229,935	909,899
Other	73,277	52,719
	2,303,212	962,618

## 7 Investments

### a) Investments comprise the following:

	2003 \$	2002 \$
LTRIM Technologies Inc. (4,891,686 Class "A" common shares and 359,281 Class "A" preference shares), at cost	1,085,286	1,085,286
Tri-Link Technologies Inc. (4,054,874 Preference shares) <sup>(i)</sup>	—	—
TECE, Inc. (5,000,000 Common shares) <sup>(i)</sup>	—	—
uPath.com Inc. (as at December 31, 2002 – 2,783,505 Class "A" shares) <sup>(ii)</sup>	—	—
	1,085,286	1,085,286

### b) Master option agreement

Part of the compensation packages originally offered to the Company's former President and 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. 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 Technologies Inc. up until December 31, 2002 for a 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, in 2003, the statement of operations includes a reversal of expenses recorded in previous years of \$4,866. 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 in fiscal year 2001.

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 8 Property, plant and equipment

	<b>2003</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>amortization</b>	<b>\$</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Computer equipment	1,004,476	695,220	309,256
Furniture and fixtures	83,712	45,928	37,784
Leasehold improvements	87,181	66,757	20,424
	<u>1,175,369</u>	<u>807,905</u>	<u>367,464</u>
	<b>2002</b>		
Computer equipment	798,997	484,354	314,643
Furniture and fixtures	69,627	30,091	39,536
Leasehold improvements	71,577	40,150	31,427
	<u>940,201</u>	<u>554,595</u>	<u>385,606</u>

## 9 Goodwill and other intangible assets

### a) Intangible assets

	<b>2003</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>amortization</b>	<b>\$</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Brand names	412,869	103,396	309,473
Acquired technology	305,217	71,218	233,999
Customer list	424,985	49,582	375,403
Software	53,664	36,977	16,687
	<u>1,196,735</u>	<u>261,173</u>	<u>935,562</u>
	<b>2002</b>		
Brand names	338,973	17,096	321,877
Acquired technology	250,588	8,353	242,235
Customer list	348,920	5,815	343,105
Software	41,379	25,061	16,318
	<u>979,860</u>	<u>56,325</u>	<u>923,535</u>

### b) Goodwill

The changes in the carrying amount of goodwill for Media Solutions for the years ended December 31, 2003 and 2002 are as follows:

	<b>\$</b>
Balance – December 31, 2001	–
Goodwill resulting from 2002 business acquisition (note 5(a))	699,325
Currency translation adjustment	(4,490)
Balance – December 31, 2002	<u>694,835</u>
Currency translation adjustment	151,475
Balance – December 31, 2003	<u>846,310</u>

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 10 Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	<b>2003</b>	<b>2002</b>
	<b>\$</b>	<b>\$</b>
Trade accounts payable	1,473,449	1,044,610
Other		
Accrued employee costs	328,250	190,138
Directors and officers payable	225,543	106,351
Other (note 22(a))	225,000	575,000
	<hr/> 2,252,242	<hr/> 1,916,099

## 11 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 Enterprises.

In 2002, \$70,453 of charges related to the restructuring of the Investment Management segment were reversed due to an over-accrual of estimated sub-leasing charges of the principal executive offices that were not needed due to the cancellation of corporate obligations.

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

	<b>Write-down of property, plant and equipment</b>	<b>Severance costs</b>	<b>Facilities' closure costs</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance – December 31, 2000	–	–	350,000	350,000
Restructuring charges	54,151	13,591	94,221	161,693
Payments	–	(13,591)	(345,666)	(359,257)
Non-cash asset write-down	(54,151)	–	–	(54,151)
Balance – December 31, 2001	–	–	98,555	98,555
Payments	–	–	(28,102)	(28,102)
Reversal of excess restructuring accruals to earnings	–	–	(70,453)	(70,453)
Balance – December 31, 2002 and 2003	–	–	–	–

## 12 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)

## 12 Capital stock (continued)

Information with respect to stock option activity for 2001, 2002 and 2003 is as follows:

	Number of options	Weighted average exercise price \$
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
Granted	227,500	2.71
Forfeited	(28,357)	1.74
Exercised	(129,678)	1.34
Outstanding - December 31, 2003	446,645	2.37

On July 18, 2001, 14,375 options post-consolidation 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, 2003, 2,375 repriced options were still outstanding.

Details of stock options outstanding as at December 31, 2003 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 \$
1.10 – 1.53	210,395	7.55	1.44	203,728	1.44
1.99 – 2.57	129,500	9.18	2.25	–	–
3.58	88,000	6.85	3.58	–	–
8.00 – 9.00	18,750	0.15	8.00	18,750	8.00
	446,645	7.58	2.37	222,478	1.99

As at December 31, 2002 and 2001, there were 320,429 and 315,825 options exercisable at weighted average prices of \$1.80 and \$2.67, respectively.

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

As described in note 2, the Company adopted, retroactive to January 1, 2003, the fair value method of accounting for stock options granted to employees and has applied this new method on a prospective basis. Following is a summary of what the net loss and related per share figures would have been for 2003, 2002 and 2001 if the Company had applied this change retroactively to all prior years.

	2003 \$	2002 \$	2001 \$
Pro forma net loss	(225,266)	(295,924)	(14,461,478)
Pro forma basic and diluted net loss per share	(0.04)	(0.07)	(4.51)

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 12 Capital stock (continued)

The fair values of all options granted during 2003, 2002 and 2001 were estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2003 \$	2002 \$	2001 \$
Expected option life (years)	4.04	4.00	3.90
Volatility	82%	76%	90%
Risk-free interest rate	4.00%	3.09%	6.00%
Dividend yield	nil	nil	nil

The weighted average grant-date fair values for stock options granted during 2003, 2002 and 2001 were \$2.71, \$1.22 and \$2.42 per option, respectively.

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

In 2003, the Company granted 105,000 warrants at an average price of \$2.50 to Maxim Group, LLC for financial advisory fees, the fair value of which was \$84,566 estimated as of grant date using the Black-Scholes pricing model, and charged to expense during the year with a corresponding credit to additional paid-in capital. These warrants vested immediately and expire after three years.

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 these warrants were returned to the Company for cancellation.

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, 2003, 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.

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

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

Each warrant is convertible into one common share at exercise prices ranging from \$1.40 to \$3.86 per share. Information with respect to warrant activity for 2001, 2002 and 2003 is as follows:

	Number of warrants	Weighted average exercise price \$
Outstanding – December 31, 2000	466,874	46.10
Issued	904,000	2.50
Expired	(465,449)	46.10
Outstanding – December 31, 2001	905,425	2.54
Issued <sup>(i)</sup>	2,035,984	1.40
Forfeited	(250,000)	2.75
Outstanding – December 31, 2002	2,691,409	1.66
Issued	247,045	1.94
Expired	(655,425)	2.46
Exercised	(284,090)	1.45
Outstanding – December 31, 2003	1,998,939	1.46

<sup>(i)</sup> Does not include warrants to be issued in connection with the B warrant reload feature described above.

For various price ranges, the weighted average characteristics of warrants outstanding and exercisable as at December 31, 2003 were as follows:

Range of exercise price \$	Number of warrants	Weighted average remain- ing contractual life (years)	Weighted average exercise price \$
1.40 – 2.00	1,893,939	0.92	1.40
2.00 – 3.00	105,000	2.50	2.54
	1,998,939	1.00	1.46

## 14 Earnings (loss) per share

	2003 \$	2002 \$	2001 \$
Weighted average number of shares – Basic	6,207,360	4,356,751	3,206,996
Additions to reflect the impacts of:			
Exercise of stock options	93,854	–	–
Exercise of warrants <sup>(i)</sup>	1,740,022	–	–
Weighted average number of shares – Diluted	8,041,236	4,356,751	3,206,996

<sup>(i)</sup> Includes B warrants issuable upon exercise of the A warrants described in note 13.

Options to purchase 18,750 common shares (2002 – 377,180; 2001 – 451,750), warrants to purchase 16,000 common shares (2002 – 2,691,409; 2001 – 905,425) and 8,333 shares (in 2002) issued for brokerage fees have been excluded from the above calculations since they would have an anti-dilutive effect. In 2003, 2002 and 2001, there is no difference between basic and diluted earnings per share figures.

## 15 Revenue

	2003 \$	2002 \$	2001 \$
Search services	5,776,707	2,698,120	2,749,037
Banner advertising	3,150,883	1,488,399	1,324,463
Other	11,273	35,833	121,842
	8,938,863	4,222,352	4,195,342

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

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

	2003 \$	2002 \$	2001 \$
Unrealized losses on			
Marketable securities	–	–	640,005
Investments	–	51,612	3,356,667
Write-down of advances	–	31,004	907,227
	–	82,616	4,903,899

## 17 Statement of cash flows

Financial fees paid in shares in lieu of cash in 2003 amounted to \$17,000.

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 in 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.

## 18 Change in non-cash working capital items

	2003 \$	2002 \$	2001 \$
Decrease (increase) in assets			
Marketable securities	–	314,026	1,360,873
Accounts receivable	(1,048,337)	(351,351)	1,437,936
Prepaid expenses and other assets	(3,083)	(18,270)	431,775
Increase (decrease) in liabilities			
Accounts payable and accrued liabilities	81,709	878,928	(710,746)
Reserve for restructuring	–	(98,555)	(251,445)
Deferred revenue	388	11,939	(36,225)
	(969,323)	736,717	2,232,168

## 19 Income taxes

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

	2003 \$	2002 \$	2001 \$
Earnings (loss) from continuing operations before income taxes	11,354	(1,056,660)	(14,882,951)
Expected provision for (recovery of) income taxes at the statutory rate	3,749	(370,042)	(5,509,668)
Unrecognized benefit of current year tax losses and undeducted research and development expenses, and other temporary differences	465,295	610,441	2,489,026
Benefit of prior years' tax losses not previously recognized	–	(250,841)	–
Recognition of future benefit of prior years' temporary differences, including tax losses and undeducted research and development expenses	(577,482)	(271,464)	–
Permanent difference, including amortization and impairment of goodwill and non-controlling interest	30,802	8,124	3,012,009
Recovery of income taxes	(77,636)	(273,782)	(8,633)

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 19 Income taxes (continued)

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

	2003 \$	2002 \$
<b>Canada</b>		
Property, plant and equipment	2,850,585	2,300,010
Non-capital losses (expiring 2004 – 2010)	5,992,032	4,319,204
Net capital losses (unlimited)	2,518,766	1,749,573
Unrealized impairment losses on investments	1,373,914	1,741,834
Research and development expenses	274,062	209,741
Goodwill and intangible assets	136,774	72,858
Share issue costs	68,561	177,433
Other	84,631	108,570
	13,299,325	10,679,223
<b>United Kingdom</b>		
Net operating losses (unlimited)	34,729	96,259
Property, plant and equipment	2,293	127,629
Other temporary differences	4,988	4,988
	42,010	228,876
<b>United States</b>		
Net operating losses (expiring 2017 – 2024)	1,535,468	1,516,030
<b>Australia</b>		
Net operating losses (unlimited)	417,790	456,219
Other temporary differences	52,288	17,849
	470,078	474,068
	15,346,881	12,898,197
Valuation allowance	(14,849,899)	(12,627,943)
Net future income tax asset	496,982	270,254
Presented as:		
Current	264,014	270,254
Long-term	232,968	–
	496,982	270,254

c) As at December 31, 2003, the Company has accumulated research and development expenses of approximately CA\$671,149 (US\$518,597) for Federal income tax purposes and CA\$948,652 (US\$733,023) for provincial income tax purposes which may be carried forward indefinitely and used to reduce taxable income in future years.

d) As at December 31, 2003, the Company has non-capital loss carryforwards totalling approximately CA\$25,000,000 (US\$19,316,672) for Federal and provincial income tax purposes which may be used to reduce taxable income in future years. These losses may be claimed no later than fiscal years ending December 31:

	<b>Federal (CA\$)</b>
2004	1,230,000
2005	2,040,000
2006	5,540,000
2007	5,610,000
2008	4,090,000
2009	3,060,000
2010	3,430,000

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 19 Income taxes (continued)

e) As at December 31, 2003, the Company's U.S. subsidiary has net operating loss carryforwards for Federal income tax purposes totalling approximately US\$4,040,000 which may be used to reduce Federal taxable income in future years. These losses may be claimed no later than fiscal years ending December 31:

	\$
2017	70,000
2018	1,365,000
2019	2,200,000
2020	395,000
2023	10,000

## 20 Net research and development expenses

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

	2003 \$	2002 \$	2001 \$
Research and development expenses	727,536	555,302	506,956
Less: Refundable tax credits	50,232	20,970	1,880
Future benefit of non-refundable tax credits	77,925	—	—
	<hr/> 599,379	<hr/> 534,332	<hr/> 505,076

## 21 Segment information

The Company has two reportable segments: Investment Management and Media Solutions. 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, 2003, 2002 and 2001 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:

	2003 \$	2002 \$
Total assets of Investment Management	4,077,516	4,698,110
Total assets of Media Solutions	6,536,116	3,509,182
Total assets from continuing operations	<hr/> 10,613,632	<hr/> 8,207,292
Total assets of discontinued operations	1,122,782	1,763,922
	<hr/> 11,736,414	<hr/> 9,971,214

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 21 Segment information (continued)

	Investment Management				Media Solutions				Total	
	2003	2002	2001	2000	2003	2002	2001	2000	2003	2001
<b>Revenue</b>	\$ -	\$ -	\$ 11,572	\$ 8,918,862	\$ 4,222,352	\$ 4,182,770	\$ 4,182,770	\$ 4,222,352	\$ 8,918,862	\$ 4,182,770
<b>Expenses</b>										
Cost of revenues, selling and administrative	1,491,854	1,529,559	1,251,521	6,355,485	3,181,344	4,244,072	4,244,072	4,650,908	7,847,339	4,650,908
Net research and development	-	-	-	599,379	524,332	505,076	505,076	524,332	599,379	505,076
Amortization of property, plant and equipment	3,297	10,854	68,911	816,698	87,581	168,549	168,549	148,425	140,090	282,460
Amortization of intangible assets	-	-	-	178,509	38,196	7,352	7,352	38,196	178,509	7,352
Amortization of goodwill	-	-	7,455,359	-	-	-	-	-	-	7,455,359
Restructuring charges (recovery)	-	(70,453)	161,963	-	-	-	-	(70,453)	-	161,963
Interest income	(10,902)	(52,816)	(102,887)	(5,295)	(6,896)	(88,269)	(88,269)	(59,712)	(16,197)	(186,156)
Interest expense	-	38	5,407	-	5,504	-	-	5,542	-	5,407
Share of results of companies subject to significant influence	-	-	348,972	-	-	-	-	-	-	348,972
Realized gain on disposal of marketable securities	-	(73,388)	(101,581)	-	-	-	-	(73,388)	-	(101,581)
Unrealized loss on marketable securities, investments and write-down of advances	-	82,616	4,908,889	-	-	-	-	82,616	-	4,908,889
Non-controlling interest	-	-	(177,696)	-	-	-	-	-	-	(177,696)
Loss on foreign exchange	3,705	9,087	4,085	207,188	3,499	23,569	23,569	12,526	210,888	27,653
Realized gain on disposal of investment	(82,499)	-	-	-	-	-	-	-	(82,499)	-
	1,465,555	1,485,452	14,212,945	7,471,954	3,843,560	4,885,348	4,885,348	5,279,012	8,917,509	19,008,298
<b>Earnings (loss) from continuing operations before income taxes</b>	(1,465,555)	(1,485,452)	(14,201,373)	1,465,909	378,792	(881,578)	(881,578)	(1,056,660)	11,354	(14,882,951)
<b>Recovery of income taxes</b>										
Current	-	-	-	-	(2,318)	(8,623)	(8,623)	(2,318)	-	(8,623)
Future	-	-	-	(77,626)	(271,464)	-	-	(271,464)	(77,626)	-
<b>Earnings (loss) from continuing operations</b>	(1,465,555)	(1,485,452)	(14,201,373)	1,544,545	652,574	(672,945)	(672,945)	(1,328,878)	88,990	(14,804,316)
Revenue - Canada	-	-	11,572	8,918,862	4,222,352	4,182,770	4,182,770	4,222,352	9,918,862	4,182,770
Long-lived assets - Canada	4,473	7,870	11,840	2,377,881	1,996,106	506,875	506,875	2,008,976	2,382,304	518,715

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 21 Segment information (continued)

### Major customers

The Company has one major customer in the Media Solutions segment, from which 10% or more of total revenue is derived. Revenue from this customer amounted to \$2,851,005, \$670,722 and \$803,308 in 2003, 2002 and 2001 respectively.

## 22 Contingencies and commitments

### a) Contingencies

In July 2000, Intasys, the Company 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*, the Company 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, the Company and Intasys Management Systems, Inc. (the "Claimants") initiated arbitration proceedings against Mr. Shamma and certain other persons and entities related to him (the "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 the Company 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 was scheduled to resume and conclude the week of April 1, 2003. Management believed its positions were meritorious and intended to continue to prosecute its claim and defend the Respondents' counterclaim vigorously.

On January 20, 2004, a memorandum of settlement was signed by both parties and final payment of \$225,000 was made. This amount had been fully provided for in the 2002 consolidated financial statements in other accounts payable.

On May 6, 1996, a claim in an unspecified amount was filed in Florida in connection with the Company's previously discontinued operations 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 a 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 decided to accept this offer. Accordingly, an amount of \$350,000 had been provided for in the 2002 consolidated financial statements in other accounts payable.

### b) Commitments

The Company is committed under operating lease agreements. Future minimum payments under these leases as of December 31, 2003 are as follows:

	\$
Years ending December 31, 2004	179,769
2005	81,443
2006	13,574

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 23 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 risk

Financial instruments which potentially subject the Company to credit risk consist principally of cash, short-term deposits 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 information retrieval on the Internet and on being a provider of online marketing solutions to advertisers. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers. As at December 31, 2003, approximately 43% of accounts receivable is due from one customer.

### Fair value of financial instruments

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

### Interest rate risk

As at December 31, 2003, the Company's exposure to interest rate risk is summarized as follows:

Cash	Non-interest bearing
Short-term deposits	Interest rates between 0.12% and 0.94%
Accounts receivable	Non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing

## 24 Related party transactions

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

	2003 \$	2002 \$	2001 \$
<b>Companies owned by current and/or former directors and/or officers</b>			
General and administrative expenses	171,465	183,975	75,537
Reserve for restructuring	—	—	6,276
<b>Company subject to significant influence</b>			
Revenue	—	—	10,106
Interest revenue	—	33,477	30,894

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 25 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:

	<b>2003</b> <b>\$</b>	<b>2002</b> <b>\$</b>	<b>2001</b> <b>\$</b>
Net earnings (loss) from continuing operations in accordance with Canadian GAAP	88,990	(782,878)	(14,874,318)
Stock-based compensation costs (a)	–	92,000	(92,000)
Write-down of investment	–	–	512,427
Unrealized loss on marketable securities (b)	–	–	254,614
Realized portion of prior year unrealized loss on marketable securities (b)	–	(1,029,896)	(2,612,023)
Net earnings (loss) from continuing operations in accordance with U.S. GAAP	88,990	(1,720,774)	(16,811,300)
Results of discontinued operations	(300,053)	465,884	267,635
Net loss in accordance with U.S. GAAP	(211,063)	(1,254,890)	(16,543,665)
Basic and diluted net earnings (loss) per share from continuing operations	0.01	(0.40)	(5.24)
Basic and diluted earnings (loss) from discontinued operations	(0.04)	0.11	0.08
Basic and diluted net loss per share	(0.03)	(0.29)	(5.16)
Other comprehensive income (loss)			
Unrealized holding loss on marketable securities (b)	–	–	(254,614)
Realized portion of prior year unrealized loss on marketable securities (b)	–	1,029,896	2,612,023
Foreign currency translation adjustment (c)	717,257	(32,488)	(72,901)
	717,257	997,408	2,284,508
Net loss in accordance with U.S. GAAP	(211,063)	(1,254,890)	(16,543,665)
Comprehensive income (loss)	506,194	(257,482)	(14,259,157)

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

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

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

	2003 \$	2002 \$
<b>Capital stock</b>		
Capital stock in accordance with Canadian GAAP	70,522,179	69,873,994
Reduction of stated capital (d)	16,769,570	16,769,570
Capital stock in accordance with U.S. GAAP	87,291,749	86,643,564
<b>Additional paid-in capital</b>		
Additional paid-in capital in accordance with Canadian GAAP	1,166,814	750,111
Stock-based compensation costs (a)		
Cumulative effect of prior years	1,673,694	1,765,694
Current year	–	(92,000)
Acquisition of non-controlling interest acquired during year (a)		
Cumulative effect of prior years	(636,004)	(636,004)
Additional paid-in capital in accordance with U.S. GAAP	2,204,504	1,787,801
<b>Deferred stock-based compensation costs in accordance with Canadian and U.S. GAAP</b>	(262,806)	(10,667)
<b>Accumulated other comprehensive gain (loss) (c)</b>		
Cumulative translation adjustment in accordance with Canadian GAAP	441,564	(275,693)
Unrealized holding loss on marketable securities (b)		
Cumulative effect of prior years	–	(3,641,919)
Realized portion of previously unrealized holding loss (b)		
Prior year	–	2,612,023
Current year	–	1,029,896
Accumulated other comprehensive gain (loss) in accordance with U.S. GAAP	441,564	(275,693)
<b>Deficit</b>		
In accordance with Canadian GAAP	(63,847,613)	(63,636,550)
Reduction of stated capital to deficit (d)	(16,769,570)	(16,769,570)
Stock-based compensation costs (a)		
Cumulative effect of prior years	(1,550,117)	(1,642,117)
Current year	–	92,000
Unrealized holding loss on marketable securities (b)		
Cumulative effect of prior years	–	3,641,919
Realized portion of previously unrealized holding loss (b)		
Cumulative effect of prior years	–	(2,612,023)
Current year	–	(1,029,896)
Difference in write-down (a)		
Cumulative effect of prior years	512,427	512,427
Deficit in accordance with U.S. GAAP	(81,654,873)	(81,443,810)
<b>Total shareholders' equity in accordance with U.S. GAAP</b>	8,020,138	6,701,195

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

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

### 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

As described in note 2, in 2003, the Company prospectively adopted the fair value method of accounting for stock options granted to employees. As a result of this change, there are no differences between the Company's net loss for 2003 under U.S. GAAP as compared to Canadian GAAP.

However, for all fiscal years prior to 2003, under U.S. GAAP, the Company had 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 losses of companies subject to significant influence. In addition, any write-down of equity-accounted investments would result in a lower write-down under U.S. GAAP as compared to Canadian GAAP.

##### 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) Marketable securities

Under U.S. GAAP, marketable securities 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, marketable securities are carried at the lower of cost and market value.

#### c) Comprehensive loss

U.S. GAAP requires disclosures of comprehensive loss which comprises any charges or credits to shareholders' equity not related to investments or distributions to shareholders and not otherwise classified in the statement of operations for the year. Under Canadian GAAP, there is no requirement to report comprehensive loss.

#### d) Reduction of stated capital

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

#### e) Non-refundable tax credits

Under U.S. GAAP, non-refundable tax credits must be presented as a reduction of the provision for income taxes. Under Canadian GAAP, these tax credits are presented as a reduction of the related research and development expenses. Under U.S. GAAP, there would be no change in net earnings (loss) from continuing operations and net loss for the year; however, loss from continuing operations before income taxes and recovery of income taxes under U.S. GAAP would be as follows:

	<b>2003</b>	<b>2002</b>	<b>2001</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Loss from continuing operations before income taxes	(66,571)	(1,994,556)	(16,819,933)
Recovery of income taxes			
Current	-	(2,318)	(8,633)
Future	(155,561)	(271,464)	-

# Notes to Consolidated Financial Statements

(expressed in U.S. dollars)

## 26 Subsequent events

### a) Functional currency

During the first quarter of fiscal 2004, the Company determined that the functional currency of its wholly owned subsidiary, Mamma.com Enterprises, had clearly changed from the Canadian dollar to the U.S. dollar as at the beginning of the quarter. As a result of this change, which will be applied prospectively from January 1, 2004, transactions entered into by Mamma.com Enterprises which are denominated in currencies other than the U.S. dollar are now translated into U.S. dollars using the temporal method. Under this method, monetary assets and liabilities are translated into U.S. dollars at the exchange rate in effect on the balance sheet date. Non-monetary assets and liabilities are translated into U.S. dollars at historical exchange rates. Revenues and expenses are translated into U.S. dollars at the exchange rates prevailing at the dates of the respective transactions. Gains and losses resulting from translation of monetary assets and liabilities into U.S. dollars are reflected in the statement of operations.

Prior to this change, the functional currency of Mamma.com Enterprises was the Canadian dollar. Accordingly, the financial statements of Mamma.com Enterprises were translated from Canadian dollars into U.S. dollars using the current rate method. Gains and losses resulting from translation of these financial statements were included in the cumulative translation adjustment in shareholders' equity. The translated amounts for non-monetary items as at January 1, 2004 will become the historical basis for those items in subsequent periods.

### b) Sale of IBT's assets

On February 12, 2004, the Company concluded the sale of IBT's assets which include contracts, customer lists, intellectual property, fixed assets and tangible and intangible assets relating to the business. The proceeds on disposal amounted to \$1,699,185 subject to certain adjustments and contingent consideration. The maximum amount of any contingent consideration is \$250,000. In the first quarter of 2004, the Company recorded a gain on the disposal of discontinued operations of approximately \$1,588,923 and interim net costs from January 1, 2004 to February 12, 2004 of \$614,354 including closing costs.

### c) Exercise of warrants and options

During the period from January 1, 2004 through April 12, 2004, a total of 1,893,939 A warrants have been exercised. Consequently, 1,893,939 B warrants were granted and all of them have been exercised. In connection with the exercise of the A and B warrants, 3,787,878 shares have been issued for a total cash consideration of \$5,492,423.

In addition, during this same period, 168,061 options were exercised for total cash proceeds to the Company of \$265,872, of which 126,511 options were exercised by insiders of the Company.

### d) Business acquisition

On March 3, 2004, the Company announced that it has signed a letter of intent to acquire Digital Arrow, LLC and High Performance Broadcasting Inc. in exchange for a total consideration of \$2,000,000, subject to adjustment based upon the results of the due diligence which has commenced. The purchase price is to be paid 55% in cash, with the balance to be paid by the issuance of common shares of the Company.

### e) Agreement for financial advisory services

On March 16, 2004, the Company retained Merriman Curhan Ford & Co. ("MCF") on a non-exclusive basis as its investment banker and strategic and financial advisor for a period of one year. In consideration for these services, the Company has committed to pay MCF a monthly fee of \$5,000 and 10,000 warrants, each warrant to purchase one common share of the Company for the duration of the agreement. Warrants are issuable at an exercise price equal to the average closing bid for the last five trading days at the end of the month of issue, for the duration of the agreement upon the same terms and conditions. The warrants have a life of five years from the issuance date. For any transaction completed by the Company with MCF, the Company shall pay a success fee upon closing equal to the sum of 4% of up to \$10,000,000 transaction value, 3% of \$10,000,000 to \$15,000,000 transaction value and 2% of greater than \$15,000,000 transaction value, provided that MCF either introduces and/or performs specific services for the transaction. The minimum success fee for any acquisition transaction shall be \$200,000 and \$500,000 for any sale transaction.

## Directors

(as at May 14, 2004)

### David Goldman<sup>(2)</sup>

Executive Chairman  
Mamma.com Inc.  
Montreal, Canada

### Guy Fauré

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

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

Business Consultant  
Montreal, Canada

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

Managing Partner  
Spiegel Sohmer  
Montreal, Canada

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

Chief Executive Officer  
iCongo.com Inc.  
Montreal, Canada

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

Associate Professor  
Bar Ilan University Faculty of Social Sciences  
Ramat Gan, Israel

(1) Member, Audit and Finance  
Committee

(2) Member, Human Resources,  
Nominating and Governance  
Committee

## Executive Officers

### David Goldman

Executive Chairman

### Guy Fauré

President and Chief Executive Officer

### Daniel Bertrand

Executive Vice-President and Chief Financial Officer

### Patrick Gagné

Vice President, Sales

### Patrick Hopf

Vice President, Business Development

### Joel P. Lamantia

Vice President, Operations

## 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 June 30, 2004 at Spiegel Sohmer, 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: MAMA  
Frankfurt and Berlin Stock Exchanges: MAMA.F

### 2003 Stock Listing and Prices

	High \$	Low \$
4th Q	4.25	2.47
3rd Q	4.91	2.00
2nd Q	2.25	1.91
1st Q	2.35	1.25

### Mamma.com Inc.

388 St. Jacques Street West  
9th Floor  
Montreal, Quebec, Canada  
H2Y 1S1  
Telephone: (514) 844-2700  
Fax: (514) 874-0886

## Policy on the Prevention of Insider Trading

In the normal course of business, officers, directors and employees of Mamma and its subsidiaries ("Mamma") may come into possession of significant, sensitive information. This information is considered the property of Mamma; you have been entrusted with it. In particular, you may not seek to profit from it by buying or selling securities yourself, or passing on the information to others to enable them to profit. The purpose of this policy statement is both to inform you of your legal responsibilities and to make clear to you that the misuse of sensitive information is contrary to company policy and will be dealt with severely. Persons violating Mamma's policy on insider trading shall be subject to immediate dismissal and possible criminal prosecution.

Insider trading is a crime, penalized by fines of up to \$1,000,000 and 10 years in jail for individuals. In addition, the SEC may seek the imposition of a civil penalty of up to three times the profits made or losses avoided from the trading. Insider traders must also disclose any profits made, and are often subjected to an injunction against future violations. Finally, insider traders may be subjected to civil liability in private lawsuits.

Employers and other controlling persons (including supervisory personnel) are also at risk under federal law. Controlling persons may, among other things, face penalties of the greater of \$1,000,000 or three times the profits made or losses avoided by the trader if they recklessly fail to take preventive steps to control insider trading. In addition to statutory penalties, insider trading could cause the Company acute embarrassment.

Thus, it is important both to you and Mamma that insider-trading violations not occur. You should be aware that stock market surveillance techniques are becoming increasingly more sophisticated, and the chance that federal or other regulatory authorities will detect and prosecute even small level trading is significant. The risk is simply not worth taking.

This memorandum describes Mamma's Insider Trading Policy to ensure that all Mamma directors (meaning a member of the Board of Directors), officers, employees and Mamma itself comply with laws prohibiting trading in Mamma stock by persons with material, non public information. This memorandum supersedes all previous communications, if any, on the same subject.

If you have any questions about the scope or application of this policy then please contact either the Executive Chairman or President and CEO who will assure that your inquiries get an appropriate response.

### Summary of Policy:

The following Policy applies to all Mamma directors, officers and employees worldwide:

If you are in possession of material, non public information relating to Mamma, it is Mamma's policy that neither you, nor any person related to you living in your household, nor any of your dependents regardless of where they live, nor anyone to whom you may have "tipped" (as hereafter discussed below) material, non-public information, may buy or sell securities of Mamma or engage in any other action to take advantage of, or pass on to others, that information. This policy also applies to trading in the securities of any other company, including Mamma's customers or suppliers, if you are in possession of material, non public information concerning that company which you obtained in the course of your employment with Mamma.

Transactions that may be necessary or justifiable for independent reasons, including emergency expenditures and transactions managed before you learned the material, non public information, are not exceptions. Even the appearance of an improper transaction must be avoided to prevent any potential prosecution of Mamma or the individual trader.

In addition to your obligation to refrain from trading while in possession of material, non public information, you are also prohibited from "tipping" others. The concept of unlawful tipping includes passing on material, non-public information to another person, whether or not under circumstances that suggest that you were trying to help them make a profit or avoid a loss. In addition to being considered a form of insider trading, tipping is a serious breach of corporate confidentiality as well as your duty of loyalty to Mamma. For this reason, you should be careful to avoid

discussing sensitive information in any place (for instance, at lunch, on public transportation, at social gatherings, on line, in elevators) where such information may be heard by others.

The rules regarding insider-trading particularly the prohibition against "tipping" others to information not available to the general public cover all forms and channels of communication, including those conducted via the Internet's World Wide Web.

Information communicated via e mail, internal and external, is sometimes confidential and "material" in nature and thus subject to insider trading rules. You are cautioned that the various Internet "chat rooms" and message boards dedicated to the stock market are largely unsecured and unregulated and should not be used to communicate any Company information whether confidential or not.

It is the policy of Mamma that no director, officer or employee shall initiate or respond to messages posted in such forums that pertain to Mamma or companies with which Mamma does or may do business. Such forums often contain rumors and misinformation that you may, as a loyal employee, feel compelled to correct. However, doing so, even with innocent and laudable intention, could be considered "tipping" and thereby in violation of insider trading rules. Should you come across information posted in an electronic forum that you believe to be false and potentially damaging to Mamma, please do not respond yourself. Instead, kindly contact either the Executive Chairman or President and CEO.

### Definitions and Details

1. "Material information" is information that a reasonable investor would consider important in a decision to buy, sell or hold Mamma securities. In general terms "material information" includes any information that:

- Results, or could reasonably be expected to result, in a significant change in the market price or value of any of Mamma's securities; or

- There is a substantial likelihood that the information would be considered by a reasonable shareholder to be important in making an investment decision in relation to Mamma's securities.

Chances are, if you learn something that leads you to want to buy or sell stock, that information will be considered material. Both positive and negative information may be material. It is important to keep in mind that material information can be any kind of information: information that something is likely to happen, or even that it may not happen, can be considered material. In short, any information that could reasonably affect the price of or influence a person's decision to buy or sell Mamma's stock is "material." If you are in doubt as to the materiality of non-public information, you should presume that the information is material until you review it with the Executive Chairman or President and CEO.

While it is impossible to make a complete catalogue of all material information, examples of material information include:

- Quarterly or annual financial results
- Positive or negative results of product tests or product trials
- Unanticipated changes in the level of sales, orders or expenses
- Contract negotiations with a potentially significant new customer
- Major new products or services
- Serious product defects or recalls
- Stock splits, combinations or dividend information
- Major financings
- Significant personnel changes
- Significant operational changes
- Significant acquisitions or dispositions of assets, merger or other business combinations
- Significant litigation
- Negotiations regarding significant acquisitions or dispositions of assets, mergers or other business combinations

2. "Non public" information is any information that is not broadly disseminated and reasonably accessible to the investing public. Keep in mind that once Mamma releases

information through public channels (for instance, a press release) it is deemed to take a few additional days for it to be broadly disseminated. For example, a speech to an audience, a TV or radio appearance or an article in a trade magazine does not qualify as full disclosure. Therefore, "non public" information made available in any such manner will continue to be considered "non public" until more broadly disseminated. For the purposes of this policy, information will be considered public (no longer "non-public") after the close of trading on the second full trading day following the widespread public release of the information.

3. All Mamma directors, officers and other specifically identified employees are considered insiders ("Insiders"). Employees specifically notified by the Company are considered Insiders for purposes of this policy. An Insider is permitted to trade stock only during certain specified periods (the "trading window") and only if the Insider is not in possession of material, non-public information. The trading window opens (i.e., trading is permissible) after the close of trading on the second full trading day following Mamma's release of information to the financial community about the prior quarter results. The trading window closes (i.e., trading is prohibited) 15 days prior to the end of a fiscal quarter. In addition, Mamma, in its sole discretion, may "shut the window" at any time.

4. Other Mamma employees, regardless of title, may also be deemed an insider ("Temporary Insiders"). Temporary Insiders must abide by the "trading windows" applicable to Insiders (see paragraph 3 above). It is a Temporary Insider's responsibility to know when a trading window is in effect. As there are many reasons for which a "trading window" may be closed (for example negotiation of an acquisition/merger which may have a material impact on Mamma), it is strongly recommended that you verify that a "trading window" exists prior to initiating any market actions with respect to Mamma.com Inc.

5. To help you ensure that you do not create the appearance of improperly trading in Mamma stock it is recommended that you verify with either the Executive Chairman or President and CEO or counsel designated by the Company for such purpose, whether any of these restrictions are in effect, before a trade is initiated. This would include all trades (purchases or sales) by any Insider or Temporary Insider, any relative living in the household of an Insider or Temporary Insider, or any dependents of an Insider or Temporary Insider regardless of where they live.

6. Insiders and Temporary Insiders who wish to exercise their outstanding stock options under Mamma's stock option plan must abide by the following guidelines:

- If the option is being exercised with a cash payment or with shares of Mamma common stock, without the concurrent sale of the purchased shares, then the exercise may occur at any time.

- If the option is being exercised in connection with a same day sale program, the exercise and sale must occur during the trading window period specified for open market transactions and otherwise comply with this Policy.

7. Even when the trading window is open, all directors, officers and employees must abstain from trading stock while in possession of material, non public information. Mamma's directors, officers and employees who acquire material, non public information may not buy or sell Mamma stock, including stock obtained by option exercises, from the time they obtain such information until the second business day following a press release of the information by Mamma.

8. All directors, officers and employees are prohibited from revealing material, non-public information to third parties, and from making buy or sell recommendations to third parties based upon such information. If you are in possession of material, non-public information, your family members and close friends may also be deemed to be in possession of such information, regardless of whether they have actual knowledge of the information. (That is, it would be difficult to prove they did not have actual knowledge, and some cases have placed the burden of this proof on the seller of securities in question.) Consequently, they could also be liable for violations of the insider trading laws if they trade during a time in which you are prohibited from trading, regardless of whether they actually knew the material, non-public information at that time.

9. In order to avoid placing employees in a

position in which they are prevented from trading, and for other good business reasons, material non-public information should be limited to those who need to know such information in order to perform their jobs. If, however, any of Mamma's executive officers becomes aware that material non public information may have been widely disseminated within Mamma, then executive officers may impose a ban on trading for all employees, or alternatively, in Mamma's sole discretion, publicly disclose such information.

10. In order to avoid disclosure of material information to parties outside of Mamma, all inquiries regarding Mamma's financial performance, operating results, projections or other requests for financial information should be referred only to the Company's Chief Financial Officer or Corporate Controller. This includes requests by analysts or others to corroborate or comment upon their financial projections for Mamma.

11. Any director, officer or employee who knowingly trades Mamma stock while in the possession of material, non-public information or who provides such information to others will be subject to significant disciplinary action, including dismissal. No exceptions will be made to this Policy, even where the transaction is very small or where the individual planned to make the transaction before learning the information. If you know or suspect that any Mamma employee has violated this Policy, we encourage you to contact the Executive Chairman or President and CEO.

### Additional Prohibited Transactions

1. Mamma believes it is improper and inappropriate for Mamma personnel to engage in short sales of Mamma's stock. Therefore, it is Mamma's policy that directors, officers and employees of Mamma may not engage in short sales of Mamma stock under any circumstances. For purposes of this Policy, "short sale" means any transaction in which you may benefit from a decline in Mamma's stock price. Similarly, it is Mamma's policy that directors, officers and employees of Mamma may not trade in options of Mamma stock, irrespective of the nature of the options, e.g., puts or calls.

2. Finally, if you are a Board of Directors member or officer, as determined by the Board of Directors, you must report any changes in your stock ownership position, including stock granted under an option plan, by filing an insider trading report via [www.sedi.ca](http://www.sedi.ca) with the Ontario Securities Commission within 10 days of the transaction in which you changed your ownership position.

If you have any questions about the scope or application of this Policy, please contact the Executive Chairman or President and CEO for clarification.

## Code of Ethics

### Why?

Our long-term performance - profitability, growth, and shareholder value - is contingent on the confidence of our stakeholders in us. We are committed to the highest ethical standards because we want people to know they can trust us. Trust can only be built on honesty and dependability - on ethical conduct.

### Principles

1. Treat all of those with whom we deal fairly, with dignity and respect.
2. Honour our commitments.
3. Commit only what we can deliver
4. Comply with all laws and regulations.
5. Make decisions based on fact and objective assessment.

6. Our judgement and decisions are not improperly influenced and we do not improperly influence others to obtain or retain business.

### Human Resources

1. Maintain a safe, healthy and comfortable workplace conducive to performing challenging work and making meaningful contributions.
2. Select and compensate employees fairly based on their qualifications and performance without discrimination on the basis of age, ancestry, citizenship, colour, creed, disability, ethnic origin, gender, marital or family status, race, religion or sexual orientation.
3. Foster work environments that are free from harassment, intimidation and hostility of

any kind. Unwanted sexual advances will not be tolerated and an individual's job, evaluation, or work assignment cannot be threatened because of a rejected sexual advance.

4. The privacy and confidentiality of an individual's records will be respected and safeguarded.

### Fair Competition

1. Avoid all actions that are anti-competitive or otherwise contrary to laws that govern competitive practices in the marketplace.
2. Do not make agreements or price practices in restraint of trade such as price-fixing, bid rigging and kickbacks.

### Reporting Illegal or Unethical Behavior

1. Report any and all illegal or unethical behavior of which you become aware to either the Executive Chairman or the President and CEO.

### Competitive Intelligence

1. Comply with the law in acquiring information. Do not resort to theft, blackmail, wiretapping, electronic eavesdropping, bribery, improper inducement, receiving stolen property, threats and other improper methods.
2. Acquire information ethically. Do not misrepresent who or what we are.

### Bribery

1. Do not pay bribes to obtain or retain business.
2. Take measures reasonably within our power to ensure that any payment made to an agent is appropriate remuneration for legitimate services rendered and that no part is passed on by the agent as a bribe.

### Company Funds and Property

1. Exercise integrity, prudence and judgment in incurring and approving business expenses.
2. Ensure that business expenses are reasonable.
3. Do not use company funds or property for personal gain.
4. Do not conceal any fund or transaction from executive officers or our auditors.
5. Do not enter into any transaction for the purpose of unlawfully evading any tax, duty or other levy imposed by a government.

### Proprietary Information/Intellectual Property

1. Avoid inadvertent disclosure.
2. Assure that unauthorized persons cannot access related documents and that document disposal is non-recoverable.
3. Do not discuss confidential information in public places and exercise caution when transmitting information electronically.
4. Enter into confidentiality agreements to ensure that disclosure is controlled.

### Conflict of Interest

1. Avoid any situation that may not be in the best interests of the company.
2. Gifts given or received should be of a nominal value and should be reciprocal whenever appropriate and possible (e.g. lunches, dinners).
3. Accepting cash or a cash equivalent from a vendor, supplier, or customer is never allowable.
4. Any business that has to be won by providing unusual gifts or hospitality is business we don't want.
5. In exceptional circumstances (e.g. local culture, traditions), accept non-nominal gifts if refusal would reasonably cause embarrassment or hurt to the individual offering it and then advise the company of its receipt so that an appropriate course of action may be determined.

The Board of Directors will monitor compliance with this Code of Ethics and only the Board of Directors or a duly designated committee of the board can consider and grant waivers from the Code of Ethics to directors or officers.



Mamma.com Inc.  
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